Notes to Condensed Consolidated Financial Statements – Unaudited

30 June 2001

1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants, except that comparative amounts have not been presented for the condensed consolidated cash flow statement as the Company has taken advantage of the transitional provisions set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The principal accounting policies and basis of preparation used in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual consolidated financial statements for the year ended 31 December 2000, except in relation to SSAP 14 (revised) "Leases", SSAP 29 "Intangible Assets", SSAP 30 "Business Combinations", SSAP 31 "Impairment of Assets" and Interpretation 13 "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves".

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

The Group has complied with SSAP 29 for the first time in this interim reporting period. The Group now expenses the costs incurred in developing and building the Group name, logo and image rather than capitalising such expenses as internally generated brandname as it does not meet the new definition and recognition criteria of intangible assets. The only effect of the change, which has been accounted for retrospectively, is that the accumulated losses brought forward at 1 January 2001 have been restated and increased by HK$8,300,000 which is the amount of internally generated brandname capitalised relating to the years prior to 1 January 2000.

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

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

In accordance with the transitional provisions of SSAP 30, Interpretation 13 and SSAP 31, the Group has performed an assessment of the impairment of goodwill that had been previously eliminated against reserves and not restated. This represents a change in accounting policy and should be applied retrospectively. Accordingly, the Group has retrospectively restated and increased its accumulated losses brought forward at 1 January 2001 and reduced the net profit from ordinary activities attributable to shareholders for the six months ended 30 June 2000 by HK$790,547,000 and HK$12,710,000, respectively, for the impairment of goodwill arising from the acquisitions of subsidiaries, elderly care homes and other businesses in the prior years. As a result, the loss per share (basic and diluted) for the six months ended 30 June 2000 has also be restated.

2. Segmental information

The Group is principally engaged in providing healthcare and related services mainly in Hong Kong including Western and Chinese medical services, coverage, facilities and services for the elderly, nursing, homecare, dental, physiotherapy services and the processing of healthcare transactions and related businesses. The Group disposed of its ground engineering and building construction businesses during the period.

An analysis of the Group's turnover and contribution to profit/(loss) from operating activities for the six months ended 30 June 2001 by principal activity is as follows:

	Six months ended 30 June 2001 HK$'000	2000 HK$'000 (Restated)
Turnover – from continuing operations:		
Medical services	294,814	259,121
Nursing, physiotherapy and dental services	29,862	27,360
Elderly care services	52,535	28,182
	377,211	314,663
Pro-health, Chinese medicine and other developing businesses	218	2
Healthcare transaction operations and related businesses	25,231	16,322
	402,660	330,987
Turnover – from discontinued operations:		
Ground engineering and building construction	297,369	–
	700,029	330,987
Profit/(loss) from continuing operations:		
Medical services	13,873	10,924
Nursing, physiotherapy and dental services	735	573
Elderly care services	(4,728)	(6,731)
	9,880	4,766
Pro-health, Chinese medicine and other developing businesses	(3,906)	(3,641)
Healthcare transaction operations and related businesses	(41,412)	(14,652)
	(35,438)	(13,527)
Loss from discontinued operations:		
Ground engineering and building construction	(5,768)	–
	(41,206)	(13,527)
Corporate head office and growth oriented overheads	(10,259)	(10,594)
Amortisation of intangible assets	(9,009)	(2,928)
	(60,474)	(27,049)

During the period, more than 90% of the turnover and the results from operating activities of the Group were attributable to its operations in Hong Kong.

3. **Discontinued operations**

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

The Disposal was completed on 8 May 2001 and the ground engineering and building construction operations were consolidated by the Group until that date. The loss arising on the disposal of such operations of approximately HK$1,236,000 was determined based on the sale proceeds less the consolidated net asset value of the Group's interests in such operations on 8 May 2001.

4. Tax

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period.

	Six months ended 30 June 2001 HK$'000	2000 HK$'000
Hong Kong profits tax:		
Provision for the period	**1,800**	**694**
Underprovision/(overprovision) in prior years	**(606)**	**190**
Deferred	**3,080**	**–**
	4,274	**884**

The Group did not have any unprovided taxes on profits assessable elsewhere, based on existing legislation, interpretations and practices in respect thereof.

