Notes to Condensed Consolidated Financial Statements – Unaudited

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The principal accounting policies and basis of preparation used in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual consolidated financial statements for the year ended 31 March 2001, except in relation to SSAP 14 (revised) "Leases", SSAP 30 "Business Combinations", SSAP 31 "Impairment of Assets" and Interpretation 13 "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves".

The adoption of the revised SSAP 14 had no impact on the measurement of the Group's lease obligations. However, in accordance with the revised SSAP 14, the Group is required to disclose by way of a note to the financial statements the aggregate future minimum lease payments, analysed into the periods on which the payment is to be made. This is a change from the previous SSAP 14, which only required disclosure of the minimum lease payments payable in the next twelve months, analysed into the periods in which the lease expires. In accordance with the transitional provisions of SSAP 14, comparative amounts have not been restated.

In order to conform with the provisions of SSAP 30, the Group changed its accounting policy with respect to the treatment of goodwill arising on acquisitions prospectively with effect from 1 April 2001. The Group now recognises the goodwill/negative goodwill arising on acquisitions as an asset and amortises such goodwill/negative goodwill over its estimated useful life rather than eliminating against reserves in the year of acquisition. Provisions for impairment of such goodwill are also made if appropriate.

As the transitional provisions of SSAP 30 do not require the restatement of goodwill arising on acquisitions in periods before SSAP 30 is effective, the Group has elected not to restate the goodwill arising from acquisitions in the prior years.

In accordance with the transitional provisions of SSAP 30, Interpretation 13 and SSAP 31, the Group has performed an assessment of the impairment of goodwill that had been previously eliminated against reserves and not restated. This represents a change in accounting policy and should be applied retrospectively. Accordingly, the Group has retrospectively restated and increased its accumulated losses brought forward at 1 April 2001 by HK$2,051,830,000 for the impairment of goodwill arising from the acquisitions of subsidiaries, businesses and business assets/liabilities in the prior year.

2. BASIS OF PRESENTATION

The Group's condensed consolidated financial statements report a net loss from ordinary activities attributable to shareholders of HK$270,905,000 for the six months ended 30 September 2001 and consolidated net current liabilities of HK$34,197,000 and a deficiency in assets of HK$40,463,000 as at 30 September 2001. The Group's operating activities also generated a net cash outflow of HK$80,613,000 for the period. In preparing these condensed consolidated financial statements, the directors of the Company have given careful consideration to the current and anticipated future liquidity of the Group.

Subsequent to 30 September 2001, on 19 November 2001, and as further detailed in note 16 to the condensed consolidated financial statements, the Group entered into a conditional sale and purchase agreement for the disposal of the entire issued share capital of eHealth Australia Pty Ltd (the "Disposal"). The Disposal is subject to the approval of the shareholders of the Company and Quality HealthCare Asia Limited ("QHA"), the Company's ultimate holding company, and, if completed, would result in the disposal of the Group's entire operations in Australia.

The Disposal is part of the Group's strategic plan to achieve a better financial position for long term growth and development. As further detailed in note 16 to the condensed consolidated financial statements, the directors anticipate that the liquidity position of the Group will be improved as a result of this and other measures undertaken subsequent to 30 September 2001.

On 19 November 2001 and as further detailed in note 16 to the condensed consolidated financial statements, the Company announced that following the completion of a capital reorganisation of the Company, it will arrange a rights issue of its ordinary shares to raise approximately HK$36,900,000 before related expenses (the "Rights Issue").

On 22 November 2001 and as further detailed in note 16 to the condensed consolidated financial statements, the Company entered into an extended loan agreement with QHA, pursuant to which, QHA has agreed to extend a revolving loan facility granted to the Company (as revised) to 31 December 2003 (the "Extension").

Moreover, active cost-saving and value-adding measures to streamline the Group's existing operations and to focus on improving the financial resources of the Group have been implemented or will be contemplated to substantially reduce the operating expenses in the coming year and enable the Group to revitalise itself to take advantage of any growth opportunities in the near future (the "Cost-saving/Value-adding Measures").

