The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 14 to the financial statements. The Group acquired certain healthcare transaction processing, healthcare service solutions, claims handling and medical equipment distribution businesses during the year.

CHANGE OF COMPANY NAME

Pursuant to a special resolution of the Company passed on 28 June 2000, the name of the Company was changed from Kin Wing Chinney Holdings Limited to ehealthcareasia Limited with effect from 29 June 2000.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to results from operating activities by principal activity for the year ended 31 March 2001 is as follows:

	Notes	**2001 HK$'000**	2000 HK$'000
Turnover - from continuing operations:			
Healthcare transaction operations and related businesses	1	**40,451**	–
Telemarketing		**1,370**	–
		41,821	–
Turnover - from operations to be discontinued:			
Ground engineering and building construction	2	**884,090**	686,436
		925,911	686,436
Loss from continuing operations:			
Healthcare transaction operations and related businesses	1	**(96,164)**	–
Telemarketing		**(995)**	–
		(97,159)	–
Profit from operations to be discontinued:			
Ground engineering and building construction	2	**208**	14,404
Profit/(loss) from operating activities		**(96,951)**	14,404

Notes:

(1) The "Healthcare transaction operations and related businesses" as set out above were acquired on 28 June 2000 and include the healthcare transaction processing, claims handling businesses together with the medical equipment distribution business. During the year, the Group expanded the scope and scale of its healthcare transaction operations and related businesses and diversified into the telemarketing business.

(2) The Company entered into an agreement for the disposal of the ground engineering and building construction businesses on 26 March 2001 and the completion took place on 8 May 2001. The details of the transaction are set out in a circular to the shareholders of the Company dated 17 April 2001.

SEGMENTAL INFORMATION (con't)

During the year, more than 99% of the turnover and the results from operating activities of the Group were attributable to its operations in Hong Kong.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31March 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 74.

The directors do not recommend the payment of any dividends in respect of the year.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified/restated as appropriate, is set out below.

	Year ended 31 March				
	2001	2000	1999	1998	1997
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**925,911**	686,436	341,664	351,647	276,049
Profit/(loss) before tax	**(117,406)**	6,363	5,551	60,766	34,377
Tax credit/(charge)	**(3,416)**	(844)	1,040	(10,503)	(1,357)
Profit/(loss) before minority interests	**(120,822)**	5,519	6,591	50,263	33,020
Minority interests	**2,685**	–	–	(167)	367
Net profit/(loss) attributable to shareholders	**(118,137)**	5,519	6,591	50,096	33,387

	31 March				
	2001	2000	1999	1998	1997
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**620,601**	483,323	300,714	315,988	194,946
Total liabilities	**495,231**	294,231	116,617	138,482	147,931
Minority interests	**92,015**	–	–	–	(146)
Shareholders' equity	**33,355**	189,092	184,097	177,506	47,161
Total liabilities and shareholders' equity	**620,601**	483,323	300,714	315,988	194,946

SUMMARY OF FINANCIAL INFORMATION (con't)

Notes:

1. The Company was incorporated in Bermuda on 22 August 1997 and became the holding company of the companies now comprising the Group as a result of a group reorganisation which became effective on 25 November 1997.

2. The results for the year ended 31 March 1997 have been extracted from the prospectus dated 8 December 1997 issued by the Company and have been prepared on a combined basis as if the current group structure had been in existence throughout the year.

3. The results for each of the four years ended 31 March 2001 have been extracted from the Group's audited consolidated profit and loss account for each of the years.

OPERATION REVIEW

From its inception in late 1999, a subsidiary of the Group was planned to be a provider of niche intermediary services to insurers and healthcare service providers.

The Company's business is the provision of services required by well-established companies in the insurance, healthcare service provider, pharmaceutical, and health insurance markets. These services enhance and supplement our customers' main sales and marketing activities, allowing them to operate more efficiently, and to generate revenues from data mining their customer bases. EHA's differentiating factor is that it draws on expertise from each of the industries it serves and combines that with a strong technical capability.

