

# Notes to Financial Statements

31 December 2000

## 1. CORPORATE INFORMATION

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

- Provision of medical services
- Provision of nursing, physiotherapy, dental and other related healthcare services
- Provision of elderly care services
- Provision of healthcare transaction processing and claims handling services and distribution of medical equipment (collectively the “Healthcare transaction operations and related businesses”)
- Provision of ground engineering and building construction services (to be discontinued subsequent to the balance sheet date as set out in note 5 to the financial statements)

## 2. BASIS OF PRESENTATION AND CORPORATE UPDATE

The consolidated financial statements have been prepared in accordance with the policies as set out in note 3 to the financial statements, which are based on accounting principles generally accepted in Hong Kong.

Certain Group assets and liabilities together with the operating results covered by these financial statements have been influenced by acquisitions during each of the two years ended 31 December 1999 and 2000. In particular, the consolidated balance sheet as at 31 December 2000 includes the assets and liabilities of the ground engineering and building construction sub-group, Kin Wing Chinney (BVI) Limited (“KWC BVI”) and its subsidiaries, and the consolidated profit and loss account, for the year ended 31 December 2000 only, consolidated the post-acquisition operations of this sub-group for the period from 28 June 2000 to 31 December 2000. As further described below, the controlling interest in KWC BVI is in the final stages of disposal and, therefore, subject to the approval of independent shareholders of the Company in a special general meeting to be held in early May 2001, it will cease to be consolidated upon the effective date of the disposal as set out in note 5 to the financial statements.

The Group consolidated financial statements report a net loss from ordinary activities attributable to shareholders of HK\$46,243,000 for the year ended 31 December 2000 and a net liability position of HK\$137,945,000 as at 31 December 2000.

## 2. BASIS OF PRESENTATION AND CORPORATE UPDATE (con't)

In preparing these financial statements, the directors have given careful consideration to the current and anticipated future liquidity status of the Group. In their opinion, the Group will have sufficient financial resources to meet its liabilities as and when they fall due in the foreseeable future, after taking into consideration various factors including those as set out below.

(a) The Group comprises of four core ongoing healthcare related businesses which together form the largest integrated provider of healthcare services in Hong Kong. These businesses, which are held through subsidiary sub-groups, are as follows:

- (i) medical services;
- (ii) nursing, physiotherapy, dental and other related healthcare services;
- (iii) elderly care services; and
- (iv) healthcare transaction operations and related businesses (through its listed subsidiary, ehealthcareasia Limited ("eha"), formerly known as Kin Wing Chinney Holdings Limited).

The businesses included in (i) and (ii) above are long established and contribute profits to the Group. Management have introduced a programme of cost savings and other measures to further improve the contributions from these businesses in the ensuing year.

The businesses included in (iii) and (iv) above were started up late in the years ended 31 December 1998 and 1999 and, therefore, have had only two years and one year of operations, respectively. In both cases, the performances of these operations to date support the directors' belief that they will break-even and/or begin to contribute profits to the Group during the year of operations 2001.

(b) Subsequent to the balance sheet date, the Company has reviewed and renegotiated its current and long term facilities with banks/financial institutions and the directors are satisfied as to their continued financial support and the adequacy of such facilities to meet the Company's future cash flow needs.

### 2. BASIS OF PRESENTATION AND CORPORATE UPDATE (con't)

The net liability position arising from the consolidation process is largely attributable to the accounting policy adopted by the Group to eliminate the goodwill arising on acquisition totalling approximately HK\$858 million against the goodwill reserve in the current and prior years, less amounts released on dilution of shareholding in subsidiaries and on the distribution of dividend in specie totalling approximately HK\$67 million.

In respect of the net liability position at 31 December 2000 and to the related liquidity status as outlined above, the Group has initiated various measures and/or have a number of remedial options available as set out below.

- (a) The Group is in the process of reducing its indebtedness and at the same time improving its liquidity and financial position through a proactive programme of negotiating and finalising transactions with third parties who have expressed interests in investing in the Group directly and/or through investments in, acquisitions of or joint ventures with certain subsidiaries. In this regard, the directors have identified and/or are negotiating with a number of potential investors/lenders in respect of new equity or debt financing for the Company and its subsidiaries.
- (b) The Group has received several expressions of interest to invest in one of its core businesses which has been documented and valued for such purpose. Such valuation and interest by third parties supports the directors' belief that the sum of the core businesses fair values are in excess of their aggregate carrying value. In addition, the Group has received expressions of interest for equity fundraising proposals from a number of financial institutions and, in one case, a specific formal proposal is under consideration by the directors.
- (c) The Company anticipates realising its inter-company account with eha, a subsidiary of the Company listed in The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and all or part of its equity position by reducing its holdings in eha.

On 26 March 2001, eha entered into an agreement with a third party for the disposal of its entire interest in KWC BVI, representing its ground engineering and building construction businesses, for a cash consideration of HK\$88 million. The disposal constitutes a major and connected transaction for each of the Company and eha under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and is therefore subject to the approval by the Company's and eha's independent shareholders in their respective special general meeting convened to be held on 3 May 2001. Further details of the disposal are set out in a circular of the Company dated 17 April 2001.

## **2. BASIS OF PRESENTATION AND CORPORATE UPDATE (con't)**

The directors are satisfied that, in light of the measures implemented to date, together with the expected results of the measures in progress/planned, the Group will have sufficient financial resources to satisfy its working capital and other financing requirements for the foreseeable future. The directors believe that the aforementioned financial measures will be successful and these, together with other possible growth orientated transactions involving minimal capital such as franchising and joint ventures, will enable the Group to both strengthen and expand its operations.

## **3. 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 December 2000. 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 in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

### **Goodwill**

Goodwill arising on consolidation of subsidiaries represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. On disposal of subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

## 3. 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. 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	2% – 4%
Leasehold improvements	Over the lease terms or 15%-33.3%, whichever is shorter
Plant and machinery	10% – 25%
Furniture, fixtures and office equipment	15% – 33.33%
Medical equipment	12.5% – 20%
Computer equipment and software	20% – 33.33%
Motor vehicles	20% – 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.

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the profit and loss account.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

#### **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.

#### **Brandname**

The amount capitalised under brandname represents the direct costs incurred in developing and building the Group name, logo and image, less any provisions for impairments in values deemed necessary by the directors, other than impairments which are temporary in nature.

#### **Investments in Internet healthcare development and affiliate networks**

The investments in Internet healthcare development and affiliate networks represent the direct and indirect costs incurred in the development of a wide range of Internet-based healthcare solutions and services, including an Internet healthcare portal, and the building of affiliate networks in respect of western medicine doctors, Chinese medicine clinics and dentists to enhance the revenue model, attract subscribers to the portal, and to create the opportunity to generate affiliated revenue. These costs are capitalised when it can be reasonably anticipated that they will be recovered through increased future commercial activities. Such costs are amortised on the straight-line basis, over the expected useful life of the investments subject to a maximum period of three years, commencing from the respective dates of completion of the development of the Internet-based healthcare business and the affiliate networks or such earlier date as the directors deem appropriate.

#### **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.

## Notes to Financial Statements (con't)

31 December 2000

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

#### **Leased assets (con't)**

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. Rentals applicable to such operating leases are charged or credited to the profit and loss account on the straight-line basis over the lease terms.