The condensed consolidated financial statements have been prepared on the assumption that the Group will continue to operate as a going concern, notwithstanding its liquidity concerns as at 30 September 2001 and for the foreseeable future to finance its existing/future operations and financing requirements. In the opinion of the directors, the liquidity of the Group can be maintained in the coming year, after taking into consideration several measures/arrangements made during the period and subsequent to 30 September 2001, including, inter alia, the Disposal, the Rights Issue, the Extension of the revolving loan facility, the Cost-saving/Value-adding Measures and certain other measures/arrangements as further detailed below:

- The Group has negotiated with certain financial institutions to provide additional credit facilities to the Group. In July 2001, a financial institution granted a HK$50 million unsecured revolving term loan facility, which is repayable on the date falling 18 months from the date of the first drawdown. None of such facility has been utilised up to the date of the approval of the condensed consolidated financial statements. In November 2001, the same financial institution granted a HK$15 million bridging loan facility to the Company available up to 27 February 2002, which has been fully utilised by the Company to provide additional working capital for the Group.

- The Group has been actively identifying potential purchasers to dispose of certain of its subsidiaries/assets.

The directors are satisfied that, in light of the measures/arrangements implemented to date, together with the expected results of other measures/arrangements in progress/as planned, the Group will have sufficient financial resources to satisfy its future working capital and other financing requirements for the foreseeable future. The directors' believe that the aforementioned measures/arrangements will be successful. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

The condensed consolidated financial statements have not incorporated any adjustments that may be required if the above measures/arrangements are not successful. Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of all assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the condensed consolidated financial statements.

3. SEGMENTAL INFORMATION

a. business segments

An analysis of the Group's turnover and contribution to results from operating activities for the period by principal activity is as follows:

	Turnover		Profit/(loss) from operating activities	
	Six months ended 30 September			
	2001 HK$'000	2000 HK$'000	**2001 HK$'000**	2000 HK$'000
Continuing operations				
Healthcare transaction operations and related businesses *(note (i))*	**28,154**	12,390	**(44,051)**	(36,791)
Telemarketing *(note (ii))*	**8,223**	–	**1,264**	–
Discontinued operations				
Ground engineering and building construction *(note (iii))*	**43,820**	407,986	**(6,189)**	9,181
	80,197	420,376	**(48,976)**	(27,610)
Unallocated corporate interest income less corporate expenses			**(1,028)**	256
Loss from operating activities			**(50,004)**	(27,354)

b. geographical segments

An analysis of the Group's turnover and contribution to results from operating activities for the period by geographical location is as follows:

	Turnover		Profit/(loss) from operating activities	
	Six months ended 30 September			
	2001	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong				
Continuing operations *(note (i))*	**23,174**	12,387	**(36,005)**	(33,671)
Discontinued operations *(note (iii))*	**43,820**	407,986	**(6,189)**	9,181
Taiwan *(note (ii))*	**8,223**	–	**1,264**	–
Other Asian and Pacific countries *(note (i))*	**4,980**	3	**(8,046)**	(3,120)
	80,197	420,376	**(48,976)**	(27,610)
Unallocated corporate interest income less corporate expenses			**(1,028)**	256
Loss from operating activities			**(50,004)**	(27,354)

Notes:

(i) The period ended 30 September 2001 covered 6 months' operating results (period ended 30 September 2000: 3 months' operating results).

(ii) Newly started operations during the period ended 30 September 2001.

(iii) The period ended 30 September 2001 covered approximately 1 month's operating results, as the operations were discontinued on 8 May 2001 (period ended 30 September 2000: 6 months' operating results).

4. DISCONTINUED OPERATIONS

On 26 March 2001, the Company entered into an agreement with a company beneficially owned and controlled by certain shareholders/directors of the Company, for the disposal of its entire interest in a subsidiary, Kin Wing Chinney (BVI) Limited ("KWC BVI") for a cash consideration of HK$88,000,000 (the "KWC BVI Disposal"). The principal activities of KWC BVI comprised the ground engineering and building construction operations of the Group. The ground engineering and building construction operations were solely carried out in Hong Kong. Further details of the KWC BVI Disposal are set out in a circular of the Company dated 17 April 2001.

