1. CORPORATE INFORMATION AND CORPORATE AFFILIATION

During the year, the Group was involved in the following principal activities:

- development and provision of healthcare transaction processing, healthcare solutions and distribution of medical equipment (collectively as the "healthcare transaction operations and related businesses");
- provision of telemarketing services (discontinued on 12 February 2002 as further explained in note 7(b) to the financial statements); and
- provision of ground engineering and building construction services, including the hiring of plant and machinery (discontinued on 8 May 2001 as further explained in note 7(a) to the financial statements).

In the opinion of the directors, the ultimate holding company is Quality HealthCare Asia Limited, a company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited.

The amounts due to the ultimate holding company and a fellow subsidiary are unsecured, interest-free and have no fixed terms of repayment.

2. BASIS OF PRESENTATION AND FUNDAMENTAL UNCERTAINTIES

The Group sustained a consolidated net loss from ordinary activities attributable to shareholders of HK$282,617,000 for the year ended 31 March 2002 and had consolidated net current assets of HK$1,486,000 and a deficiency in assets of HK$18,546,000 as at 31 March 2002. The Group also had a net cash outflow from operating activities and an overall decrease in cash and cash equivalents for the year of HK$98,001,000 and HK$28,692,000, respectively. As at 31 March 2002, the Group had total interest-bearing bank and other borrowings of HK$3,819,000, of which HK$3,616,000 was classified as current liabilities, and a non-current loan from the ultimate holding company of HK$31,800,000, which is repayable on demand upon the occurrence of certain events as further summarised in note 29 to the financial statements. In preparing these financial statements, the directors of the Company have given careful consideration to the current and anticipated future liquidity of the Group and the ability of the Group to attain profitable and cash positive operations in the immediate and longer terms.

During the year, the Group disposed of certain of its non-performing subsidiaries and discontinued certain of its capital intensive operations as part of its strategic plan to achieve a better financial and liquidity position in the near term as well as for long term growth and development (the "Disposal").

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 are being contemplated to substantially reduce the operating expenses and cash outflows in the coming year and to enable the Group to revitalise itself to take advantage of any growth opportunities in the near future (the "Cost-saving/Value-adding Measures").

2. BASIS OF PRESENTATION AND FUNDAMENTAL UNCERTAINTIES (con't)

In addition, the Group is now exploring new business opportunities in order to revitalise the Group.

Notwithstanding its liquidity concerns as at 31 March 2002, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern for the foreseeable future. In the opinion of the directors, the liquidity of the Group can be maintained in the coming year, after taking into consideration several arrangements made during the year and subsequent to the balance sheet date, including, inter alia, the Disposal, the Cost-saving/Value-adding Measures and certain other measures/arrangements as further detailed below:

(i) 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 drawn down. None of such facility had been utilised up to the date of approval of these financial statements.

(ii) On 22 November 2001 and as further detailed in note 29 to the financial statements, the Group entered into a renewed loan agreement with Quality HealthCare Asia Limited ("QHA"), the Company's ultimate holding company, pursuant to which, QHA has agreed to extend a revolving term loan facility to the Company, which currently is subject to a maximum principal amount of HK$45 million and which is repayable on 31 December 2003, unless QHA's shareholding interest in the Company falls below 30%, in which case, the loan becomes repayable upon demand. As at 31 March 2002 and up to the date of approval of these financial statements, HK$31,800,000 of such facility had been utilised. The Group is currently in the process of identifying alternative sources of financing should the revolving term loan facility granted by the QHA cease to be available.

(iii) The Group is currently in the process of identifying/negotiating with potential investors to raise new equity and other financing for the Group.

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 financing arrangements/plans will be successful and the Group's ultimate holding company will continue to support the Group. Accordingly, the financial statements have been prepared on a going concern basis.

The financial statements have not incorporated any adjustments that may be required if the above measures 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 financial statements.

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related interpretations ("Interpretations") are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations - subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Under the revised SSAP, the Company's proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings in a separate line within the capital and reserves section of the balance sheet. This revised SSAP has had no major impact on these financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 28 and 36 to the financial statements. In accordance with the transitional provision of SSAP 14 (Revised), the SSAP has been applied prospectively and therefore, has had no effect on amounts previously reported in the prior year financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Under the revised SSAP, proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. This revision has had no major impact on these financial statements.

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (con't)

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. This has had no major impact on the amount previously recorded in the financial statements, and therefore no prior year adjustment has been required.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. This SSAP does, however, require that impairment losses on intangible assets are aggregated with the accumulated amortisation (see note 16), whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of intangible assets in the balance sheet.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has resulted in a prior year adjustment, further details of which are included in note 17 to the financial statements. The required new additional disclosures are included in notes 17 and 33 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to the following SSAPs are effective for the first time for the current year's financial statements:

- SSAP 10: "Accounting for investments in associates"
- SSAP 17: "Property, plant and equipment"
- SSAP 21: "Accounting for interests in joint ventures"

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (con't)

The only significant effect of these revisions is that SSAP 17 requires that impairment losses on fixed assets are aggregated with accumulated depreciation in note 15 to the financial statements, whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of fixed assets in the balance sheet.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control over the joint venture company;

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Joint venture companies (con't)

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Goodwill (con't)

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 April 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or to exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Fixed assets and depreciation

Fixed assets, other than software under development, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	Over the lease terms
Leasehold improvements	Over the lease terms or 20% - 33.33%, whichever is higher
Plant and machinery	10% – 25%
Furniture, fixtures and office equipment	20% – 33.33%
Computer equipment and software	20% – 33.33%
Motor vehicles	25%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Software under development

Expenditure incurred in developing software for internal use is capitalised and deferred only when the software for internal use is clearly defined, the expenditure is separately identifiable and can be measured reliably, and there is reasonable certainty that the software is technically feasible. Software under development is transferred to computer equipment and software when it is completed and ready for use. No depreciation is provided until such time as the development of the software is completed and put into use.

Intangible assets

Software licence rights

Software licence rights are stated at cost less accumulated amortisation and any accumulated impairment losses. Software licence rights are amortised on the straight-line basis over their estimated commercial lives not exceeding three years, commencing from the date when the software is licenced to third parties.

Licence and co-operative rights

Licence and co-operative rights acquired under contractual arrangements are stated at cost less accumulated amortisation and any accumulated impairment losses. Licence and co-operative rights are amortised on the straight-line basis, over the terms of the contractual arrangements of 15 years.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

Properties for sale

Properties for sale are stated at the lower of cost and net realisable value, which is determined by the directors with reference to the prevailing market prices less any further costs expected to be incurred in the process of disposal, on an individual property basis.

Inventories

Inventories are stated at the lower of cost and net realisable value, after making due allowances for any obsolete or slow-moving items. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred in the process of disposal.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract are recognised as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the balance sheet date.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred and revenue is recognised only to the extent of contract costs incurred that are probable of recovery.

Provision is made for foreseeable losses as soon as they are anticipated by management.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, or when each asset has been separately negotiated, or when the costs and revenue of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when the contracts were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are recognised as expenses in the period in which they are incurred.

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance in Hong Kong, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the provision of services, including healthcare transaction processing, healthcare solutions and telemarketing services, on the provision of the relevant services;

(b) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(c) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(d) from hiring of plant and machinery, on a time proportion basis over the lease terms;

(e) rental income, on a time proportion basis over the lease terms;

(f) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(g) dividends, when the shareholders' right to receive payment has been established.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

Dividends

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

5. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 3 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. For management purposes, each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the principal business segments are as follows:

(a) the healthcare transaction operations and related businesses segment engages in healthcare transaction processing, healthcare solutions and the distribution of medical equipment;

(b) the ground engineering and building construction segment engages in the ground engineering and building construction business, which was disposed of during the year; and

(c) the telemarketing services segment engages in the provision of telemarketing services, which was disposed of during the year.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment transactions and transfers are transacted at mutually agreed terms.

5. SEGMENT INFORMATION (con't)

(a) Business segments

The following tables present revenue, loss and certain asset, liability and expenditure information for the Group's business segments.