#### **Long term investments**

Long term investments in unlisted equity and debt securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any provisions for impairments in values deemed necessary by the directors, other than those considered to be temporary in nature, on an individual basis.

When such 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 is 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 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 allowance 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.

### 3. 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 constituted 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.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

#### 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.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., 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 scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance in Hong Kong, for those employees who are eligible to participate in the Scheme. The Scheme became effective from 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 Scheme. The assets of the 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 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 Scheme.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

#### 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) fee income for the provision of services, including medical services, nursing, physiotherapy and dental services, elderly care services and healthcare transaction processing and claims handling 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) income from construction contract is recognised on the basis of the percentage of completion, and determined by reference to the value of the construction work performed as further explained on the accounting policy for “Construction contracts” above;
- (d) income 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 is established.

#### 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.

## Notes to Financial Statements (con't)

31 December 2000

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

#### 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 dates of the advance.

### 4. TURNOVER AND REVENUE

The turnover from continuing operations represents fees earned for the provision of medical services, nursing, physiotherapy and dental services, elderly care services, healthcare transaction processing and claims handling services and the net invoiced value of goods sold, after allowances for returns and trade discounts. The turnover from the ground engineering and building construction operations to be discontinued represents the value of contract work performed in respect of construction contracts and income from the hiring of plant and machinery.

Revenue from the following activities has been included in turnover:

	Group	
	2000 HK\$'000	1999 HK\$'000
Continuing operations:		
Medical services	538,351	383,525
Nursing, physiotherapy and dental services	57,212	45,724
Elderly care services	65,761	19,128
Healthcare transaction operations and related businesses	27,937	12,820
	689,261	461,197
Operations to be discontinued:		
Ground engineering and building construction	418,065	—
	1,107,326	461,197

## **5. OPERATIONS TO BE DISCONTINUED SUBSEQUENT TO THE BALANCE SHEET DATE**

As set out in note 2 to the financial statements, on 26 March 2001, the Group entered into an agreement with New Luck Assets Limited in relation to the disposal of KWC BVI for a cash consideration of HK\$88 million (the “Disposal”). The Disposal is expected to be completed in early May 2001 and would effectively on the same date discontinue the Group’s ground engineering and building construction operations. The ground engineering and building construction operations are conducted in Hong Kong. For the year ended 31 December 2000, such operations contributed HK\$418,065,000 (1999: Nil) to the Group’s turnover and accounted for HK\$690,000 (1999: Nil) of the Group’s loss before tax and minority interests.

The gain or loss on disposal of such operations will be determined based on the sale proceeds less the consolidated net asset value of the Group’s interests in such operations as at the completion date of the Disposal plus the release of relevant reserves. Accordingly, at the date of the approval of these financial statements, the Group is unable to estimate the gain or loss on disposal of such operations with reasonable accuracy.

## Notes to Financial Statements (con't)

31 December 2000

### 6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

	2000 HK\$'000	1999 HK\$'000 (Restated)
The Group's profit/(loss) from operating activities is arrived at after charging:		
Cost of inventories sold, services provided and dispensary supplies consumed	848,648	265,713
Depreciation:		
Owned fixed assets	35,008	11,805
Leased fixed assets	3,298	185
	38,306	11,990
Less: Amounts capitalised as contract costs	(1,889)	–
	36,417	11,990
Amortisation of investments in Internet healthcare development and affiliate networks	8,784	–
Operating lease rentals in respect of land and buildings	61,504	43,028
Staff costs (including directors' remuneration – note 8):		
Salaries, allowances and bonuses	358,980	214,890
Pension contributions	2,238	–
	361,218	214,890
Less: Staff costs capitalised in respect of development of brandname and investments in Internet healthcare development and affiliate networks	(2,568)	(36,179)
Staff costs capitalised in respect of construction contracts	(29,218)	–
	329,432	178,711
Auditors' remuneration	1,819	1,200
Foreign exchange losses, net	340	136
Loss on disposal of fixed assets	140	421
and after crediting:		
Interest income	4,707	1,218
Net rental income	346	204
Dividend income	383	–

At 31 December 2000, there were no forfeited contributions available to the Group to reduce its contributions to the retirement benefits scheme in future years (1999: Nil).

## 7. FINANCE COSTS

	Group	
	2000 HK\$'000	1999 HK\$'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	15,653	2,758
Other loan wholly repayable within five years	16,600	–
Finance leases and hire purchase contracts	1,089	43
Convertible notes	–	1,697
	33,342	4,498

## 8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Fees	450	327
Other emoluments:		
Salaries, allowances and benefits in kind	10,435	9,440
Retirement benefits scheme contributions	5	–
	10,440	9,440
	10,890	9,767

Fees include HK\$450,000 (1999: HK\$327,000) paid to the independent non-executive directors of the Company. There were no other emoluments payable to the independent non-executive directors during the year (1999: Nil).

## Notes to Financial Statements (con't)

31 December 2000

### 8. DIRECTORS' REMUNERATION (con't)

The remuneration of the directors fell within the following bands:

	Number of directors	
	2000	1999
Nil – HK\$1,000,000	3	3
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	2	2
HK\$3,000,001 – HK\$3,500,000	1	1
	8	7

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

In addition to the above, options to acquire an aggregate of 2,250,000 (1999: 13,000,000) ordinary shares in the Company were granted to certain directors during the year.

No value is included in directors' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

#### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (1999: two) directors, details of whose remuneration are set out in note 8 above. The remuneration paid to the other four highest paid employees, who were not directors, comprised salaries and benefits in kind of HK\$12,166,000. Of the five highest paid employees, four are practicing physicians.

The remuneration of the four (1999: three) non-director, highest paid employees for the year fell within the following bands:

	Number of employees	
	2000	1999
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	3	–
HK\$3,000,001 – HK\$3,500,000	–	1
HK\$3,500,001 – HK\$4,000,000	1	1
	4	3

#### 10. TAX

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year.

	Group	
	2000 HK\$'000	1999 HK\$'000
Hong Kong profits tax:		
Provision for the year	6,000	3,356
Underprovision/(overprovision) in prior years	190	(203)
Tax charge for the year	6,190	3,153

There were no significant unprovided deferred tax charges in respect of the year (1999: Nil).

#### 11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$34,683,000 (1999: net profit of HK\$2,538,000).



## Notes to Financial Statements (con't)

31 December 2000

### 12. PRIOR YEAR ADJUSTMENTS

During the year, the Group changed its accounting policy with respect to the treatment of pre-operating and pre-opening expenses. In order to conform with the provisions of Statement of Standard Accounting Practice 1 “Presentation of Financial Statements”, as subsequently confirmed by Interpretation 9 “Accounting for Pre-operating Cost” issued by the Hong Kong Society of Accountants in April 2000, the Group now expenses rather than capitalises and amortises such expenses.