The KWC BVI Disposal was completed on 8 May 2001 and the ground engineering and building construction operations were consolidated by the Group until that date. The gain arising on the disposal of such operations of approximately HK$4,294,000 was determined based on the sale proceeds less the consolidated net asset value of the Group's interests in such operations on 8 May 2001 plus the release of relevant reserves.

5. TAX

No provision for Hong Kong profits tax has been provided as the Group had no assessable profits arising in Hong Kong during the period. Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the prior period.

	Six months ended 30 September	
	2001	2000
	HK$'000	HK$'000
Hong Kong profits tax for the period	–	635
Overprovision of Hong Kong profits tax in prior years	–	(8)
	–	627

Based on existing legislation, interpretation and practices in respect thereof, the Group did not have any unprovided taxes on profits assessable elsewhere (2000: Nil).

6. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 September 2001 (2000: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK$270,905,000 (2000: HK$42,528,000) and on the weighted average of 2,839,654,151 (2000: 1,292,529,396) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 September 2001 has not been shown as the potential ordinary shares outstanding during the period had an anti-dilutive effect on the basic loss per share for the period. Diluted loss per share for the six months ended 30 September 2000 has not been shown as no diluting events existed during that period.

8. DEBTORS, PREPAYMENTS AND DEPOSITS

The Group allows an average credit period of 30 to 90 days to its business-related customers, except for certain well established customers, where the terms are extended beyond 90 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are regularly reviewed by senior management.

Included in debtors, prepayments and deposits are trade debtors with the following ageing analysis:

	30 September 2001 HK$'000	31 March 2001 HK$'000
Trade debtors:		
Current-90 days	**8,495**	88,385
91-180 days	**1,338**	14,327
181-365 days	**35**	21,386
	9,868	124,098
Prepayments, deposits and other debtors	**5,274**	26,719
	15,142	150,817

9. CREDITORS, ACCRUED LIABILITIES AND DEPOSITS RECEIVED

Included in creditors, accrued liabilities and deposits received are trade creditors with the following ageing analysis:

	30 September 2001 HK$'000	31 March 2001 HK$'000
Trade creditors:		
Current-90 days	**4,056**	75,526
91-180 days	**261**	900
181-365 days	**934**	4,047
Over 365 days	**266**	266
	5,517	80,739
Accrued liabilities, deposits received and other creditors	**19,890**	124,728
	25,407	205,467

10. LICENCE AND COOPERATION RIGHTS AND CONVERTIBLE NOTES

During the period, the Group entered into certain cooperative agreements and a software licence agreement with iBusinessCorporation.com Limited, i21 Limited and Excel Technology International Holdings Limited for an aggregate consideration of HK$110,000,000 for the benefits of the Group's healthcare transaction operations and related businesses (the "Licence and Cooperation Rights"), which were satisfied by the issue of 280,000,000 new ordinary shares of the Company valued at HK$0.25 per share and HK$40,000,000, 2.5% interest-bearing convertible notes, convertible into ordinary shares of the Company. The convertible notes have a term of three years and a fixed conversion price of HK$0.40 per share. As further detailed in note 16 to the condensed consolidated financial statements, the convertible notes were redeemed subsequent to the balance sheet date. Further details of the cooperative agreements, the software licence agreement and the convertible notes are also set out in a circular of the Company dated 7 May 2001.

Up to the date of the approval of the condensed consolidated financial statements, no revenue has been generated from those rights and the directors are uncertain as to whether any future economic benefits would be forthcoming from the Licence and Cooperation Rights. Accordingly, full provision has been made in respect of the Licence and Cooperation Rights and an impairment loss of HK$107.6 million, being the carrying amount of those rights as at 30 September 2001, has been charged to the profit and loss account for the period.