Group

	Healthcare transaction operations and related businesses		Ground engineering and building construction		Telemarketing services		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Segment revenue:								
Sales to external customers	**48,538**	40,451	**43,821**	884,090	**18,988**	1,370	**111,347**	925,911
Other revenue and gains	**12,494**	2,002	**25**	959	**5,383**	–	**17,902**	2,961
Total	**61,032**	42,453	**43,846**	885,049	**24,371**	1,370	**129,249**	928,872
Segment results	**(175,784)**	(95,530)	**(23,180)**	(998)	**(5,090)**	(1,106)	**(204,054)**	(97,634)
Interest and dividend income and unallocated gains							**15,048**	3,025
Net gain/(loss) on disposal/ partial disposal of subsidiaries							**21,281**	(10,173)
Unallocated expenses							**(120,866)**	(2,054,172)
Loss from operations							**(288,591)**	(2,158,954)
Finance costs							**(5,467)**	(10,282)
Loss before tax							**(294,058)**	(2,169,236)
Tax							**(378)**	(3,416)
Loss before minority interests							**(294,436)**	(2,172,652)
Minority interests							**11,819**	2,685
Net loss from ordinary activities attributable to shareholders							**(282,617)**	(2,169,967)

5. SEGMENT INFORMATION (con't)

(a) Business segments (con't)

Group

	Healthcare transaction operations and related businesses		Ground engineering and building construction		Telemarketing services		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**37,756**	72,011	**–**	518,062	**–**	10,778	**37,756**	600,851
Interest in a jointly-controlled entity	**–**	–	**–**	5	**–**	–	**–**	5
Interest in an associate	**–**	–	**–**	5	**–**	–	**–**	5
Unallocated assets							**2,289**	4,866
Bank overdrafts included in segment assets	**3,481**	–	**–**	14,874	**–**	–	**3,481**	14,874
Total assets							**43,526**	620,601
Segment liabilities	**23,796**	88,573	**–**	330,151	**–**	1,740	**23,796**	420,464
Unallocated liabilities							**34,795**	59,893
Bank overdrafts included in segment assets	**3,481**	–	**–**	14,874	**–**	–	**3,481**	14,874
Total liabilities							**62,072**	495,231

5. SEGMENT INFORMATION (con't)

(a) Business segments (con't)

Group

	Healthcare transaction operations and related businesses		Ground engineering and building construction		Telemarketing services		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Other segment information:								
Depreciation	**6,036**	7,322	**2,595**	26,398	**2,846**	244	**11,477**	33,964
Amortisation recognised in the profit and loss account	**2,717**	–	**–**	–	**–**	–	**2,717**	–
Unallocated amortisation recognised in the profit and loss account							**127**	–
Impairment of fixed assets recognised in the profit and loss account	**1,213**	6,851	**–**	9,500	**7,400**	–	**8,613**	16,351
Impairment of intangible assets recognised in the profit and loss account	**110,699**	–	**–**	–	**–**	–	**110,699**	–
Unallocated impairment losses recognised in the profit and loss account*							**118,001**	2,051,830
Capital expenditure	**633**	9,016	**3,723**	72,271	**2,959**	8,797	**7,315**	90,084
Loss on disposal of fixed assets	**4,468**	1,060	**–**	260	**–**	–	**4,468**	1,320
Provision for doubtful debts/bad debts written off	**7,088**	–	**–**	973	**–**	–	**7,088**	973

* The unallocated impairment losses relate to the impairment of goodwill arising during the year amounted to HK$118,001,000 (2001: HK$2,501,830,000).

5. SEGMENT INFORMATION (con't)

(b) Geographical segments

The following tables present revenue, loss and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Taiwan		Other Asia Pacific countries		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**84,828**	921,925	**18,988**	1,370	**7,531**	2,616	**111,347**	925,911
Segment results	**(196,533)**	(85,968)	**(5,090)**	(1,106)	**(2,431)**	(10,560)	**(204,054)**	(97,634)
Other segment information:								
Segment assets	**39,963**	591,435	**–**	10,778	**82**	3,457	**40,045**	605,670
Interest in a jointly-controlled entity	**–**	5	**–**	–	**–**	–	**–**	5
Interest in an associate	**–**	5	**–**	–	**–**	–	**–**	5
Unallocated assets							**–**	47
Bank overdrafts included in segment assets	**3,481**	14,874	**–**	–	**–**	–	**3,481**	14,874
							43,526	620,601
Capital expenditure	**4,282**	80,709	**2,959**	8,797	**74**	578	**7,315**	90,084

6. TURNOVER AND REVENUE

Turnover from continuing operations represents income earned for the provision of healthcare transaction processing, healthcare solutions and the distribution of medical equipment, and the net invoiced value of goods sold, after allowances for returns and trade discounts.

Turnover from the ground engineering and building construction operations and telemarketing services discontinued during the year represents the value of contract work performed in respect of construction contracts and the income from the hiring of plant and machinery, and the income from the provision of telemarketing services, respectively.

Revenue from the following activities has been included in turnover:

	Group	
	2002	2001
	HK$'000	HK$'000
Continuing operations:		
Healthcare transaction operations and related businesses	**48,538**	40,451
Discontinued operations:		
Ground engineering and building construction	**43,821**	884,090
Telemarketing services	**18,988**	1,370
	62,809	885,460
	111,347	925,911

7. DISCONTINUED OPERATIONS

(a) On 26 March 2001, in view of a strategic plan to concentrate on the Group's core/profitable activities, the Group entered into a conditional agreement with a company for the disposal of the Group's 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 and its subsidiaries comprised the ground engineering and building construction operations of the Group, which were solely carried out in Hong Kong. Further details of the KWC BVI Disposal are also set out in a circular of the Company dated 17 April 2001.

7. DISCONTINUED OPERATIONS (con't)

The KWC BVI Disposal was completed on 8 May 2001 and the ground engineering and building construction operations were accounted for until that date. The turnover and the results of the ground engineering and building construction operations, which have been included in the financial statements, were as follows:

	2002	2001
	HK$'000	HK$'000
Turnover	**43,821**	884,090
Loss before tax	**23,639**	7,471
Tax	**–**	3,416
Loss after tax	**23,639**	10,887

The gain arising from the discontinuance of the ground engineering and building construction operations of approximately HK$12,757,000, which is included in "Net gain/(loss) on disposal/partial disposal of subsidiaries" on the face of the consolidated profit and loss account, was determined based on the sale proceeds less the consolidated net asset value of the Group's interests in such operations at the date of disposal plus the release of relevant reserves.

(b) On 11 February 2002, the Group entered into a disposal agreement with an independent third party for the disposal of the Group's entire equity interest in a subsidiary, Top Quality Global Inc., (the "TQG Disposal") and an assignment to the purchaser all the rights to the repayment of an aggregate outstanding loan of HK$14,451,763 owed by Top Quality Global Inc. to the Group for an aggregate cash consideration of HK$8 million. The principal activities of Top Quality Global Inc. and its subsidiaries comprised the telemarketing operations of the Group, which were solely carried out in Taiwan. Further details of the TQG Disposal are also set out in a circular of the Company dated 8 March 2002.

The TQG Disposal was completed on 12 February 2002 and the telemarketing operations were accounted for until that date. The turnover and the results of the telemarketing operations, which have been included in the financial statements, were as follows:

	2002	2001
	HK$'000	HK$'000
Turnover	**18,988**	1,370
Loss before tax	**5,066**	1,105
Tax	**378**	–
Loss after tax	**5,444**	1,105

7. DISCONTINUED OPERATIONS (con't)

The loss arising from the discontinuance of the telemarketing operations of approximately HK$466,000, which is included in "Net gain/(loss) on disposal/partial disposal of subsidiaries" on the face of the consolidated profit and loss account, was determined based on the sale proceeds less the consolidated net asset value of the Group's interests in such operations at the date of disposal plus the release of relevant reserves.

8. LOSS FROM OPERATIONS

The Group's loss from operations is arrived at after charging:

	2002 HK$'000	2001 HK$'000 (Restated)
Cost of inventories sold and services provided	**48,084**	32,021
Cost of construction	**59,833**	785,396
Depreciation	**11,793**	37,728
Less: Amount capitalised as contract costs	**(316)**	(3,764)
	11,477	33,964
Licence and co-operative rights:		
Amortisation for the year *	**2,444**	–
Impairment arising during the year	**107,556**	–
	110,000	–
Software licence rights:		
Amortisation for the year *	**273**	–
Impairment arising during the year	**3,143**	–
	3,416	–
Goodwill:		
Amortisation for the year *	**127**	–
Impairment arising during the year	**7,471**	–
	7,598	–
Impairment of goodwill arising on acquisitions eliminated directly against consolidated reserves	**110,530**	2,051,830
Impairment of fixed assets	**8,613**	16,351
Minimum lease payments under operating leases in respect of land and buildings	**4,565**	3,442
Staff costs (including directors' remuneration - note 10):		
Salaries, wages, allowances and bonuses	**73,278**	146,599
Retirement benefits scheme contributions	**2,003**	4,259
	75,281	150,858
Less: Amount capitalised as contract costs	**(4,358)**	(61,528)
	70,923	89,330

8. LOSS FROM OPERATIONS (con't)

	2002 **HK$'000**	2001 HK$'000 (Restated)
Auditors' remuneration:		
Provision for the year	**902**	1,663
Underprovision in prior years	**–**	55
	902	1,718
Foreign exchange losses, net	**1,115**	204
Loss on disposal of an associate	**–**	128
Loss on disposal of fixed assets	**4,468**	1,320
Provision for doubtful debts/bad debts written off	**7,088**	973
and after crediting:		
Interest income	**635**	2,265
Dividend income	**–**	747
Net rental income	**542**	555
Gain on early redemption of convertible notes – note 16	**14,400**	–
Licence fee income - note 38	**10,000**	–

* Included in "Other operating expenses" on the face of the consolidated profit and loss account.