This change in accounting policy has been made retrospectively and, accordingly, the comparative amounts for the year ended 31 December 1999, including earnings per share and retained profits brought forward as at 1 January 1999 have been restated. The effect of the change in respect of the year ended 31 December 1999 is an increase in both staff costs and other operating expenses by HK\$10,266,000 and HK\$9,492,000, respectively, and a decrease in depreciation and amortisation expenses of HK\$332,000. Accordingly, the net profit from ordinary activities attributable to shareholders for the year ended 31 December 1999 decreased by HK\$19,426,000. The retained profits brought forward as at 1 January 1999 have been reduced by HK\$11,527,000, which is the amount of the adjustments of pre-operating and pre-opening expenses capitalised relating to the years prior to 1 January 1999.

### 13. DIVIDEND

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Interim – dividend in specie	5,368	–	44,755	–

On 27 July 2000, the Company distributed 44,114,192 shares in eha to the shareholders of the Company, other than those shareholders whose addresses as shown in the register of members of the Company were outside Hong Kong, by the way of a distribution in specie, in the ratio of one share in eha for every 20 shares of the Company then held by the Company's shareholders.

The directors do not recommend the payment of any final dividend in respect of the year (1999: Nil).

#### 14. EARNINGS/(LOSS) PER SHARE

The calculations of basic and diluted earnings/(loss) per share are based on:

	2000 HK\$'000	1999 HK\$'000 (Restated)
<b>Earnings/(loss)</b>		
Net profit/(loss) attributable to shareholders, used in the basic earnings/(loss) per share calculation	(46,243)	17,441
Interest savings on deemed conversion of convertible notes	–	1,697
Net profit/(loss) attributable to shareholders, used in the diluted earnings/(loss) per share calculation	n/a	19,138

	2000	1999
<b>Number of shares</b>		
Weighted average number of ordinary shares in issue during the year used in basic earnings/(loss) per share calculation	852,232,762	653,003,816
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	–	20,476,752
Assumed issued on deemed conversion of convertible notes outstanding during the year and prior to actual conversion	–	60,324,707
Assumed issued in satisfaction of the deferred consideration for the purchase of a subsidiary	–	9,340,103
Assumed issued at no consideration on deemed exercise of all warrants outstanding during the year	–	21,160,638
Assumed issued on deemed conversion of all preference shares	–	17,611,496
Weighted average number of ordinary shares used in diluted earnings/(loss) per share calculation	n/a	781,917,512

The diluted loss per share for the year ended 31 December 2000 has not been shown as the potential ordinary shares outstanding during the year had an anti-dilutive effect on the basic loss per share for this year.

## Notes to Financial Statements (con't)

31 December 2000

### 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	Medical equipment HK\$'000	Computer equipment and software HK\$'000	Motor vehicles HK\$'000	Software under develop- ment HK\$'000	Total
Cost:									
At beginning of year	12,745	48,698	–	11,865	7,603	8,752	595	7,533	97,791
Acquisition of subsidiaries, businesses and elderly care homes	13,744	5,972	159,901	5,400	58	944	1,176	–	187,195
Additions	–	17,307	25,281	6,656	2,236	13,559	1,493	7,091	73,623
Disposals	–	(87)	(1,140)	(250)	–	(1,754)	(515)	–	(3,746)
Transfers	–	–	–	–	–	12,362	–	(12,362)	–
At 31 December 2000	26,489	71,890	184,042	23,671	9,897	33,863	2,749	2,262	354,863
Accumulated depreciation:									
At beginning of year	2,029	8,967	–	3,717	2,764	2,010	311	–	19,798
Provided during the year	417	11,318	13,290	3,794	1,571	7,332	584	–	38,306
Disposals	–	(87)	(29)	(216)	–	(1,244)	(511)	–	(2,087)
At 31 December 2000	2,446	20,198	13,261	7,295	4,335	8,098	384	–	56,017
Net book value:									
At 31 December 2000	24,043	51,692	170,781	16,376	5,562	25,765	2,365	2,262	298,846
At 31 December 1999	10,716	39,731	–	8,148	4,839	6,742	284	7,533	77,993

The net book value of the fixed assets of the Group held under finance leases and hire purchase contracts included in the total amount of fixed assets at 31 December 2000 amounted to HK\$28,188,000 (1999: HK\$808,000).

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

At 31 December 2000, the Group's leasehold land and buildings with a net book value of approximately HK\$23,442,000 have been pledged to secure banking facilities granted to the Group as set out in note 24.

## 16. LONG TERM INVESTMENTS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Unlisted investments, at cost	3,283	744	–	667
Loans to investee companies	953	1,582	–	–
Convertible loan receivable	800	800	800	800
	5,036	3,126	800	1,467

The loans to investee companies are unsecured, interest-free and have no fixed terms of repayment.

The convertible loan receivable is unsecured, bears interest at 7% per annum and is repayable on maturity in September 2001 or is convertible on or before that date into new shares of the borrower equivalent to 19% of the expanded issued capital thereof.

## 17. BRANDNAME

	Group	
	2000 HK\$'000	1999 HK\$'000
Cost:		
At beginning of year	8,300	2,693
Additions	–	5,607
At 31 December	8,300	8,300

## Notes to Financial Statements (con't)

31 December 2000

### 18. INVESTMENTS IN INTERNET HEALTHCARE DEVELOPMENT AND AFFILIATE NETWORKS

	Group	
	2000 HK\$'000	1999 HK\$'000
Cost:		
At beginning of year	25,286	—
Additions	9,854	25,286
At 31 December	35,140	25,286
Accumulated amortisation:		
At beginning of year	—	—
Provided during the year	8,784	—
At 31 December	8,784	—
NET BOOK VALUE:		
At 31 December	26,356	25,286

### 19. INTERESTS IN SUBSIDIARIES

	Company	
	2000 HK\$'000	1999 HK\$'000
Non-current assets/(liabilities):		
Unlisted shares, at cost	35,443	35,443
Due from subsidiaries	1,106,085	815,485
Due to subsidiaries	(189,822)	(135,394)
	951,706	715,534
Provisions for diminutions in values	(46,650)	(46,650)
	905,056	668,884
Current asset:		
Loan to a subsidiary	49,000	—

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The loan to a subsidiary at the balance sheet date represented the amount drawn down under a revolving facility for up to HK\$75 million granted to eha. The loan is unsecured, interest-bearing at the Hong Kong dollar prime rate plus 3% per annum and is repayable at the earlier of 31 December 2001 and six months after the Company's shareholding in eha falls below 50%.