11. SHARE CAPITAL

	30 September 2001 HK$'000	31 March 2001 HK$'000
Authorised: 6,000,000,000 (31 March 2001: 3,000,000,000) ordinary shares of HK$0.10 each	**600,000**	300,000
Issued and fully paid: 2,948,834,480 (31 March 2001: 2,621,916,240) ordinary shares of HK$0.10 each	**294,883**	262,192

Pursuant to an ordinary resolution of the Company passed on 3 May 2001, the authorised share capital of the Company was increased from HK$300,000,000 to HK$600,000,000 by the creation of 3,000,000,000 additional ordinary shares of HK$0.10 each, ranking pari passu in all material respects with the existing share capital of the Company.

On 30 May 2001, 280,000,000 new ordinary shares of HK$0.10 each, credited as fully paid at HK$0.25 per share, were issued as part of the total consideration for the Licence and Cooperation Rights granted as detailed in note 10 to the condensed consolidated financial statements. On the same date, 40,000,000 new ordinary shares of HK$0.10 each, credited as fully paid at HK$0.25 per share, were issued to settle the consideration for the acquisition of the entire issued share capital of iClaims21 Limited.

On 7 September 2001, 6,918,240 new ordinary shares of HK$0.10 each, credited as fully paid at HK$0.50 per share, were issued to settle the deferred acquisition consideration for the acquisition of certain business and business assets of International Research Pty Limited and its subsidiaries. Further details of the acquisition are also set out in a circular of the Company dated 27 September 2000.

12. RESERVES

	Share premium HK$'000	Special reserve HK$'000	Goodwill reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2001						
As previously reported	1,954,941	(3,500)	(2,162,830)	2,123	(19,571)	(228,837)
Prior year adjustments:						
SSAPs 30 & 31 and Interpretation 13	–	–	2,051,830	–	(2,051,830)	–
As restated	1,954,941	(3,500)	(111,000)	2,123	(2,071,401)	(228,837)
Premium on issue of shares	50,767	–	–	–	–	50,767
Release on disposal of a subsidiary	–	3,500	470	–	–	3,970
Impairment	–	–	110,530	–	–	110,530
Exchange realignments	–	–	–	(871)	–	(871)
Net loss for the period	–	–	–	–	(270,905)	(270,905)
At 30 September 2001	2,005,708	–	–	1,252	(2,342,306)	(335,346)

13. LITIGATION

As at 31 March 2001, certain subsidiaries of the Company engaged in the ground engineering and building construction businesses were involved in legal proceedings or claims against them in the ordinary course of their businesses. The aggregate amount of claims, including estimated legal costs, resulting from such contingent liabilities was approximately HK$5 million as at 31 March 2001. During the period, all of these subsidiaries were disposed of by the Group and, accordingly, there were no such contingent liabilities attributable to the Group as at 30 September 2001.

On 23 July 2001, an independent third party, Medwonder Systems Limited ("Medwonder"), filed a writ of summons and statement of claim against iClaims21 Limited ("iClaims21"), a subsidiary of the Group (the "Writ"). The Writ claims a sum of HK$39,950,000 as alleged loss of profit and/or damages on a quantum meruit basis and/or damages for breach of contract, and/or trust and/or fiduciary duty and a declaration that Medwonder is entitled to 33.3% of the iClaims21 business (the "Claims"). On 13 December 2001, iClaims21 and Medwonder consented to dismiss the Claims and there to be no order as to costs.

14. CONTINGENCIES AND COMMITMENTS

(a) Capital commitments

	30 September 2001 HK$'000	31 March 2001 HK$'000
Authorised, but not contracted for	–	–
Contracted, but not accounted for	–	11,750
	–	11,750

(b) Commitments under operating leases

	30 September 2001 HK$'000 *(note (i))*	31 March 2001 HK$'000 *(note (ii))*
Within one year	**3,965**	692
In the second to fifth years, inclusive	**3,435**	4,333
	7,400	5,025

(i) Being total aggregate future minimum lease payments, analysed into the periods on which the payment is to be made.