At 31 March 2002, the Group had no material forfeited contributions available to reduce its contributions to its retirement benefits scheme in future years (2001: Nil).

9. FINANCE COSTS

	Group	
	2002 **HK$'000**	2001 HK$'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	**561**	5,759
Other loan wholly repayable within five years	**699**	252
Interest on convertible notes	**526**	–
Finance leases and hire purchase contracts	**634**	2,221
Loan from the ultimate holding company	**3,047**	2,050
	5,467	10,282

10. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Fees	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**4,000**	4,003
Performance related bonuses	**–**	744
Retirement benefits scheme contributions	**12**	149
	4,012	4,896
	4,012	4,896

There were no fees or other emoluments paid or payable to the independent non-executive directors of the Company during the year (2001: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil - HK$1,000,000	**9**	12
HK$1,000,001 - HK$1,500,000	**–**	1
HK$1,500,001 - HK$2,000,000	**–**	2
HK$4,000,001 - HK$4,500,000	**1**	–
	10	15

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2001: three) director, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining four (2001: two) non-directors, highest paid employees are as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**6,504**	2,825
Retirement benefits scheme contributions	**48**	3
	6,552	2,828

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2002	2001
HK$1,000,001 - HK$1,500,000	**2**	1
HK$1,500,001 - HK$2,000,000	**1**	1
HK$2,000,001 - HK$2,500,000	**1**	–
	4	2

12. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2002	2001
	HK$'000	HK$'000
Group:		
Hong Kong		
Provision for the year	**–**	330
Underprovision in prior years	**–**	6
	–	336
Elsewhere	**378**	–
Deferred – note 31	**–**	3,080
Tax charge for the year	**378**	3,416

There was no significant unprovided deferred tax charge in respect of the year (2001: Nil).

13. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2002 dealt with in the financial statements of the Company is HK$1,255,577,000 (2001: HK$1,082,615,000).

14. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$282,617,000 (2001: HK$2,169,967,000, as restated) and the weighted average of 319,199,190 (2001: 192,415,615, as restated to reflect the consolidation of shares during the year (note 32)) ordinary shares in issue during the year.

No diluted loss per share is presented for the years ended 31 March 2002 and 2001, as the effect of the Company's potential ordinary shares outstanding during those years was anti-dilutive.

15. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment and software HK$'000	Motor vehicles HK$'000	Software under develop-ment HK$'000	Total HK$'000
Cost:								
At beginning of year:								
As previously reported	24,942	2,982	315,325	11,979	16,144	4,152	2,262	377,786
Reclassification to accumulated depreciation and impairment (Note)	–	–	9,500	–	6,851	–	–	16,351
As restated	24,942	2,982	324,825	11,979	22,995	4,152	2,262	394,137
Acquisition of subsidiaries and businesses	–	–	–	–	1,807	–	–	1,807
Additions	–	228	3,697	299	3,091	–	–	7,315
Transfers	–	–	–	144	2,118	–	(2,262)	–
Disposals	(14,140)	(2,985)	(327,553)	(11,309)	(19,497)	(4,156)	–	(379,640)
Transfer to a fellow subsidiary	–	–	–	(11)	(4,748)	–	–	(4,759)
Transfer to intangible assets	–	–	–	–	(4,925)	–	–	(4,925)
Exchange realignment	–	(62)	(969)	(55)	(187)	4	–	(1,269)
At 31 March 2002	10,802	163	–	1,047	654	–	–	12,666
Accumulated depreciation and impairment:								
At beginning of year:								
As previously reported	829	1,401	113,931	6,803	5,637	2,336	–	130,937
Reclassification from cost (Note)	–	–	9,500	–	6,851	–	–	16,351
As restated	829	1,401	123,431	6,803	12,488	2,336	–	147,288
Depreciation provided during the year	284	883	4,580	778	5,174	94	–	11,793
Impairment during the year recognised in the profit and loss account	–	400	4,400	382	3,431	–	–	8,613
Transfers	–	–	–	114	(114)	–	–	–
Disposals	(663)	(2,617)	(132,301)	(7,558)	(15,265)	(2,430)	–	(160,834)
Transfer to a fellow subsidiary	–	–	–	(9)	(3,750)	–	–	(3,759)
Transfer to intangible assets	–	–	–	–	(1,509)	–	–	(1,509)
Exchange realignment	–	(4)	(110)	(8)	(128)	–	–	(250)
At 31 March 2002	450	63	–	502	327	–	–	1,342
Net book value:								
At 31 March 2002	10,352	100	–	545	327	–	–	11,324
At 31 March 2001	24,113	1,581	201,394	5,176	10,507	1,816	2,262	246,849

15. FIXED ASSETS (con't)

Note: Accumulated impairment losses are aggregated with accumulated depreciation under the revised disclosure requirements of SSAP 17, as detailed in note 3 to the financial statements, whereas previously they were disclosed as an adjustment to the cost of the assets. This change has been disclosed as a retrospective reclassification.

The net book value of the fixed assets of the Group held under finance leases/hire purchase contracts included in the total amount of fixed assets at 31 March 2002 amounted to HK$23,000 (2001: HK$43,899,000).

The Group's leasehold land and buildings are situated in Hong Kong and are held under medium term leases.

At 31 March 2002, the Group's leasehold land and buildings with a net book value of HK$5,760,000 (2001: HK$5,875,000) were pledged to secure banking facilities granted to the Group (note 27).

16. INTANGIBLE ASSETS

Group

	Licence and co-operative rights HK$'000	**Software licence rights** HK$'000	**Total** HK$'000
Cost:			
Additions during the year and balance at 31 March 2002	110,000	3,416	113,416
Accumulated amortisation and impairment:			
Amortisation provided during the year	2,444	273	2,717
Impairment during the year recognised in the profit and loss account	107,556	3,143	110,699
At 31 March 2002	110,000	3,416	113,416
Net book value:			
At 31 March 2002	–	–	–
At 31 March 2001	–	–	–

On 10 April 2001, the Group entered into certain co-operative agreements and a software licence agreement with iBusinessCorporation.com Limited, i21Limited and Excel Technology International Holdings Limited for a total consideration of HK$110 million, which was satisfied by the issue of 280,000,000 new ordinary shares of the Company valued at HK$0.25 each and two 2.5% interest-bearing convertible notes, with an aggregate face value of HK$40 million and convertible into ordinary shares of the Company (the "Convertible Notes"). The Convertible Notes had a term of three years and a fixed conversion price of HK$0.40 per share.

On 13 November 2001, the Group entered into two separate agreements with the holders of the Convertible Notes for the early redemption of the Convertible Notes by the Company for an aggregate cash consideration of HK$25.6 million. The Convertible Notes were fully redeemed prior to 31 March 2002 and, accordingly, the Group realised a gain on early redemption of the Convertible Notes of HK$14.4 million for the year.

16. INTANGIBLE ASSETS (con't)

During the year, in line with the Group's strategic plan to concentrate on its existing core/profitable businesses, the directors decided to substantially reduce the scale of the Group's development plans in connection with the licence and co-operative rights. Accordingly, an impairment loss of approximately HK$107.6 million was recognised for the year in respect of the Group's licence and co-operative rights.

As further detailed in note 38 (g) to the financial statements, during the year, the Group entered into a conditional licence agreement with QHA, whereby the Group granted QHA or its nominees an exclusive and perpetual software licence to use and develop the LEON/REACH software, a processing system for healthcare services developed by the Group, within the Greater China Region. The QHA group has been the sole user of the LEON/REACH software in Hong Kong and there are currently no other users of the software in other countries.