**19. INTERESTS IN SUBSIDIARIES** (con't)

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		Principal activities
			2000	1999	
Medical Services					
Berkshire Group Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	100%	100%	Investment holding
Dr. Henry Lee & Associates Limited	Hong Kong	Ordinary HK\$920,000	100%	100%	Medical facilities provider
Quality HealthCare Limited	British Virgin Islands/ Isle of Man	Ordinary HK\$60,000,000	100%	100%	Owner of franchise names
Quality HealthCare Medical Centre Limited	Hong Kong	Ordinary HK\$1,300	100%	100%	Medical facilities and services provider
Quality HealthCare Medical Services Limited	Hong Kong	Ordinary HK\$2	100%	100%	Corporate development
Quality HealthCare Professional Services Limited (formerly Dragon Spirit Enterprises Limited)	Hong Kong	Ordinary HK\$2	100%	100%	Provision of professional services

## Notes to Financial Statements (con't)

31 December 2000

### 19. INTERESTS IN SUBSIDIARIES (con't)

Name	Place of incorporation/ operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
Summerset Green Limited	Hong Kong	Ordinary HK\$2	100%	100%	Provision of professional services
Universal Lane Limited	British Virgin Islands	Ordinary US\$20	100%	100%	Investment holding
<b>Nursing, Physiotherapy, Dental and Other Related Healthcare Services</b>					
Quality HealthCare Dental Services Limited	Hong Kong	Ordinary HK\$1,000	100%	100%	Provision of dental services
Quality HealthCare Nursing Services Limited	Hong Kong	Ordinary HK\$10,000	100%	100%	Provision of nursing services
Quality HealthCare Physiotherapy Services Limited	Hong Kong	Ordinary HK\$1,000	100%	100%	Provision of physiotherapy services
Quality HealthCare Services Limited	British Virgin Islands/ Hong Kong	Ordinary US\$3	100%	100%	Investment holding
Quality HealthCare Chinese Medicine Limited	Hong Kong	Ordinary HK\$100	85%	85%	Development of Chinese medicine network

19. INTERESTS IN SUBSIDIARIES (con't)

Name	Place of incorporation/ operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
Elderly Care Services					
Conifer Elderly Services Limited	Hong Kong	Ordinary HK\$1,000	100%	100%	Provision of elderly care services
QHES Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	100%	100%	Provision of elderly care services
Quality HealthCare Elderly Services Limited	British Virgin Islands	Ordinary US\$1	100%	100%	Investment holding
Quality HealthCare Man Kee Elderly Limited	Hong Kong	Ordinary HK\$1,000	100%	100%	Provision of elderly care services
Healthcare Transaction Operations and Related Businesses					
ehealthcareasia Limited*	Bermuda	Ordinary HK\$244,391,624	64.9%	—	Investment holding
ehealthcareasia.com Limited	Hong Kong	Ordinary HK\$2	64.9%	100%	Development of Internet-based healthcare solutions and services
eHealth Australia Pty Limited	Australia	Ordinary A\$3,392,111	64.9%	—	Investment holding



## Notes to Financial Statements (con't)

31 December 2000

### 19. INTERESTS IN SUBSIDIARIES (con't)

Name	Place of incorporation/ operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
HealthBasic.com Limited	Hong Kong	Ordinary HK\$15,165,878	64.9%	—	Design, development and provision of medical and healthcare related solutions and distribution of clinic computer systems
Ultronics Enterprise Limited	Hong Kong	Ordinary HK\$5 Deferred HK\$4,313,880	64.9%	100%	Marketing and distribution of medical equipment and supplies
<b>Ground Engineering and Building Construction</b>					
Kin Wing Chinney (BVI) Limited #	British Virgin Islands	Ordinary US\$208	32.4%	—	Investment holding
Apex Aluminum Fabricator Company Limited #	Hong Kong	Ordinary HK\$9,160,000	32.4%	—	Contracting of aluminum building work
Apex Curtain Wall and Windows Company Limited #	Hong Kong	Ordinary HK\$10,000	32.4%	—	Contracting of aluminum building work

19. INTERESTS IN SUBSIDIARIES (con't)

Name	Place of incorporation/ operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
Chinney Builders and Foundation Company Limited #	Hong Kong	Ordinary HK\$2	32.4%	—	Building construction
Chinney Construction Company, Limited #	Hong Kong	Ordinary HK\$10,000,000	32.4%	—	Building construction
DrilTech Geotechnical Engineering Limited #	Hong Kong	Ordinary HK\$10,000	32.4%	—	Drilling and related ground engineering construction
DrilTech Ground Engineering Limited #	Hong Kong	Ordinary HK\$12,500,000	32.4%	—	Drilling, site investigation and related ground engineering construction
Kin Wing Engineering Company Limited #	Hong Kong	Ordinary HK\$10,000,000	32.4%	—	Foundation piling
Kin Wing Foundations Limited #	Hong Kong	Ordinary HK\$10,000	32.4%	—	Foundation piling
Kin Wing Machinery & Transportation Limited #	Hong Kong	Ordinary HK\$100	32.4%	—	Equipment and machinery leasing

\* Listed on the Stock Exchange.

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

## Notes to Financial Statements (con't)

31 December 2000

### 19. INTERESTS IN SUBSIDIARIES (con't)

Except for Quality HealthCare Man Kee Elderly Limited, all the above subsidiaries are indirectly held by the Company.

All of the eha shares held by the Group have been pledged to a financial institution to secure a financial institution loan of the Company as set out in note 24 to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of 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.

### 20. PROPERTIES FOR SALE

The properties for sale are situated in the People's Republic of China and are held under medium term leases.

One of the Group's properties for sale is pledged to secure a bank loan of the Group.

### 21. INVENTORIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Dispensary supplies	7,539	6,553
Trading stocks	5,130	2,149
Consumables	463	223
	13,132	8,925

The carrying amount of inventories carried at net realisable value included in the above is HK\$4,431,000 (1999: HK\$2,149,000).

## 22. ACCOUNTS RECEIVABLE

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

An aged analysis of the Group's accounts receivable balance at the balance sheet date is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Current – 90 days	239,718	86,529
91 – 180 days	6,437	4,908
181 – 360 days	7,954	109
Over 360 days	13,968	4,745
	268,077	96,291

## 23. CONSTRUCTION CONTRACTS

	Group	
	2000 HK\$'000	1999 HK\$'000
Gross amounts due from contract customers	84,201	–
Gross amounts due to contract customers	(47,379)	–
	36,822	–
Contract costs incurred plus recognised profits		
less recognised losses to date	4,015,608	–
Less: Progress billings	(3,978,786)	–
	36,822	–

## Notes to Financial Statements (con't)

31 December 2000

### 24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank loans and overdrafts:				
Secured*	213,185	44,410	70,000	35,000
Unsecured	54,355	—	—	—
	267,540	44,410	70,000	35,000
Financial institution loan – secured	304,201	—	304,201	—
	571,741	44,410	374,201	35,000
Portion repayable within one year classified as current liabilities:				
Bank loans and overdrafts	(185,820)	(14,737)	(29,167)	(5,833)
Non-current portion	385,921	29,673	345,034	29,167

\* Includes a bank factoring loan of HK\$3,761,000 at 31 December 2000 (1999: HK\$8,769,000)

The maturity terms of the above amounts are as follows:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Repayable:				
Within one year or on demand	185,820	14,737	29,167	5,833
In the second year	376,790	23,469	339,201	23,334
In the third to fifth years, inclusive	9,131	6,204	5,833	5,833
	571,741	44,410	374,201	35,000

Certain of the Group's bank loans and overdrafts are secured by a specific bank deposit, certain receivables and rights under medical services contracts, certain leasehold properties and a property for sale of the Group.

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

The Group's indebtedness described as "financial institution loan" at the balance sheet date was secured by all the ordinary shares of eha held by the Group and bore interest at the lender's cost of borrowing plus 2% to 8% during the year. The loan was originally repayable during the year. Pursuant to a letter dated 28 September 2000, the lender agreed not to demand immediate repayment of the principal of the loan, subject to the repayment of the interest amounts accrued and owing under the loan.