(ii) Being minimum lease payments payable in the next twelve months, analysed into the periods in which the lease expires.

15. RELATED PARTIES TRANSACTIONS

The Group had the following material related party transactions during the period not disclosed elsewhere in the condensed consolidated financial statements:

		Six months ended 30 September	
	Notes	**2001 HK$'000**	2000 HK$'000
Transaction processing fees charged to a fellow subsidiary	*(a)*	**10,507**	5,215
Consultancy service fees charged by a fellow subsidiary	*(b)*	**–**	9,500
Management fees charged by the ultimate holding company	*(c)*	**4,200**	2,100
Interest charged by the ultimate holding company	*(d)*	**1,209**	–
Information technology service fee	*(e)*	**1,412**	–
Construction work carried out for related companies	*(f)*	**2,581**	39,675

Notes:

(a) The Group processes medical transactions for the QHA group and charged transaction processing fees according to the terms of a service agreement dated 29 April 2000.

(b) The Group received consultancy and related services from the QHA group and the consultancy service fees were charged according to the terms of a service agreement dated 29 April 2000.

(c) The management fees were charged at rates mutually agreed between the Group and the ultimate company with reference to the management services provided.

(d) The interest expense charged by the ultimate holding company arose from an unsecured revolving loan from the ultimate holding company.

(e) The information technology service fee was charged to a fellow subsidiary with reference to the actual labour hours utilised.

(f) During the period, the Group had construction work carried out for specific related companies, in which certain directors and/or beneficial shareholders of certain subsidiaries are the directors and/or beneficial shareholders of those companies. The construction work for related companies was carried out at prices determined on the cost plus a percentage mark-up basis.

16. POST BALANCE SHEET EVENTS

A summary of the significant post balance sheet events of the Group not disclosed elsewhere in the condensed consolidated financial statements is set out below.

(a) On 13 November 2001, the Company entered into two separate agreements with iService21 Holdings Limited ("iService21") and Excel (BVI) Limited ("Excel"), pursuant to which: (i) the Company and iService21 mutually agreed to an early redemption of a HK$25,000,000 convertible note held by iService21 through payment by the Company of HK$16,000,000 to iService21; and (ii) the Company and Excel mutually agreed to the early redemption of a HK$15,000,000 convertible note held by Excel through payment by the Company of HK$9,600,000 to Excel (collectively the "Early Redemption"). Further details are set out in an announcement of the Company dated 13 November 2001.

(b) On 19 November 2001, the Company announced a share capital reorganisation (the "Capital Reorganisation") involving, inter alia, (i) the reduction of the nominal value of each issued share from HK$0.10 to HK$0.001 by the cancellation of HK$0.099 of the paid-up capital of each issued share and the transfer of the credit arising from the capital reduction to the contributed surplus account of the Company; (ii) a share consolidation of every ten reduced shares of HK$0.001 each into one consolidated share of HK$0.01 each (the "Consolidated Shares"); (iii) the cancellation of the entire amount standing to the credit of the share premium account of the Company and the transfer of the credit arising therefrom to the contributed surplus account of the Company; and (iv) the cancellation of the existing authorised share capital and unissued share capital of the Company and the subsequent increase of the authorised share capital of the Company to HK$100,000,000 comprising 10,000,000,000 Consolidated Shares. The Capital Reorganisation was approved of the shareholders of the Company on 20 December 2001 and has become effective on 21 December 2001. Further details of the Capital Reorganisation are set out in a circular of the Company dated 27 November 2001 and an announcement of the Company dated 20 December 2001.