17. GOODWILL

SSAP 30 was adopted during the year, as detailed in note 3 to the financial statements. The amount of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of a subsidiary, is as follows:

Group

	Goodwill HK$'000
Cost:	
Acquisition of a subsidiary during the year and balance at 31 March 2002	7,598
Accumulated amortisation and impairment:	
Amortisation provided during the year	127
Impairment provided during the year recognised in the profit and loss account	7,471
At 31 March 2002	7,598
Net book value:	
At 31 March 2002	–
At 31 March 2001	–

As detailed in note 3 to the financial statements, the Group has adopted the transitional provisions of SSAP 30, which permits goodwill in respect of acquisitions which occurred prior to 1 April 2001 to remain eliminated against consolidated reserves. Accordingly, the goodwill arising from acquisitions occurred prior to 1 April 2001 and which was debited to a goodwill reserve is not restated.

17. GOODWILL (con't)

The amount of goodwill reserve, arising from the acquisitions of subsidiaries and businesses prior to 1 April 2001, is as follows:

Group

	Goodwill reserve HK$'000
Cost:	
At beginning of year	2,162,830
Disposal of subsidiaries	(2,162,830)
At 31 March 2002	–
Accumulated impairment:	
At beginning of year:	
As previously reported	–
Prior year adjustment	2,051,830
As restated	2,051,830
Impairment during the year recognised in the profit and loss account	110,530
Disposal of subsidiaries	(2,162,360)
At 31 March 2002	–
Net amount:	
At 31 March 2002	–
At 31 March 2001	
As previously reported	2,162,830
Prior year adjustment	(2,051,830)
As restated	111,000

During the year, in accordance with SSAP 30 and Interpretation 13, the Group adopted a policy to assess goodwill eliminated against consolidated reserves and not restated for impairment. As a result, the Group has recognised an impairment of part of the goodwill previously eliminated against consolidated reserves of HK$110,530,000 during the year, as detailed in the table above. This change of accounting policy has been accounted for retrospectively as a prior year adjustment in accordance with the transitional provisions of SSAP 30. Accordingly, the cumulative amount of impairment of goodwill reserve arising in the prior year, that would have been charged to the consolidated profit and loss account under the new accounting policy, of HK$2,051,830,000 as at 1 April 2001, has been adjusted to the accumulated impairment of goodwill reserve as at 1 April 2001 and the impairment loss for the year ended 31 March 2001 as a prior year adjustment, as detailed above.

The cumulative amount of the impairment of goodwill reserve of HK$2,051,830,000 as at 1 April 2001 (1 April 2000: Nil) has been adjusted to the balance of accumulated losses as at that date.

31 March 2002

18. INTERESTS IN SUBSIDIARIES

	Company 2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	**1,980,638**	2,027,065
Amounts due from subsidiaries	**377,274**	309,537
	2,357,912	2,336,602
Provision for impairment	**(1,980,638)**	(990,319)
Provision against amounts due from subsidiaries	**(352,166)**	(136,453)
	25,108	1,209,830

The amounts due from subsidiaries are unsecured, interest-free, except for an amount of HK$31,800,000 (2001: HK$44,950,000) which bears interest at the Hong Kong dollar prime rate plus 3% per annum, and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ operations	Nominal value of issued share capital	Percentage of equity attributable to the Company 2002	2001	Principal activities
Healthcare Transaction Operations and Related Businesses					
ehealthcareasia.com Limited	Hong Kong	Ordinary HK$2	**100**	100	Development and provision of healthcare transaction processing and healthcare solutions services

18. INTERESTS IN SUBSIDIARIES (con't)

Particulars of the principal subsidiaries are as follows (con't):

Name	Place of incorporation/ operations	Nominal value of issued share capital	Percentage of equity attributable to the Company 2002	2001	Principal activities
eHealth Australia Pty Ltd	Australia	Ordinary A$6,412,763	–	100	Investment holding, development, provision of healthcare solutions and related services
eQuality Group Pty. Ltd.	Australia	Ordinary A$2	–	100	Development and provision of healthcare solutions and related services
Medseed Limited	Australia	Ordinary A$149	–	100	Development and provision of healthcare solutions and related services
Ultronics Enterprise Limited	Hong Kong	Ordinary HK$5 Deferred HK$4,313,880	**100**	100	Distribution of medical equipment and supplies
Telemarketing					
ehealthcareasia (Taiwan) Limited	Taiwan	Ordinary NT$500,000	–	100	Provision of management services

18. INTERESTS IN SUBSIDIARIES (con't)

Particulars of the principal subsidiaries are as follows (con't):

Name	Place of incorporation/ operations	Nominal value of issued share capital	Percentage of equity attributable to the Company 2002	2001	Principal activities
ehealthcareasia Broker Company Limited	Taiwan	Ordinary NT$2,000,000	–	100	Provision of telemarketing services
Ground Engineering and Building Construction					
Kin Wing Chinney (BVI) Limited*	British Virgin Islands	Ordinary US$208	–	50	Investment holding
Apex Aluminium Fabricator Company Limited*	Hong Kong	Ordinary HK$9,160,000	–	50	Contracting of building aluminium work
Apex Curtain Wall and Windows Company Limited*	Hong Kong	Ordinary HK$10,000	–	50	Contracting of building aluminium work
Chinney Builders and Foundation Company Limited*	Hong Kong	Ordinary HK$2	–	50	Building construction
Chinney Construction Company, Limited*	Hong Kong	Ordinary HK$10,000,000	–	50	Building construction
DrilTech Geotechnical Engineering Limited*	Hong Kong	Ordinary HK$10,000	–	50	Drilling and related ground engineering construction

18. INTERESTS IN SUBSIDIARIES (con't)

Particulars of the principal subsidiaries are as follows (con't):

Name	Place of incorporation/ operations	Nominal value of issued share capital	Percentage of equity attributable to the Company 2002	2001	Principal activities
DrilTech Ground Engineering Limited*	Hong Kong	Ordinary HK$12,500,000	–	50	Drilling, site investigation and related ground engineering construction
Kin Wing Engineering Company Limited*	Hong Kong	Ordinary HK$10,000,000	–	50	Foundation piling
Kin Wing Foundations Limited*	Hong Kong	Ordinary HK$10,000	–	50	Foundation piling
Kin Wing Machinery & Transportation Limited*	Hong Kong	Ordinary HK$100	–	50	Equipment and machinery leasing

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

Except for Kin Wing Chinney (BVI) Limited, all the above subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2002	2001
	HK$'000	HK$'000
Share of net assets	**–**	5

Particulars of the jointly-controlled entity are as follows:

Name	**Business structure**	**Place of incorporation/ operations**	**Percentage of ownership interest attributable to the Group**		**Principal activity**
			2002	2001	
Sunley-Kin Wing Joint Venture Limited*	Corporate	Hong Kong	**–**	50	Inactive

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

The above jointly-controlled entity was indirectly held by the Company.

20. INTEREST IN AN ASSOCIATE

	Group	
	2002	2001
	HK$'000	HK$'000
Share of net assets	**–**	5

Particulars of the associate are as follows:

Name	**Business structure**	**Place of incorporation/ operations**	**Percentage of ownership interest attributable to the Group**		**Principal activity**
			2002	2001	
Luckfaith Far East Limited *	Corporate	Hong Kong	**–**	50	Inactive

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

The above associate was indirectly held by the Company.

21. LONG TERM INVESTMENT

	Group	
	2002	2001
	HK$'000	HK$'000
Unlisted equity investment, at cost	**–**	2,802

At 31 March 2001, the Group held a 25% equity interest in the registered capital of Gansu Longhai Chinney Construction Engineering Co. Ltd., a company established in the People's Republic of China. The investee company was not treated as an associate because, in the opinion of the directors, the Group was not in a position to exercise significant influence.

22. PROPERTIES FOR SALE

The properties for sale are situated in the People's Republic of China and are held under medium term leases. Certain of the Group's properties held for sale with a carrying amount of HK$4,600,000 at 31 March 2002 (2001: HK$6,221,000) are leased to third parties under operating leases, further details of which are included in note 36(a) to the financial statements.

At 31 March 2002, one of the Group's properties for sale with a carrying value of HK$981,000 (2001: HK$981,000) was pledged to secure a bank loan of the Group (note 27).

23. INVENTORIES

	Group	
	2002	2001
	HK$'000	HK$'000
Trading stocks	**5,054**	3,839

The carrying amount of inventories at net realisable value included in the above balance was HK$313,000 (2001: HK$218,000) as at the balance sheet date.

24. DEBTORS, PREPAYMENTS AND DEPOSITS

The Group allows an average general 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. Overdue balances are reviewed regularly by senior management.