5. Interim dividend

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2001 (2000: HK$4,891,000). During the six month period ended 30 June 2000, the Company declared a distribution in specie in the ratio of one share in EHA for every 20 shares of the Company held at the record date of 21 July 2000.

6. Earnings/(loss) per share

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

	2001 HK$'000	2000 HK$'000 (Restated)
Earnings/(loss)		
Net profit/(loss) attributable to shareholders, used in the calculation of basic and diluted earnings/(loss) per share	14,220	(7,319)
	2001	2000
Number of shares		
Weighted average number of ordinary shares in issue during the period used in basic earnings/(loss) per share calculation	912,682,610	810,040,965
Weighted average number of ordinary shares assumed issued at no consideration on deemed exercise of all share options outstanding during the period	6,382,274	–
Weighted average number of ordinary shares used in diluted earnings/(loss) per share calculation	919,064,884	N/A

The restated diluted loss per share for the six months ended 30 June 2000 has not been shown as the potential ordinary shares outstanding during the period had an anti-dilutive effect on the basic loss per share for that period.

7. Licence and cooperation rights and convertible note

During the period, certain cooperative agreements and a software licence agreement were entered into between EHA, iBusinessCorporation.com Limited, i21 Limited and Excel Technology International Holdings Limited for a total consideration of HK$110 million for the benefits of the Group's healthcare transaction operations and related businesses, which were satisfied by the issue of 280,000,000 new ordinary shares of EHA valued at HK$0.25 each and a HK$40 million, 2.5% interest-bearing convertible note, convertible into ordinary shares of EHA. The convertible note has a term of three years and a fixed conversion price of HK$0.40 per share. Further details of the cooperative agreements, the software licence agreement and the convertible note are set out in a circular of the Company dated 7 May 2001.

8. 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 at the balance sheet date is as follows:

	30 June 2001 HK$'000	31 December 2000 HK$'000
Current – 90 days	95,909	239,718
91 – 180 days	5,163	6,437
181 – 360 days	400	7,954
Over 360 days	368	13,968
	101,840	268,077

9. 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:

	30 June 2001 HK$'000	31 December 2000 HK$'000
Accounts payable and bills payable:		
Current – 90 days	23,271	103,731
91 – 180 days	1,271	2,609
181 – 360 days	40	758
Over 360 days	310	6,175
	24,892	113,273
Accrued liabilities and deposits received	114,575	193,098
	139,467	306,371

10. Share capital

During the period, 502,500 ordinary shares of the Company of HK$0.10 each were issued for a total cash consideration, before expenses, of HK$331,650 upon the exercise of certain share options of the Company.

11. Reserves

	Share premium HK$'000	Goodwill reserve HK$'000	Contributed surplus HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2001						
As previously reported	44,359	(790,547)	534,880	291	(18,170)	(229,187)
Prior year adjustments:						
SSAP 29	–	–	–	–	(8,300)	(8,300)
SSAPs 30, 31 & Interpretation 13	–	790,547	–	–	(790,547)	–
As restated	44,359	–	534,880	291	(817,017)	(237,487)
Premium on issue of shares	281	–	–	–	–	281
Exchange realignments	–	–	–	(63)	–	(63)
Net profit for the period	–	–	–	–	14,220	14,220
At 30 June 2001	44,640	–	534,880	228	(802,797)	(223,049)

12. Litigation

As at 31 December 2000, certain subsidiaries of the Company engaged in the ground engineering and building construction businesses were involved in legal proceedings or claims against them in the ordinary course of their businesses. The aggregate amount of claims, including estimated legal costs, resulting from such contingent liabilities was approximately HK$5 million as at 31 December 2000. During the period, all of these subsidiaries were disposed of by the Group under the Disposal and, accordingly, there were no such contingent liabilities attributable to the Group as at 30 June 2001.