(c) On 19 November 2001, the Company announced that following the completion of the Capital Reorganisation, it will implement a Rights Issue to raise approximately HK$36.9 million before estimated expenses by issuing not less than 147,441,724 Consolidated Shares (the "Rights Shares") on the basis of one Rights Share for every two Consolidated Shares of the Company held at the record date of 27 December 2001 at an issue price of HK$0.25 per Rights Share. On the same date, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Quam Securities Company Limited (the "Underwriter"). Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite not less than 68,193,069 Rights Shares. The Underwriting Agreement contains provisions entitling the Underwriter, by notice in writing, to terminate its obligations upon the occurrence of certain events as detailed in the Underwriting Agreement. The Rights Issue is subject to the Capital Reorganisation becoming unconditional, the approval by QHA's shareholders of QHA subscribing for its entitlement to the Rights Shares and the obligations of the Underwriter under the Underwriting Agreement becoming unconditional and the Underwriting Agreement not being terminated in accordance with its terms.

Further details of the Rights Issue and the Underwriting Agreement are set out in an announcement of the Company dated 19 November 2001.

(d) On 19 November 2001, ehealthcareasia (BVI) Limited, a wholly-owned subsidiary of the Company, entered into an agreement with CR Group Health Pty Limited (the "CR Group") in relation to the disposal of the entire share capital of eHealth Australia Pty Ltd (the "Sale Shares") held by the Company (the "Disposal Agreement"). Pursuant to the Disposal Agreement, the Company has conditionally agreed to sell and the CR Group has conditionally agreed to purchase the Sale Shares for a nominal value of A$1. The sale consideration for the transaction was arrived at after arm's length negotiations between the Company and the CR Group on a willing buyer and willing selling basis. The disposal constitutes a major transaction for the Company and QHA under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and is therefore subject to the approval of the shareholders of both QHA and EHA. Further details of the disposal are also set out in a circular of the Company dated 10 December 2001.

The gain or loss arising on the disposal of the Sale Shares will be determined based on the sale proceeds less the net asset value of the Group's interests in eHealth Australia Pty Ltd and its subsidiaries as at the completion date of the disposal plus the release of relevant reserves. Accordingly, at the date of the approval of these condensed consolidated financial statements, the Group is unable to estimate the gain or loss on the disposal of eHealth Australia Pty Ltd with reasonable accuracy.

On completion of the Rights Issue and the Disposal, the directors of the Company consider that the liquidity position of the Group will be substantially improved. A summary of the condensed pro forma adjusted unaudited consolidated net assets of the Group as at 30 September 2001, based on the unaudited consolidated net liabilities of the Group at that date and adjusted as if the completion of the Early Redemption, the Rights Issue and the Disposal had taken place at that date, is presented below:

	Unaudited consolidated net liabilities HK$'000	**Net effect of the Early Redemption, the Rights Issue and the Disposal** HK$'000	**Pro forma adjusted unaudited consolidated net assets** HK$'000
Non-current assets	34,211	(765)	33,446
Net current assets/(liabilities)	(34,197)	20,922	(13,275)
Non-current liabilities	(40,477)	40,180	(297)
	(40,463)	60,337	19,874

(e) On 22 November 2001, the Company entered into an extended loan agreement with QHA pursuant to which QHA has agreed to extend its revolving loan facility to the Company on the following terms:

(i) the maximum principal amount that may be outstanding under the revolving loan facility at one time shall be HK$60 million during the period from 1 January 2002 to 28 February 2002 and HK$45 million during the period from 1 March 2002 to 31 December 2003, provided that the Rights Issue will become unconditional on or before 28 February 2002. If the Rights Issue does not become unconditional on or before 28 February 2002, the maximum principal amount outstanding shall remain at HK$60 million;

(ii) the revolving loan shall be repaid on or before 31 December 2003 or become repayable upon demand should QHA's shareholding interest in the Company fall below 30%; and

(iii) the loan shall bear interest at 3% per annum over the Hong Kong dollar prime lending rate on the principal outstanding (calculated on a daily basis).

The extended loan agreement constitutes a connected transaction for QHA under the Listing Rules and is therefore subject to shareholders' approval by QHA's independent shareholders.

17. COMPARATIVE AMOUNTS

The comparative amounts of various operating expenses have been combined to conform with the current period's presentation.