On 4 April 2001, the Group entered into a supplementary agreement with the lender (the "Agreement"), whereby the loan was restructured into a long term term loan (the "Term Loan") repayable by the Group on or before 1 July 2002. Pursuant to the Agreement, the Company granted a cash-settled option to the lender in relation to the notional exchange of part of the outstanding principal of the Term Loan into ordinary shares in eha held by the Group at any time prior to 31 July 2001, subject to certain conditions, at an exchange price of HK\$0.40 per share (subject to adjustment and the payment of an exchange derivative fee as set out in the Agreement). In addition, the Company granted a cash-settled option to the lender in relation to the notional conversion of part of the outstanding principal of the Term Loan into the ordinary shares of the Company after 30 September 2001, subject to certain conditions, at an initial conversion price of HK\$1.10 per share (subject to adjustment and the payment of a derivative fee as set out in the Agreement). Based on the current arrangements, the directors consider that it is appropriate to classify the balance of the financial institution loan at 31 December 2000 of HK\$304,201,000 as non-current liabilities.

#### 25. ACCOUNTS PAYABLE, BILLS PAYABLE, ACCRUED LIABILITIES AND DEPOSITS RECEIVED

Included in accounts payable, bills payable, accrued liabilities and deposits received are accounts payable and bills payable with the following aged analysis:

	Group	
	2000 HK\$'000	1999 HK\$'000
Accounts payable and bills payable:		
Current – 90 days	103,731	40,332
91 – 180 days	2,609	620
181 – 360 days	758	3,534
Over 360 days	6,175	476
	113,273	44,962
Accrued liabilities and deposits received	193,098	47,926
	306,371	92,888

## Notes to Financial Statements (con't)

31 December 2000

### 26. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

There were obligations under finance leases and hire purchase contracts at the balance sheet date as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Amounts payable:		
Within one year	13,085	809
In the second year	12,124	90
In the third to fifth years, inclusive	6,629	–
Total minimum finance lease and hire purchase contract payments	31,838	899
Future finance charges	(4,866)	(27)
Total net finance lease and hire purchase contract payables	26,972	872
Portion classified as current liabilities	(11,212)	(784)
Long term portion	15,760	88

### 27. DEFERRED ACQUISITION CONSIDERATION

	Group	
	2000 HK\$'000	1999 HK\$'000
Partial consideration payable for the acquisition of:		
Subsidiaries*	9,480	13,090
Assets of two dental practices	–	1,000
	9,480	14,090
Portion classified as current liabilities	(9,480)	(7,635)
Long term portion	–	6,455

\* Including deferred acquisition consideration for the acquisition of Universal Lane Limited amounted to approximately HK\$5,850,000 (1999: HK\$13,090,000) and certain businesses and business assets of International Research Pty Limited and its subsidiaries amounted to HK\$3,630,000 (1999: Nil) as set out in notes 29 and 31(c)(i) to the financial statements, respectively.

## 28. DEFERRED TAX

	Group	
	2000 HK\$'000	1999 HK\$'000
Balance at beginning of year	196	196
Acquisition of ground engineering and building construction subsidiaries	10,360	–
At 31 December	10,556	196

The principal component of the Group's provision for deferred tax relates to timing differences arising from accelerated depreciation allowances.

At the balance sheet date, the Group had no significant unprovided deferred tax liabilities for which provision has not been made.

## 29. SHARE CAPITAL

### Shares

	2000 HK\$'000	1999 HK\$'000
Authorised:		
1,500,000,000 (1999: 1,500,000,000) ordinary shares of HK\$0.10 each	150,000	150,000
Issued and fully paid:		
912,423,591 (1999: 801,706,864) ordinary shares of HK\$0.10 each	91,242	80,171
Nil (1999: 85,533) preference shares of HK\$0.10 each	–	8
	91,242	80,179



## Notes to Financial Statements (con't)

31 December 2000

### 29. SHARE CAPITAL (con't)

A summary of the transactions during the year with reference to the movements in the Company's share capital and share premium accounts is as follows:

	Notes	Shares issued	Share capital HK\$'000	Share premium arising during the year HK\$'000
<b>Ordinary shares</b>				
Allotment of new shares for acquisitions:				
On 2 May 2000	(i)	7,134,146	713	5,922
On 29 December 2000	(ii)	1,150,485	115	2,018
Issue of new shares in respect of				
conversion of preference shares	(iii)	49,070,200	4,907	–
Share options exercised	(iv)	13,007,500	1,301	10,852
Warrants exercised	(v)	40,354,396	4,035	26,230
Movements during the year		110,716,727	11,071	45,022
<b>Preference shares</b>				
Conversion during the year	(iii)	(85,533)	(8)	–
				45,022

Notes:

- (i) An agreement dated 16 April 1999 was entered into by the Company for the acquisition of 20 shares of US\$1 each in the share capital of Universal Lane Limited ("ULL"), representing ULL's entire issued share capital. The aggregate consideration for the acquisition was approximately HK\$27.3 million or approximately HK\$28.7 million if the two former partners of Discovery Bay Medical Centre ("DBMC") elect to receive ordinary shares of the Company in 2000 and 2001 (the "ULL Consideration"). The ULL Consideration was partially satisfied on 30 April 1999 by paying a cash consideration of approximately HK\$5.85 million and issuing and allotting an aggregate of 10,855,263 ordinary shares of the Company, credited as fully paid, at HK\$0.90 per share to the former partners of DBMC. Further details of the acquisition are set out in a circular of the Company dated 10 May 1999.

On 2 May 2000, the Company issued and allotted an additional 7,134,146 shares of the Company, credited as fully paid, at HK\$0.93 per share to settle the second tranche of the ULL Consideration. The remaining balance of the ULL Consideration has to be settled either by the issue of 6,724,137 ordinary shares of the Company value at HK\$0.96 per share, with an aggregate principle amount of approximately HK\$6.46 million, or by a cash sum of HK\$5.85 million in 2001. Subsequent to the balance sheet date, the former partners of DBMC have requested in writing that the remaining balance of the ULL Consideration should be settled by cash.

## 29. SHARE CAPITAL (con't)

- (ii) *On 29 December 2000, pursuant to an agreement dated 9 November 2000 entered into between the Company and a third party for the acquisition of certain assets in an elderly home in Hong Kong for a total consideration of approximately HK\$10,595,000, part of the consideration of HK\$8,462,000 was satisfied by cash subsequent to the balance sheet date and the remaining consideration was settled by the issuance of 1,150,485 new ordinary shares of the Company, credited as fully paid, at HK\$1.854 per share. Further details of the acquisition are set out in a circular of the Company dated 2 December 2000.*
- (iii) *On 28 June 2000, pursuant to an agreement dated 29 April 2000 entered into by the Company for the early conversion of the Company's preference shares, 85,533 preference shares were converted into 49,070,200 fully paid ordinary shares of the Company at conversion prices ranging from HK\$1.62 to HK\$1.89 per share. Further details of the early conversion are set out in a circular of the Company dated 5 June 2000.*
- (iv) *The subscription rights attaching to 13,007,500 share options of the Company were exercised at subscription prices ranging from HK\$0.47 to HK\$1.19 per share, resulting in the issue of 13,007,500 ordinary shares of the Company of HK\$0.10 each for a total cash consideration, before expenses, of HK\$12,153,200.*
- (v) *40,354,396 ordinary shares of the Company of HK\$0.10 each were issued for cash at a subscription price of HK\$0.75 per share pursuant to the exercise of Company's warrants for a total cash consideration, before expenses, of HK\$30,265,797.*

### Warrants

During the year, 40,354,396 warrants of the Company were exercised for 40,354,396 ordinary shares of the Company of HK\$0.10 each at a subscription price of HK\$0.75 per share and the remaining 83,604 outstanding warrants lapsed on 23 October 2000.