An aged analysis of the Group's trade debtors included in debtors, prepayments and deposits as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	Group		**Company**	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade debtors:				
Current – 90 days	**3,691**	88,385	**–**	–
91 – 180 days	**1,930**	14,327	**–**	–
181 – 365 days	**10**	21,386	**–**	–
	5,631	124,098	**–**	–
Prepayments, deposits and other debtors	**2,183**	26,719	**316**	316
	7,814	150,817	**316**	316

Included in the Group's trade debtors at 31 March 2002 are amounts due from fellow subsidiaries of HK$3,949,000 (2001: HK$4,085,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

25. CONSTRUCTION CONTRACTS

	Group	
	2002	2001
	HK$'000	HK$'000
Gross amounts due from contract customers	**–**	81,108
Gross amounts due to contract customers	**–**	(93,719)
	–	(12,611)
Contract costs incurred plus recognised profits less recognised losses to date	**–**	4,203,007
Less: Progress billings	**–**	(4,215,618)
	–	(12,611)

26. CREDITORS, ACCRUED LIABILITIES AND DEPOSITS RECEIVED

An aged analysis of the Group's trade creditors included in creditors, accrued liabilities and deposits received as at the balance sheet date, based on invoice date, is as follows:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade creditors:				
Current – 90 days	**3,460**	75,526	**–**	–
91 – 180 days	**3,591**	900	**–**	–
181 – 365 days	**109**	4,047	**–**	–
Over 365 days	**300**	266	**–**	–
	7,460	80,739	**–**	–
Accrued liabilities, deposits received, and other creditors	**14,248**	124,728	**1,836**	2,696
	21,708	205,467	**1,836**	2,696

Included in the Group's trade creditors at 31 March 2002 is an amount due to a fellow subsidiary of HK$5,775,000 (2001: HK$882,000), which is repayable on similar credit terms to those offered by the fellow subsidiary to its major customers.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans and overdrafts:				
Secured	**3,819**	15,179	**–**	–
Unsecured	**–**	28,365	**–**	–
	3,819	43,544	**–**	–
Financial institution loan - secured	**–**	40,000	**–**	40,000
	3,819	83,544	**–**	40,000
Portion repayable within one year or on demand classified as current liabilities	**(3,616)**	(79,074)	**–**	(40,000)
Non-current portion	**203**	4,470	**–**	–

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (con't)

The maturity terms of the above interest-bearing bank and other borrowings are as follows:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans and overdrafts repayable:				
Within one year or on demand	**3,616**	39,074	**–**	–
In the second year	**135**	1,631	**–**	–
In the third to fifth years, inclusive	**68**	2,839	**–**	–
	3,819	43,544	**–**	–
Financial institution loan repayable within one year	**–**	40,000	**–**	40,000
	3,819	83,544	**–**	40,000

Certain of the Group's bank loans and overdrafts at 31 March 2002 were secured by a leasehold property and a property for sale of the Group. Certain of the Group's bank loans and overdrafts at 31 March 2001 were secured by a bank deposit, a leasehold property and a property for sale of the Group.

The Group's financial institution loan at 31 March 2001 was secured by the Group's interest in a subsidiary of the Company and bore interest at the Hong Kong dollar prime rate plus 2% per annum. The loan was fully repaid during the year.

28. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its office equipment as at 31 March 2002. These leases are classified as finance leases and have remaining lease terms ranging from one to two years. All finance leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

At 31 March 2002, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments 2002 HK$'000	Present value of minimum lease payments 2002 HK$'000
Amounts payable:		
Within one year	**44**	**39**
In the second year	**10**	**8**
Total minimum finance lease payments	**54**	**47**
Future finance charges	**(7)**	
Total net finance lease payables	**47**	
Portion classified as current liabilities	**(39)**	
Long term portion	**8**	

SSAP 14 was revised and implemented during the year, as detailed in note 3 to the financial statements. Certain new disclosures are required and have been included above.

In accordance with the transitional provisions of SSAP 14 (Revised), the SSAP has been applied prospectively. Accordingly, the prior year comparative amounts for the new disclosures required under the revised SSAP 14 have not been presented and the disclosures required prior to the implementation of the revised SSAP 14 are set out below.

28. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES (con't)

At 31 March 2001, the total future minimum lease payments under finance leases and hire purchase contracts were as follows:

Group

	Minimum lease payments 2001 HK$'000
Amounts payable:	
Within one year	26,380
In the second year	14,464
In the third to fifth years, inclusive	6,075
Total minimum finance lease and hire purchase contract payments	46,919
Future finance charges	(5,317)
Total net finance lease and hire purchase contract payables	41,602
Portion classified as current liabilities	(23,873)
Long term portion	17,729

29. LOAN FROM THE ULTIMATE HOLDING COMPANY

The balance as at 31 March 2001 represented the loan drawn-down under a revolving term loan facility granted by the ultimate holding company to the Company pursuant to a loan agreement dated 5 October 2000 for up to HK$75 million, which was unsecured, bore interest at Hong Kong dollar prime rate plus 3% per annum and was originally repayable at the earlier of 31 December 2001 or six months after the ultimate holding company's shareholding interest in the Company fell below 50%.

Pursuant to a renewed loan agreement dated 22 November 2001 entered into between the Company and the ultimate holding company, the ultimate holding company agreed to extend a renewed revolving loan facility to the Company, inter alia, on the following terms:

- the maximum principal amount that may be outstanding at any one time under the renewed revolving loan facility is (i) HK$60,000,000 during the period from 1 January 2002 to 28 February 2002; and (ii) HK$45,000,000 during the period from 1 March 2002 to 31 December 2003;

- the loan is repayable on 31 December 2003;

- the loan is repayable upon demand should the ultimate holding company's shareholding interest in the Company fall below 30%;

29. LOAN FROM THE ULTIMATE HOLDING COMPANY (con't)

- the loan bears interest at Hong Kong dollar prime rate plus 3% per annum; and

- the Company undertakes to the ultimate holding company that the Group will not dispose of any business assets (save in the ordinary course of business and not exceeding HK$100,000) without the ultimate holding company's prior consent and that the Company will apply the proceeds from any such disposal towards the reduction of the amount outstanding from time to time under the renewed loan agreement. The Company has not pledged any assets to the ultimate holding company.

The renewed loan agreement and the above terms are subject to certain conditions, which were satisfied during the year. Accordingly, the loan from the ultimate holding company at 31 March 2002 amounting to HK$31.8 million was classified as a non-current liability.

30. DEFERRED ACQUISITION CONSIDERATION

	Group	
	2002	2001
	HK$'000	HK$'000
Partial consideration payable for the acquisition of certain businesses and business assets	**–**	3,459

31. DEFERRED TAX

	Group	
	2002	2001
	HK$'000	HK$'000
Balance at beginning of year	**13,440**	10,360
Charge for the year – note 12	**–**	3,080
Disposal of subsidiaries	**(13,440)**	–
At 31 March	**–**	13,440

At 31 March 2001, the principal component of the Group's provision for deferred tax was related to the timing differences arising from accelerated depreciation allowances.

At the balance sheet date, the Group and the Company had no significant unprovided deferred tax liabilities for which provision had not been made (2001: Nil).

32. SHARE CAPITAL

Shares

	2002	2001
	HK$'000	HK$'000
Authorised:		
10,000,000,000 (2001: 3,000,000,000) ordinary shares of HK$0.01 (2001: HK$0.10) each	**100,000**	300,000
Issued and fully paid:		
442,325,172 (2001: 2,621,916,240) ordinary shares of HK$0.01 (2001: HK$0.10) each	**4,423**	262,192

During the year, there were the following movements in share capital:

(i) Pursuant to an ordinary resolution passed on 3 May 2001, the authorised share capital of the Company of HK$0.10 each 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 respects with the then existing share capital of the Company.

(ii) On 30 May 2001, 280,000,000 new ordinary shares of the Company of HK$0.10 each, credited as fully paid at HK$0.25 per share, were issued to settle part of the total consideration for the licence and co-operative rights as detailed in note 16 to the financial statements. On the same date, 40,000,000 new ordinary shares of the Company 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. Further details of the acquisitions are also set out in a circular of the Company dated 7 May 2001.

(iii) On 7 September 2001, 6,918,240 additional new ordinary shares of the Company 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 businesses 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.