Subsequent to the period ended 30 June 2001, on 23 July 2001, an independent third party, Medwonder Systems Limited ("Medwonder"), filed a writ of summons and statement of claim against iClaims21 Limited ("iClaims21"), a subsidiary of the Group (the "Writ"). The Writ claims a sum of HK$39,950,000 as alleged loss of profit and/or damages on a quantum meruit basis and/or damages for breach of contract, and/or trust and/or fiduciary duty and a declaration that Medwonder is entitled to 33.3% of the iClaims21 business (the "Claims").

Based on the information currently available to iClaims21 and its solicitors' advice on the Claims, the directors take the view that the allegations in the Writ are without foundation and iClaims21 intends to vigorously defend the Claims and has instructed its solicitors to apply to summarily dismiss the Writ. Further details of the Claims are set out in a circular and a prospectus of the Company dated 29 August 2001 and 17 September 2001, respectively.

13. Commitments

(a) Capital commitments

	30 June 2001 HK$'000	31 December 2000 HK$'000
Authorised, but not contracted for	–	125
Contracted, but not accounted for	–	146,276
	–	146,401

(b) Commitments under operating leases

The Group had commitments under non-cancellable operating leases in respect of land and buildings to make payments as follows:

	30 June 2001 HK$'000 (note (i))	31 December 2000 HK$'000 (note (ii))
Within one year	**70,293**	**13,122**
In the second to fifth years, inclusive	**169,779**	**35,201**
After five years	**7,845**	**3,000**
	247,917	**51,323**

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

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

14. Related party transactions

The Group had the following material related party transactions during the period not disclosed elsewhere in this condensed consolidated financial statements or in the consolidated financial statements for the year ended 31 December 2000:

(a) During the period, the Group had construction work amounting to approximately HK$30,713,000 (2000: 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. The construction work for the related companies was carried out at prices determined on the cost plus a percentage mark-up basis.

(b) An independent non-executive director of the Company, Ronald Carstairs, is the managing director of Dah Sing Financial Holdings Limited. During the period, 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$83,000 (2000: HK$310,000) 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$3,424,000 was paid during the period in respect thereof (2000: HK$4,305,000).

15. Post balance sheet events

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

On 1 August 2001, the Company announced that it proposed to raise approximately HK$228 million before estimated expenses of HK$8 million by way of a rights issue (the "Rights Issue") on the basis of one rights share for every existing share of the Company held at the record date of 17 September 2001 at an issue price of HK$0.25 per rights share. On the same day, the Company announced that it had entered into an agreement (the "Discharge Agreement") with CLSA Capital Limited (the "Lender") and CLSA Limited on 27 July 2001, pursuant to which a loan of approximately HK$284.2 million owed by the Company to the Lender will be discharged upon a repayment of HK$130 million in cash from the proceeds of the Rights Issue (the "Loan Repayment") and the issue of 342,666,666 shares of the Company to the Lender valued at HK$0.45 per share (the "Conversion").

Further details of the Rights Issue and the Discharge Agreement are set out in a circular and a prospectus of the Company dated 29 August 2001 and 17 September 2001, respectively. The Rights Issue and the Discharge Agreement were approved by the shareholders of the Company on 17 September 2001. As a result and subject to the Rights Issue becoming unconditional, 912,926,091 and 342,666,666 new shares of HK$0.10 each of the Company will be issued in respect of the Rights Issue and the Discharge Agreement, respectively.

The Rights Issue is expected to become unconditional on 8 October 2001.

On completion of the Rights Issue and the Conversion , the liquidity position of the Group would be substantially improved. A summary of the condensed pro forma adjusted unaudited consolidated net assets of the Group as at 30 June 2001, based on the unaudited consolidated net assets of the Group at that date and adjusted as if the completion of the Rights Issue and the Conversion had taken place and the Loan Repayment had been made at that date, is presented below:

	Unaudited consolidated net assets HK$'000	Net effect of the proposed Rights Issue, the Loan Repayment and the Conversion HK$'000	Pro forma adjusted unaudited consolidated net assets HK$'000
Non-current assets	364,943		364,943
Current assets	232,126	90,000	322,126
Current liabilities	(559,350)	284,201	(275,149)
Net current assets/(liabilities)	(327,224)		46,977
Non-current liabilities	(74,320)		(74,320)
Minority interests	(95,156)		(95,156)
	(131,757)		242,444