### Share options scheme

On 5 July 1993, the Company approved a share options scheme under which the directors may, at their discretion, invite any full-time employees or executive directors of the Group to take up options to subscribe for shares of the Company at any time during the 10 years from the date of approval. The maximum number of shares in which options can be granted may not exceed 10% of the issued share capital of the Company excluding any shares issued on the exercise of options from time to time. The scheme became effective upon the listing of the Company's shares on the Stock Exchange on 27 July 1993.

## Notes to Financial Statements (con't)

31 December 2000

### 29. SHARE CAPITAL (con't)

The movements in the number of share options granted under the above scheme during the year are summarised as follows:

Number of share options granted with an exercise price per share of	Balance at 1 January 2000	Granted during the year	Exercised during the year	Cancelled during the year	Balance at 31 December 2000
HK\$0.47	11,400,000	–	(1,400,000)	–	10,000,000
HK\$0.66	4,710,000	–	(1,682,500)	(25,000)	3,002,500
HK\$0.70	3,000,000	–	(1,000,000)	–	2,000,000
HK\$0.87	12,750,000	–	(2,925,000)	–	9,825,000
HK\$1.19	8,260,000	–	(6,000,000)	–	2,260,000
HK\$1.28	4,000,000	–	–	–	4,000,000
HK\$1.66	–	500,000	–	–	500,000
HK\$1.92	–	3,000,000	–	–	3,000,000
HK\$1.98	–	400,000	–	–	400,000
HK\$2.05	–	3,000,000	–	–	3,000,000
HK\$2.30	–	1,500,000	–	–	1,500,000
HK\$2.32	–	1,275,000	–	–	1,275,000
HK\$2.35	–	7,000,000	–	–	7,000,000
HK\$2.90	–	9,829,000	–	(1,660,000)	8,169,000
HK\$3.15	–	300,000	–	–	300,000
	44,120,000	26,804,000	(13,007,500)	(1,685,000)	56,231,500

The options granted are exercisable in accordance with the terms and restrictions contained in the respective offer letters. The exercise in full of such options would, under the present capital structure of the Company, result in the issue of 56,231,500 additional ordinary shares of the Company and receipts, before expenses, totalling HK\$85,463,900.

### 30. RESERVES

#### Group

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Goodwill reserve HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 1999							
As previously reported	–	22	(289,213)	235,047	–	22,159	(31,985)
Prior year adjustments – note 12	–	–	–	–	–	(11,527)	(11,527)
As restated	–	22	(289,213)	235,047	–	10,632	(43,512)
Premium on issue of shares	312,805	–	–	–	–	–	312,805
Share issue expenses	(2,727)	–	–	–	–	–	(2,727)
Transfers	(310,078)	(22)	–	310,100	–	–	–
Arising on acquisition of subsidiaries							
and elderly care homes – note 31(d)	–	–	(246,676)	–	–	–	(246,676)
Net profit for the year	–	–	–	–	–	17,441	17,441
At 31 December 1999	–	–	(535,889)	545,147	–	28,073	37,331
At 1 January 2000							
As previously reported	–	–	(535,889)	545,147	–	59,026	68,284
Prior year adjustments – note 12	–	–	–	–	–	(30,953)	(30,953)
As restated	–	–	(535,889)	545,147	–	28,073	37,331
Premium on issue of shares	45,022	–	–	–	–	–	45,022
Share issue expenses	(663)	–	–	–	–	–	(663)
Conversion of preference shares	–	–	–	(4,899)	–	–	(4,899)
Arising on acquisition of subsidiaries, businesses and elderly care homes – note 31(d)	–	–	(322,487)	–	–	–	(322,487)
Release on dilution of shareholding in subsidiaries	–	–	65,311	–	–	–	65,311
Adjustment to the consideration for acquisition of a subsidiary	–	–	605	–	–	–	605
Exchange realignments	–	–	–	–	291	–	291
Net loss for the year	–	–	–	–	–	(46,243)	(46,243)
Dividend in specie – note 13	–	–	1,913	(5,368)	–	–	(3,455)
At 31 December 2000	44,359	–	(790,547)	534,880	291	(18,170)	(229,187)

## Notes to Financial Statements (con't)

31 December 2000

### 30. RESERVES (con't)

#### Company

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 1999	–	22	253,889	(17,994)	235,917
Premium on issue of shares	312,805	–	–	–	312,805
Share issue expenses	(2,727)	–	–	–	(2,727)
Transfers	(310,078)	(22)	310,100	–	–
Net profit for the year	–	–	–	2,538	2,538
At 31 December 1999 and beginning of year	–	–	563,989	(15,456)	548,533
Premium on issue of shares	45,022	–	–	–	45,022
Conversion of preference shares	–	–	(4,899)	–	(4,899)
Share issue expenses	(663)	–	–	–	(663)
Net loss for the year	–	–	–	(34,683)	(34,683)
Dividend in specie – note 13	–	–	(44,755)	–	(44,755)
At 31 December 2000	44,359	–	514,335	(50,139)	508,555

The contributed surplus of the Company originally represented the difference between the par value of the Company's shares issued in exchange for the issued share capital and the net asset value of subsidiaries acquired pursuant to a Group reorganisation effected before the listing of the Company's shares on the Stock Exchange in 1993.

During the year ended 31 December 1998, the share premium account balance of HK\$267,481,000 as at 1 May 1998 was transferred to the contributed surplus account pursuant to a special resolution of the shareholders passed on the same date and contributed surplus of HK\$32,434,000 was transferred to retained profits to eliminate the consolidated accumulated losses position at 31 December 1997.

During the year ended 31 December 1999, the share premium account balance of HK\$310,078,000 and the capital redemption reserve balance of HK\$22,000 as at 31 December 1999 were transferred to the contributed surplus account pursuant to a special resolution of the shareholders passed on 29 December 1999.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

### 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit/(loss) from operating activities to net cash inflow/(outflow) from operating activities:

	Group	
	2000 HK\$'000	1999 HK\$'000 (Restated)
Profit/(loss) from operating activities	(95,091)	25,092
Interest income	(4,707)	(1,218)
Dividend income	(383)	—
Depreciation	36,417	11,990
Amortisation of investments in Internet healthcare development and affiliate networks	8,784	—
Loss on disposal of fixed assets	140	421
Increase in retention monies receivable	(3,141)	—
Increase in accounts receivable	(51,137)	(17,417)
Decrease in amounts due from contract customers	21,186	—
Increase in inventories	(3,412)	(1,986)
Decrease/(increase) in prepayments, deposits and other receivables	(48,925)	4,606
Increase in accounts payable, bills payable, accrued liabilities and deposits received	67,766	20,826
Increase in amounts due to contract customers	4,691	—
Net cash inflow/(outflow) from operating activities	(67,812)	42,314