(iv) Pursuant to certain special and ordinary resolutions passed at a special general meeting of the Company held on 20 December 2001, a capital reorganisation (the "Capital Reorganisation") involving, inter alia, the following was implemented:

(a) a reduction of the nominal value of each issued ordinary share of the Company from HK$0.10 to HK$0.001 each by the cancellation of HK$0.099 of the paid-up capital for each issued share (the "Capital Reduction"), and a transfer of the credit arising from the Capital Reduction of approximately HK$291,935,000 to the contributed surplus account of the Company;

(b) a share consolidation of every ten (10) reduced shares of HK$0.001 each as set out in (a) above into one (1) consolidated share of HK$0.01 each (the "Share Consolidation");

32. SHARE CAPITAL (con't)

(c) the cancellation of the entire amount standing to the credit of the share premium account of the Company and a transfer of the credit arising therefrom to the contributed surplus account of the Company (the "Cancellation and Transfer"); and

(d) the cancellation of the existing authorised and unissued share capital of the Company and a subsequent increase of the authorised share capital of the Company to HK$100,000,000 comprising 10,000,000,000 consolidated shares of HK$0.01 each, ranking pari passu in all respects with the existing share capital of the Company.

Further details of the Capital Reorganisation are also set out in a circular of the Company dated 27 November 2001.

(v) A rights issue of one (1) rights share for every two (2) existing shares held by members on the register of members on 27 December 2001 was made, at an issue price of HK$0.25 per rights share, resulting in the issue of 147,441,724 new ordinary shares of the Company of HK$0.01 each for a total cash consideration, before expenses, of HK$36,860,431 (the "Rights Issue"). Further details of the Rights Issue are also set out in a prospectus of the Company dated 27 December 2001.

A summary of the transactions during the year with reference to the above movements of the Company's ordinary share capital is as follows:

	Notes	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000
At beginning of year		2,621,916,240	262,192	1,954,941
Issue of new ordinary shares for acquisitions	(ii)/(iii)	326,918,240	32,692	50,767
Capital Reduction	(iv)(a)	–	(291,935)	–
Share Consolidation	(iv)(b)	(2,653,951,032)	–	–
Cancellation and Transfer	(iv)(c)	–	–	(2,005,708)
Rights Issue	(v)	147,441,724	1,474	35,386
Share issue expenses		–	–	(1,914)
Movements during the year		(2,179,591,068)	(257,769)	(1,921,469)
At 31 March 2002		**442,325,172**	**4,423**	**33,472**

32. SHARE CAPITAL (con't)

Except for the issuance of 2,261,916,240 new ordinary shares the Company of HK$0.10 each for acquisitions, there were no changes to the carrying amount or the number of ordinary shares in issue during the prior year.

Share options

The Company operates a share option scheme (the "Scheme"), which entitles the holders of share options granted under the Scheme to subscribe for ordinary shares of the Company at any time during their exercisable periods. Further details of the Scheme are set out under the heading "Share options scheme" in the Report of the Directors.

At the beginning of the year, there were 1,000,000 share options outstanding under the Scheme, which entitled the holders to subscribe for ordinary shares of the Company at any time during periods ranging from 7 December 2000 to 6 December 2002. The subscription price payable upon the exercise of these options was HK$0.50, subject to adjustment.

Pursuant to the terms of the Scheme, the Capital Reorganisation and the Rights Issue have resulted in adjustments to the number and exercise price of the outstanding share options of the Company, which are as follows:

Exercise price of share options prior to Capital Reorganisation and Rights Issue	Adjusted exercise price of share options after Capital Reorganisation and Rights Issue	Number of outstanding share options prior to Capital Reorganisation and Rights Issue	Adjusted number of outstanding share options after Capital Reorganisation and Rights Issue
HK$0.50	HK$3.333	1,000,000	150,000

Further details of the adjustments to the number and exercise price of the outstanding share options of the Company are also set out in the prospectus of the Company dated 27 December 2001.

At the balance sheet date, the Company had 150,000 share options outstanding under the Scheme, with exercise periods ranging from 7 December 2000 to 6 December 2002 and an exercise price of HK$3.333. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 150,000 additional ordinary shares of the Company of HK$0.01 each and proceeds of HK$499,950. These share options were lapsed subsequent to the balance sheet date on 27 June 2002.

Apart from the share options granted under the Scheme, 10,000,000 shares options of the Company with an exercise price of HK$0.50 were granted to the vendors of EHA (Hong Kong) Limited (formerly HealthBasic.com Limited) as part of the total consideration. Details of the transaction are set out in the circular dated 20 November 2000. The options were lapsed during the year.

33. RESERVES

Group

	Share premium account HK$'000	Contributed surplus HK$'000	Special reserve HK$'000	Goodwill reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 April 2000	62,049	–	(6,999)	(524)	–	98,566	153,092
Premium on issue of shares	1,892,892	–	–	–	–	–	1,892,892
Arising on acquisition of subsidiaries, businesses, business assets and liabilities	–	–	–	(2,162,333)	–	–	(2,162,333)
Released on partial disposal of a subsidiary	–	–	3,499	–	–	–	3,499
Released on disposal of an associate	–	–	–	27	–	–	27
Impairment of goodwill previously eliminated against consolidated reserves	–	–	–	2,051,830	–	–	2,051,830
Exchange realignments	–	–	–	–	2,123	–	2,123
Net loss for the year (Restated)	–	–	–	–	–	(2,169,967)	(2,169,967)
At 31 March 2001	1,954,941	–	(3,500)	(111,000)	2,123	(2,071,401)	(228,837)

33. RESERVES (con't)

Group (con't)

	Share premium account HK$'000	Contributed surplus HK$'000	Special reserve HK$'000	Goodwill reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'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:							
SSAP 30 & Interpretation 13 - impairment provided for goodwill previously eliminated against consolidated reserves – notes 3 and 17	–	–	–	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 in connection with the Rights Issue - note 32	35,386	–	–	–	–	–	35,386
Share issue expenses	(1,914)	–	–	–	–	–	(1,914)
Arising on acquisition of a subsidiary, certain licence and co-operative rights and settlement of deferred acquisition consideration – note 32	50,767	–	–	–	–	–	50,767
Capital Reduction – note 32	–	291,935	–	–	–	–	291,935
Cancellation and Transfer – note 32	(2,005,708)	2,005,708	–	–	–	–	–
Partial reduction of accumulated losses position	–	(2,297,643)	–	–	–	2,297,643	–
Released on disposal of a subsidiary	–	–	3,500	470	(1,159)	–	2,811
Impairment of goodwill previously eliminated against consolidated reserves	–	–	–	110,530	–	–	110,530
Exchange realignments	–	–	–	–	(1,030)	–	(1,030)
Net loss for the year	–	–	–	–	–	(282,617)	(282,617)
At 31 March 2002	**33,472**	**–**	**–**	**–**	**(66)**	**(56,375)**	**(22,969)**

33. RESERVES (con't)

The special reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the aggregate of the nominal value of the issued share capital and the share premium account of KWC BVI, the subsidiary which was acquired by the Company pursuant to a group reorganisation which took place in 1997. During the year, the special reserve was released as the Group disposed of its remaining 50% equity interest in KWC BVI.

During the year, contributed surplus of HK$2,297,643,000 was transferred to accumulated losses of the Group to partially reduce the accumulated losses position of the Group.

All the reserves of the Group as at 31 March 2002 and 2001 were retained by/(accumulated in) the Company and its subsidiaries.

Company

	Share premium account HK$'000	**Contributed surplus** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 April 2000	62,049	–	(5,465)	56,584
Premium on issue of shares	1,892,892	–	–	1,892,892
Net loss for the year	–	–	(1,082,615)	(1,082,615)
At 31 March 2001 and 1 April 2001	1,954,941	–	(1,088,080)	866,861
Premium on issue of shares in connection with the Rights Issue – note 32	35,386	–	–	35,386
Share issue expenses	(1,914)	–	–	(1,914)
Arising on acquisition of a subsidiary, certain licence and co-operative rights and settlement of deferred acquisition consideration – note 32	50,767	–	–	50,767
Capital Reduction – note 32	–	291,935	–	291,935
Cancellation and Transfer – note 32	(2,005,708)	2,005,708	–	–
Partial reduction of accumulated losses position of the Group	–	(2,297,643)	2,297,643	–
Net loss for the year	–	–	(1,255,577)	(1,255,577)
At 31 March 2002	**33,472**	**–**	**(46,014)**	**(12,542)**

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of KWC BVI at the date on which the group reorganisation became effective and the nominal value of the share capital of the Company issued under the group reorganisation.