## Notes to Financial Statements (con't)

31 December 2000

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

(b) Analysis of changes in financing during the year:

	Share capital and share premium HK\$'000	Convertible notes 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 January 1999	57,223	88,000	776	172	–
Arising on acquisition of					
subsidiaries	143,215	–	–	–	–
Conversion of convertible notes	88,000	(88,000)	–	–	–
Transfer to contributed surplus	(310,078)	–	–	–	–
Inception of finance lease payables	–	–	–	902	–
Net cash inflow/(outflow)					
from financing	101,819	–	43,634	(202)	–
Balance at 31 December 1999					
and beginning of year	80,179	–	44,410	872	–
Arising on acquisition					
of subsidiaries, businesses					
and elderly homes	2,133	–	35,411	22,736	175,621
Conversion of preference shares	4,899	–	–	–	–
Settlement of deferred acquisition					
consideration	6,635	–	–	–	–
Share of loss for the year	–	–	–	–	(20,649)
Share of exchange fluctuation					
reserve	–	–	–	–	176
Share of goodwill reserve	–	–	–	–	(22,394)
Issue of new shares in a listed subsidiary					
for the acquisition of subsidiaries	–	–	–	–	53,833
Dividend in specie paid to					
minority shareholders	–	–	–	–	3,355
Dividend paid to minority					
shareholders of a subsidiary	–	–	–	–	(2,000)
Partial disposal of subsidiaries	–	–	–	–	(70,591)
Deemed disposal of a subsidiary	–	–	–	–	(31,233)
Inception of finance lease and					
hire purchase contract payables	–	–	–	9,939	–
Net cash inflow/(outflow) from financing	41,755	–	411,089	(6,575)	42,447
Balance as at 31 December 2000	135,601	–	490,910	26,972	128,565

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

#### (c) Major non-cash transactions

- (i) The consideration for the purchases of certain subsidiaries, businesses and elderly care homes which took place during the year comprised shares in the Company and eha. Further details of the acquisitions are set out in note 29 and as detailed below:

On 9 November 2000, the Group completed the acquisitions of the businesses and certain business assets of International Research Pty Limited and its subsidiaries. The acquisition cost of approximately HK\$28,904,000 was satisfied by cash consideration of approximately HK\$11,459,000, the issuance of 27,666,240 new ordinary shares in eha valued at HK\$0.5 per share and approximately 7,224,000 additional consideration shares in eha worth approximately HK\$3,630,000 to be issued at HK\$0.50 per share upon the fulfillment of certain conditions. Further details of the acquisition are set out in a circular of the Company dated 27 September 2000.

On 7 December 2000, the Group completed the acquisition of the entire issued share capital of Medseed Pty Limited ("Medseed") in exchange for which, eha issued 10,000,000 new ordinary shares valued at HK\$0.50 per share to the vendors and 1,000,000 options for the subscription of 1,000,000 ordinary shares in eha to certain executives of Medseed, who are the vendors/shareholders of the vendors. Further details of the acquisition are set out in a circular of the Company dated 9 November 2000.

On 8 December 2000, the Group completed the acquisition of the entire issued share capital of HealthBasic.com Limited in exchange for which, eha issued 70,000,000 new ordinary shares valued at HK\$0.50 per share and 10,000,000 options for the subscription of 10,000,000 ordinary shares in eha to the vendors. Further details of the acquisition are set out in a circular of the Company dated 20 November 2000.

- (ii) During the year, the Group entered into finance lease/hire purchase arrangements in respect of assets with a total capital value at the inception of the finance lease/hire purchase of HK\$9,939,000.
- (iii) During the year, all the outstanding preference shares of the Company were converted into ordinary shares of the Company, as further detailed in note 29 to the financial statements.
- (iv) During the year, the Company paid an interim dividend, by way of a dividend in specie, as further detailed in note 13 to the financial statements.



# Notes to Financial Statements (con't)

31 December 2000

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

(d) Acquisition of subsidiaries, businesses and elderly care homes:

	Group	
	2000 HK\$'000	1999 HK\$'000
Net assets acquired/(liabilities assumed):		
Fixed assets	187,195	19,204
Long term investments	2,807	—
Retention monies receivable	65,019	—
Cash and bank balances	92,602	—
Inventories	795	607
Accounts receivable	120,649	29,035
Amounts due from contract customers	103,498	—
Prepayments, deposits and other receivables	2,384	765
Interest-bearing bank and other borrowings	(70,984)	—
Amounts due to contract customers	(42,688)	—
Accounts payable, bills payable, accrued liabilities and deposits received	(132,912)	(29,159)
Finance lease and hire purchase contract payables	(22,736)	—
Tax	544	—
Deferred tax	(10,360)	—
Minority interests	(175,621)	—
	120,192	20,452
Goodwill/premium on acquisition attributable to the Group	322,487	246,676
Goodwill/premium on acquisition attributable to minority shareholders	22,394	—
	465,073	267,128
Satisfied by:		
Cash consideration paid	397,015	109,823
Cash consideration payable	8,462	—
Shares issued	2,133	143,215
New shares in a listed subsidiary	53,833	—
Deferred acquisition consideration	3,630	14,090
	465,073	267,128

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

(d) Acquisition of subsidiaries, businesses and elderly care homes (con't):

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries, businesses and elderly care homes:

	2000 HK\$'000	1999 HK\$'000
Cash consideration paid	(397,015)	(109,823)
Cash and bank balances acquired	92,602	—
Bank overdrafts acquired	(35,573)	—
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries, businesses and elderly care homes	(339,986)	(109,823)

The subsidiaries, businesses and elderly care homes acquired during the year contributed HK\$428,080,000 to turnover and HK\$1,576,000 to the consolidated loss after tax for the year ended 31 December 2000. These subsidiaries, businesses and elderly care homes also contributed HK\$2,242,000 to the Group's net operating cash flows, paid HK\$3,724,000 in respect of the net returns on investments and servicing of finance and utilised HK\$26,222,000 for investing activities but had no significant impact in respect of its tax and financing activities.

The subsidiaries, businesses and elderly care homes acquired in the prior year contributed HK\$165,604,000 to turnover and HK\$17,934,000 to the consolidated profit after tax for the year ended 31 December 1999. These subsidiaries, businesses and elderly care homes also contributed HK\$14,759,000 to the Group's net operating cash flows and utilised HK\$5,275,000 for investing activities. On the other hand, these subsidiaries, businesses and elderly care homes made no significant contribution to the Group in respect of the net returns on investments and servicing of finance, tax and financing activities.

## Notes to Financial Statements (con't)

31 December 2000

### 32. CONTINGENT LIABILITIES

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

	Company	
	2000 HK\$'000	1999 HK\$'000
Guarantees given in connection with tenancy agreements entered into by subsidiaries	44,580	66,554
Guarantees given to banks in connection with banking facilities granted to subsidiaries	120,000	40,000
	164,580	106,554

- (b) 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 December 2000 (1999: Nil). The directors of the Company consider that, after taking into account of the legal advice obtained, these proceedings and claims were either made without valid grounds or the subsidiaries have a valid defense to the litigation and, accordingly, no provision for any potential liabilities is considered necessary.

### 33. COMMITMENTS

- (a) Capital commitments

	Group	
	2000 HK\$'000	1999 HK\$'000
Capital commitments for the acquisition of fixed assets contracted, but not provided for	57,276	32,274
Capital commitments for the acquisition of certain business operations and certain business assets and liabilities contracted, but not provided for (note 35(b))	89,000	—
Capital commitments for investment in subsidiaries:		
Authorised, but not contracted for	125	—
	146,401	32,274

At the balance sheet date, the Company did not have any significant capital commitments (1999: Nil).

### 33. COMMITMENTS (con't)

#### (b) Commitments under operating leases

At 31 December 2000, the Group and the Company had commitments under non-cancellable operating leases to make payments in the following year as set out below.

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Land and buildings expiring:				
Within one year	13,122	6,603	65	618
In the second to fifth years, inclusive	35,201	39,807	—	—
After five years	3,000	—	—	—
	51,323	46,410	65	618

### 34. RELATED PARTY TRANSACTIONS

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

- (i) An independent non-executive director of the Company, Ronald Carstairs, is the managing director of Dah Sing Financial Holdings Limited. During the year, the Group placed certain deposits with Dah Sing Bank Limited, a subsidiary of Dah Sing Financial Holdings Limited and thereby earned interest income of approximately HK\$1,523,000 (1999: HK\$757,000) at prevailing bank deposit rates. In addition, certain bank and factoring loans were drawn from Dah Sing Bank Limited, with interest rates ranging from the Hong Kong inter bank borrowing rate plus 1% to the Hong Kong dollar prime rate plus 1.5%. An interest expense of approximately HK\$7,781,000 was paid during the year in respect thereof (1999: HK\$2,674,000).

### 34. RELATED PARTY TRANSACTIONS (con't)

- (ii) On 30 November 1999, ehealthcareasia Limited, subsequently renamed as ehealthcareasia (BVI) Limited (“eha BVI”), a then indirect wholly-owned subsidiary of the Company, executed a deed (the “Deed”) in favour of The Toledo Trust (the “Trust”), in which certain directors, executives and staff of eha BVI (including certain directors and executives of the Company and/or its subsidiaries), were the beneficiaries, for the granting of rights (the “Rights”) enabling the Trust to have eha BVI allot and issue to the Trust up to 20% of the issued share capital of eha BVI subsisting from time to time, until the ordinary shares of eha BVI are listed on the Stock Exchange or any other exchange, or the third anniversary of the date of the Deed, whichever is the earlier, on terms set out in the Deed. Pursuant to the Deed, the trustee of the Trust (the “Trustee”) could assign or transfer to such directors, executives and staff (present or future) of eha BVI and its subsidiaries from time to time (the “Employees”), as the Trustee determines, in such manner (with or without consideration) as determined by the Trustee, within the period and guidelines set out in the Deed, all or part of the Rights. Details of the granting of the Rights, which was subject, inter alia, to the approval of independent shareholders of the Company, and the guidelines upon which the Trustee may assign or transfer the Rights, were set out in a circular of the Company dated 20 December 1999. On 11 January 2000, the granting of the Rights was approved by independent shareholders at a special general meeting of the Company. As the Employees comprised certain directors of the Company and its subsidiaries, the granting of the Rights by eha BVI constituted a connected transaction of the Group. In June 2000, the Employees exercised their Rights and 20,000,000 eha BVI shares were issued and allotted to the Employees at an exercise price of HK\$1.50 per share of eha BVI. Further details of the Deed are set out in a circular of the Company dated 5 June 2000.
- (iii) During the year, the Group had construction work amounting to approximately HK\$17,063,000 (1999: Nil) carried out for certain related companies, in which certain directors and/or beneficial shareholders of certain subsidiaries are directors and/or beneficial shareholders of those companies. In the opinion of the directors, the construction work for the related companies was carried out at prices determined on the cost plus a percentage mark-up basis.

### 35. POST BALANCE SHEET EVENTS

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

- (a) On 20 November 2000, the Group entered into a conditional agreement for the acquisition of certain assets located at a residential care home in Tuen Mun, New Territories, Hong Kong for a total consideration of HK\$16 million from a third party. The acquisition was completed on 8 January 2001. The consideration was/will be paid and satisfied as to HK\$12,800,000 in cash on completion and as to HK\$3,200,000 in cash payable six months after completion without interest. Further details of the acquisition are set out in a circular of the Company dated 2 December 2000.
- (b) On 27 November 2000, eha entered into a conditional purchase and sale agreement with MedWeb Limited (“MedWeb”) for the acquisition of certain business operations and certain business assets and liabilities from MedWeb in exchange for which eha would issue 178,000,000 new ordinary shares of eha valued at HK\$0.50 each to MedWeb and the Group would assume certain liabilities of MedWeb. Further details of the acquisition are set out in a circular of the Company dated 20 December 2000. The acquisition was completed on 7 February 2001.
- (c) On 26 March 2001, eha entered into an agreement with New Luck Assets Limited (“New Luck”) in relation to the disposal of KWC BVI for a cash consideration of HK\$88 million. New Luck is 86.05% owned by Chinney Investments, Limited (“Chinney”) and 13.95% owned by Zuric Chan (“Mr Chan”), a director of KWC BVI, both of which are beneficial shareholders of KWC BVI. On the same date, the Company, the Warrantors (Chinney, Mr Chan and Johnny Yu), eha, Chinney Contractors Company Limited (“CCC”) and the custodian of a custodian account entered into a supplemental deed pursuant to which the Company has unconditionally agreed that, subject to the completion of the disposal of KWC BVI, all monies amounting to HK\$89,999,999 (plus accrued interest) be released to the Warrantors from the custodian account. CCC is 77.11% owned by Chinney, 12.5% by Mr Chan and 10.39% by Johnny Yu who is also a director of KWC BVI. Given that James Wong, a director of KWC BVI and a former director of eha prior to his resignation on 27 July 2000, controls Chinney which is the holding company of New Luck, New Luck is regarded as a connected person of the Company under the Listing Rules. The disposal of KWC BVI constitutes a major and connected transaction for QHA under the Listing Rules and is therefore subject to shareholders’ approval by the Company’s independent shareholders. Further details of these transactions are set out in a circular of the Company dated 17 April 2001.

## Notes to Financial Statements (con't)

31 December 2000

### 35. POST BALANCE SHEET EVENTS (con't)

- (d) On 10 April 2001, eha entered into the following agreements which are subject to the Company's and eha's shareholders' approval:
- (i) certain cooperative agreements and a software license agreement entered into by eha with iBusinessCorporation.com Limited, i21 Limited and Excel Technology International Holdings Limited for a total consideration of HK\$110 million to be satisfied by the issue of 280,000,000 new shares of eha valued at HK\$0.25 each and a HK\$40 million, 2.5% interest-bearing convertible note, which is convertible into shares of eha; and
  - (ii) an agreement for the acquisition of the entire issued share capital of iClaims21 Limited, a company incorporated in Hong Kong, for a total consideration of HK\$10,000,000 to be satisfied by the issuance of 40,000,000 new shares of eha valued at HK\$0.25 per share.

The above convertible note has a term of three years and a fixed conversion price of HK\$0.40 per share.

Further details of the agreements are set out in an announcement of the Company dated 10 April 2001.

### 36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 18 April 2001.