During the year, contributed surplus of HK$2,297,643,000 was transferred to accumulated losses of the Company to partially reduce the accumulated losses position of the Group.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operations to net cash outflow from operating activities

	Group	
	2002	2001
	HK$'000	HK$'000
		(Restated)
Loss from operations	**(288,591)**	(2,158,954)
Interest income	**(635)**	(2,265)
Rental income	**(14)**	(173)
Dividend income from a long term investment	**–**	(747)
Net loss/(gain) on disposal/ partial disposal of subsidiaries	**(21,281)**	10,173
Gain on early redemption of convertible notes	**(14,400)**	–
Depreciation and amortisation	**14,321**	33,964
Provision for doubtful debts/bad debts written off	**7,088**	973
Impairment losses	**237,313**	2,068,181
Loss on disposal of fixed assets	**4,468**	1,320
Loss on disposal of an associate	**–**	128
Increase in other receivables	**–**	(827)
Increase in inventories	**(1,215)**	(676)
Increase in debtors, prepayments and deposits	**(7,186)**	(19,247)
Decrease in amounts due from contract customers	**18,112**	26,570
Increase in retention monies receivable	**(3,853)**	(9,600)
Decrease in amount due from a fellow subsidiary	**–**	18
Increase/(decrease) in amounts due to contract customers	**(23,760)**	66,184
Increase/(decrease) in creditors, accrued liabilities and deposits received	**(11,966)**	42,133
Increase/(decrease) in amount due to the ultimate holding company	**2,480**	(73,084)
Increase/(decrease) in amount due to a fellow subsidiary	**(8,882)**	9,000
Net cash outflow from operating activities	**(98,001)**	(6,929)

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (con't)

(b) Analysis of changes in financing during the year

	Issued capital (including share premium account) HK$'000	Convertible notes HK$'000	Loan from the ultimate holding company HK$'000	Interest–bearing bank and other borrowings HK$'000	Finance lease and hire purchase contract payables HK$'000	Minority interests HK$'000
Balance at 1 April 2000	98,049	–	–	38,541	26,896	–
Inception of finance lease contracts	–	–	–	–	2,114	–
Arising on acquisition of subsidiaries, businesses and business assets and liabilities	2,119,084	–	–	575	14,033	–
Arising on partial disposal of a subsidiary	–	–	–	–	–	96,673
Arising on disposal of an associate	–	–	–	–	–	27
Dividend paid to a minority shareholder of a subsidiary	–	–	–	–	–	(2,000)
Share of loss for the year	–	–	–	–	–	(2,685)
Exchange realignments	–	–	–	–	(1,810)	–
Cash inflow from financing activities, net	–	–	42,900	29,554	369	–
Balance at 31 March 2001 and 1 April 2001	2,217,133	–	42,900	68,670	41,602	92,015
Issue of new ordinary shares and convertible notes of the Company as consideration for the acquisition of certain licence and co-operative rights	70,000	40,000	–	–	–	–
Issue of new ordinary shares of the Company for the acquisition of a subsidiary	10,000	–	–	–	–	–
Issue of new ordinary shares of the Company for the settlement of deferred acquisition consideration	3,459	–	–	–	–	–
Gain on early redemption of convertible notes	–	(14,400)	–	–	–	–
Disposal of subsidiaries	–	–	–	(22,912)	(36,922)	(80,196)
Cancellation and Transfer - note 32	(2,005,708)	–	–	–	–	–
Capital Reduction - note 32	(291,935)	–	–	–	–	–
Share of loss for the year	–	–	–	–	–	(11,819)
Exchange realignments	–	–	–	–	192	–
Cash inflow/(outflow) from financing activities, net	34,946	(25,600)	(11,100)	(45,420)	(4,825)	–
Balance as at 31 March 2002	**37,895**	**–**	**31,800**	**338**	**47**	**–**

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (con't)

(c) Major non-cash transactions

(i) On 30 May 2001, the Group completed the acquisition of certain licence and co-operative rights in exchange for which the Company issued (a) 280,000,000 new ordinary shares of the Company valued at HK$0.25 per share, and (b) HK$40 million, 2.5% interest-bearing convertible notes, convertible into ordinary shares of the Company, to the vendors. Further details of the acquisition are also set out in a circular of the Company dated 7 May 2001.

(ii) On 30 May 2001, the Group completed the acquisition of the entire issued share capital of iClaims21 Limited in exchange for which the Company issued 40,000,000 new ordinary shares of the Company valued at HK$0.25 per share to the vendors. Further details of the acquisition are also set out in a circular of the Company dated 7 May 2001.

(iii) On 7 September 2001, 6,918,240 new ordinary shares of the Company valued at HK$0.50 per share were issued to settle the deferred acquisition consideration for the acquisition of certain businesses 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.

(iv) As detailed in note 32 to the financial statements, on 21 December 2001, the Group implemented the Capital Reorganisation including, inter alia, the following non-cash transactions:

a. a transfer of the credit arising from the Capital Reduction of approximately HK$291,935,000 to the contributed surplus account of the Company; and

b. the Cancellation and Transfer.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (con't)

(d) Acquisition of subsidiaries, businesses and business assets and liabilities

	Group	
	2002	2001
	HK$'000	HK$'000
Net assets acquired/(liabilities assumed):		
Fixed assets	**1,807**	32,399
Properties for sale	**–**	9,072
Inventories	**–**	3,163
Debtors, prepayments and deposits	**1,500**	24,142
Cash and bank balances	**–**	31,335
Interest-bearing bank and other borrowings	**–**	(575)
Creditors, accrued liabilities and deposits received	**–**	(31,368)
Amount due to the ultimate holding company	**–**	(75,184)
Finance lease and hire purchase contract payables	**–**	(14,033)
	3,307	(21,049)
Goodwill on acquisition	**7,598**	2,162,333
	10,905	2,141,284
Satisfied by:		
Cash consideration paid	**–**	11,459
Costs incurred in respect of the acquisition of subsidiaries, businesses and business assets and liabilities	**905**	7,282
Deferred acquisition consideration – note 30	**–**	3,459
Shares issued	**10,000**	2,119,084
	10,905	2,141,284

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (con't)

(d) Acquisition of subsidiaries, businesses and business assets and liabilities (con't)

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries, businesses and business assets and liabilities is as follows:

	2002 **HK$'000**	2001 HK$'000
Cash consideration paid	–	(11,459)
Costs incurred in respect of the acquisition of subsidiaries, businesses and business assets and liabilities	**(905)**	(7,282)
Cash and bank balances acquired	–	31,335
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries, businesses and business assets and liabilities	**(905)**	12,594

The subsidiary acquired during the year did not have any turnover and contributed HK$500,000 to the consolidated loss before tax and minority interests for the year ended 31 March 2002. The subsidiary acquired during the year had no significant impact in respect of the cash flows for operating activities, investing activities, financing activities, net returns on investments and servicing of finance and tax.

The subsidiaries, businesses and business assets and liabilities acquired in the prior year contributed approximately HK$42 million to turnover and accounted for approximately HK$96 million of the consolidated loss before tax and minority interests for the year ended 31 March 2001. The subsidiaries, businesses and business assets and liabilities acquired in the prior year utilised approximately HK$150 million of the Group's net operating cash flows, paid approximately HK$19 million in respect of investing activities but had no significant impact in respect of net returns on investments and servicing of finance, tax and financing activities for that year.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (con't)

(e) Disposal of subsidiaries

	Group	
	2002	2001
	HK$'000	HK$'000
Net assets disposed of:		
Fixed assets	**214,070**	–
Interest in a jointly-controlled entity	**5**	–
Interest in an associate	**5**	–
Long term investment	**2,802**	–
Other receivables	**936**	–
Debtors, prepayments and deposits	**144,470**	–
Amounts due from contract customers	**63,312**	–
Retention monies receivable	**75,620**	–
Cash and bank balances	**10,999**	–
Creditors, accrued liabilities and deposits received	**(170,039)**	–
Amounts due to contract customers	**(69,959)**	–
Interest-bearing bank and other borrowings	**(70,923)**	–
Finance lease and hire purchase contract payables	**(36,922)**	–
Tax	**(331)**	–
Deferred tax	**(13,440)**	–
Minority interests	**(80,196)**	–
	70,409	–
Exchange reserve released on disposal	**(1,159)**	–
Goodwill reserve released on disposal	**470**	–
Special reserve released on disposal	**3,500**	–
Gain on disposal of subsidiaries	**21,281**	–
Consideration *	**94,501**	–
Satisfied by:		
Cash	**94,501**	–

* The consideration received was net of incidental costs of disposal totalling approximately HK$1,499,000, comprising primarily of legal and professional fees, which were satisfied by cash.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (con't)

(e) Disposal of subsidiaries (con't)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2002 HK$'000	2001 HK$'000
Cash consideration received	**94,501**	–
Cash and bank balances disposed of	**(10,999)**	–
Bank overdrafts disposed of	**48,011**	–
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**131,513**	–

The subsidiaries disposed of during the year contributed approximately HK$70.1 million to the Group's turnover and approximately HK$40.9 million to the consolidated loss after tax for the year ended 31 March 2002. These subsidiaries disposed of utilised approximately HK$52.8 million of the Group's net operating cash flows, paid approximately HK$1.5 million in respect of net returns on investments and servicing of finance, and utilised approximately HK$6.7 million for investing activities and approximately HK$9.4 million for financing activities but had no significant impact in respect of tax.

35. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

		Company	
	Notes	2002 HK$'000	2001 HK$'000
Guarantees given to banks/financial institutions in connection with facilities granted to subsidiaries:			
– Continuing operations	(i)	**20,000**	20,000
– Discontinued operations	(ii)	**–**	145,481
		20,000	165,481

Notes:

(i) As at 31 March 2002, the banking facilities granted to a subsidiary which were secured by a corporate guarantee given by the Company were utilised to the extent of approximately HK$3,481,000 (2001: Nil).

(ii) All such guarantees were released subsequent to the disposal of KWC BVI on 8 May 2001, as further detailed in note 7(a) to the financial statements.

35. CONTINGENT LIABILITIES (con't)

(b) 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 respective business activities. The aggregate amount of claims, including estimated legal costs, resulting from such contingent liabilities was approximately HK$5,023,000 as at 31 March 2001. These contingent liabilities were disposed of by the Group upon the completion of the disposal of KWC BVI on 8 May 2001, as further detailed in note 7(a) to the financial statements.

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties for sale (note 22) under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 March 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group 2002 HK$'000
Within one year	**530**
In the second to fifth years, inclusive	**230**
	760

(b) As lessee

The Group leases certain of its office premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years and rentals are normally fixed in accordance with the respective tenancy agreements and no arrangements have been entered into for contingent rental payments.

At 31 March 2002, the Group had commitments under non-cancellable operating leases to make payments as set out below:

	Group	
	2002 HK$'000 (Note (i))	2001 HK$'000 (Note (ii))
Land and buildings expiring:		
Within one year	**309**	692
In the second to fifth years, inclusive	**–**	4,333
	309	5,025

36. OPERATING LEASE ARRANGEMENTS (con't)

Notes:

(i) Being total future minimum lease payments, analysed into the periods in which the payments are to be made.

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

At the balance sheet date, the Company did not have any significant operating lease commitments (2001: Nil).

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. In accordance with the transitional provision of SSAP 14 (Revised), the SSAP has been applied prospectively. Accordingly, the prior year comparative amounts for the new disclosures required under the revised SSAP 14 have not been presented and the SSAP has had no effect on amounts previously reported in the prior year financial statements.

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36(b) above, the Group had the following commitments at the balance sheet date:

Capital commitments:

	Group	
	2002	2001
	HK$'000	HK$'000
Acquisition of fixed assets:		
Contracted, but not provided for	**–**	11,750

In addition to the above, on 24 February 2001, the Company entered into a binding memorandum of agreement pursuant to which the Company agreed to enter into a definitive agreement regarding certain co-operative arrangements and the acquisition of a company as further detailed in notes 16 and 32 to the financial statements. On 10 April 2001, the Company entered into certain agreements in respect of the arrangements and the acquisition.

At 31 March 2002, the Company did not have any significant commitments.

38. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		Group	
		2002	2001
	Notes	**HK$'000**	HK$'000
Transaction processing fees charged to the QHA group	(a)	**18,569**	17,859
Consultancy service fees charged by the QHA group	(b)	**–**	18,000
Amount charged by the ultimate holding company for sharing of corporate expenses	(c)	**8,400**	6,300
Interest charged by the ultimate holding company	(d)	**3,047**	2,050
Construction work carried out for related companies	(e)	**2,582**	84,290
Proceeds received on disposal/partial disposal of a subsidiary to a related company	(f)	**88,000**	90,000
Licence fee charged to the ultimate holding company	(g)	**10,000**	–
Disposal of fixed assets to the QHA group	(h)	**1,000**	–

Notes:

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

(b) The Group received consultancy and related services from the QHA group and the consultancy service fees were charged according to the terms of the service agreement mentioned in note (a) above.

(c) The amount charged was mutually agreed between the Group and the ultimate holding company with reference to the corporate expenses incurred.

(d) The interest expense charged by the ultimate holding company arose from an unsecured revolving term loan as further described in note 29 to the financial statements.

(e) During the year, the Group carried out construction work for certain related companies, in which certain of the then directors and/or beneficial shareholders of certain then subsidiaries during the year are directors and/or beneficial shareholders of those companies.

38. RELATED PARTY TRANSACTIONS (con't)

(f) As detailed in note 7 to the financial statements, on 26 March 2001, the Company entered into a conditional agreement with New Luck Assets Limited ("New Luck") in relation to the disposal of its 50% equity interest in KWC BVI to New Luck for a cash consideration of HK$88 million. New Luck was then 86.05% owned by Chinney Investment, Limited ("Chinney") and 13.95% owned by Mr. Zuric Yuen Keung Chan ("Mr. Chan"), a then director of the Company, both of whom are beneficial shareholders of KWC BVI. On the same date, QHA, the Warrantors (Chinney, Mr. Chan and Mr. Johnny Yu), the Company, Chinney Contractors Company Limited ("CCC") and the custodian of a custodian account entered into a supplemental deed pursuant to which QHA conditionally agreed that, subject to the completion of the disposal of KWC BVI and the approval of QHA's independent shareholders, all monies amounting to HK$89,999,999 (plus accrued interest) be released to the Warrantors from a custodian account. CCC was then 77.11% owned by Chinney, 12.5% by Mr. Chan and 10.39% by Mr. Johnny Yu, who is also a director of KWC BVI. Mr. James Wong (a then director of KWC BVI and a former director of the Company up to his resignation on 27 July 2000) had a significant beneficial interest in Chinney at that time, which was then the holding company of New Luck. Further details of these transactions are also set out in a circular of the Company dated 17 April 2001. Both the disposal of KWC BVI and the execution of the supplemental deed took place on 8 May 2001.

Pursuant to an agreement dated 23 March 2000, the Group disposed of its 50% equity interest in KWC BVI to a company beneficially owned by certain of the then directors/beneficial shareholders of the Company and/or KWC BVI for a cash consideration of HK$90 million on 28 June 2000. Further details of this transaction are also set out in a circular of the Company dated 5 June 2000.

(g) Pursuant to a conditional licence agreement dated 24 December 2001 entered into between QHA, the Company and certain of its subsidiaries (the "Licence Agreement"), the Group granted QHA or its nominees an exclusive and perpetual software licence to use and develop the LEON/REACH software, a processing system for healthcare services developed by a subsidiary of the Group, for the QHA group's use and for use by any affiliates and franchises under the management of the QHA group (excluding the Group) within the Greater China Region for a licence fee of HK$10 million, which was settled by setting off such licence fee from the outstanding loan owing by the Company to QHA. The Licence Agreement was subject to approval of the independent shareholders of QHA and the Company in their general meetings and the entering of a deed of termination (the "Deed of Termination") of a service agreement (the "Service Agreement") and all other ancillary documents in relation thereto. The Service Agreement was entered into between QHA and Quality HealthCare Technologies and Services Limited ("QHTS"), a subsidiary of QHA, which subsequently also became a subsidiary of the Group, on 29 April 2000. Pursuant to the Service Agreement, QHTS and its subsidiaries agreed to provide to members of the QHA group certain services including, without limitation, services for web-based applications and practice management systems, transaction facilitation services, third party administration services, data mining services and consultation services as well as information and customer services to support wireless application protocol. Under the Service Agreement, the QHA group has agreed to provide, and to procure other members of the QHA group to provide the Group services including, without limitation, consultation services and health-related information for the Group's website. The Service Agreement also included the use by the QHA group (excluding the QHTS group) of the LEON/REACH software worldwide. On 4 February 2002, following the completion of the Licence Agreement, the Service Agreement was terminated by the Deed of Termination. Further details of the above are also set out in a circular of the Company dated 18 January 2002.

38. RELATED PARTY TRANSACTIONS (con't)

(h) Pursuant to a sale and purchase agreement (the "S&P Agreement") dated 24 December 2001, QHA and its subsidiaries agreed to purchase from a subsidiary of the Group certain fixed assets then used for the LEON/REACH software for a cash consideration of HK$1 million. The S&P Agreement was completed on 4 February 2002 and the consideration for the S&P Agreement was satisfied by offsetting the outstanding loan owing by the Company to QHA.

39. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 July 2002.