In less than two years, the Company has been established, its senior management recruited, Stock Exchange listing achieved in Hong Kong and the focus for the future established in three business lines. The public float of the Company was achieved, the technology platform developed, major expense reductions effected and EHA is now positioned as a viable company with an upside potential.

The transaction business

The original business model recognised the value in linking up payers and providers in Asia's healthcare environment, in order to find ways to reduce their costs and improve efficiency.

The transaction business we have developed, in the absence of any existing service, aims to improve health insurers' ability to manage claims, segment their customers, and reduce expenses. This ties closely with the improvement in the availability of eligibility information and payment claims processing services for the practitioners who deliver healthcare.

EHA identified the opportunity for a business-to-business transaction platform concept, searched for, acquired and developed the necessary expertise. An unique platform was needed to take existing processes and computerise those which were still manual and to then web-enable them all.

OPERATION REVIEW (con't)

The transaction business (con't)

The first LEON system was launched in August 2000, allowing healthcare service providers to submit claims information to payers. Several upgrades have been installed for users, and capability broadened with each version released for use. Our REACH (Record Exchange and Clearing House) transaction platform enabled integration of LEON into the back-office systems of our first client Quality HealthCare Medical Services.

It is upon the REACH capability that an entire menu of EHA services is integrated. Customers can select specific services to meet their immediate needs or the entire solution. The range includes:

– Practice and Clinical Management Applications

– Eligibility Systems

– Connectivity Systems

– Operations Management Systems

– Policy Administration Systems

The international implications of what we were creating in Hong Kong became apparent very early on. The opening of Singapore office in 2000 gave us the foundation from which to explore that jurisdiction, having identified that our service had markets beyond Hong Kong, across other Asian countries and further afield.

Acquisitions in Australia gave us the technology to set up 'translation hubs' which allow different software systems to understand each other, making seamless communication possible. REACH was just such a product. It was, therefore, this web of communication, carrying statistical information on illnesses, medications, costs and frequency of attendance at healthcare clinics that was to be the core from which our other businesses would build.

The acquisition of Rx Healthcare, that serves 5,600 doctors who use our software systems to run their clinics' back-office systems became an important revenue contributor to the Group in 2001.

Partnership services

Increasing marketing costs, intensifying competition among insurers and diversifying financial service options for consumers are all forcing insurance companies to seek new distribution sources in order to generate new business. Telemarketing service is a cheaper way to sell large number of policies, giving the insurers a wider base of policy holders and lower acquisition costs than would be possible with a traditional agency force - up to 50% savings in costs.

In the telemarketing field, therefore, we have signed contracts with insurance and banking companies to provide outbound call centre services for them in Taiwan. The service has commenced, is already in profit and has been acknowledged as the largest independent life, accident and health (LA&H) telemarketing company in that region. This was our way-in to the Taiwan market and a first step into providing a range of services in that region.

OPERATION REVIEW (con't)

Partnership services (con't)

Direct marketing on behalf of insurers will form an additional business line for EHA, and, like telemarketing, will derive profits from commissions paid by the insurance companies.

The Company is now exploring the possibilities of entering this market in Hong Kong, Japan and China.

Informatics

Defined as "the creation, study, management and transfer of information", informatics might be seen by some observers as already being the principal business of EHA. The flow of statistical information provides us with powerful opportunities to work with pharmaceutical companies who compute this non-personal information to help the healthcare industry - and specifically those involved in pharmaceutical research - to understand the present and plan the future.

EHA has already attracted the interest of international providers of informatics services and is exploring opportunities for cooperation. Plans are underway to capitalise on this segment starting in Australia and expanding through that operation throughout Asia.

Medical equipment distribution

The product portfolio covers a wide array of systems ranging from specialist equipment to the compact diagnostic and monitoring devices. The Group has business dealership arrangements with major international suppliers, and distributes medical equipment to hospitals, laboratories and general practitioners.

This business will continue to capture opportunities in the local market and source new ranges of specialty medical equipment from different suppliers. It has also entered the fast growing field of interventional cardiology devices.

Conclusion

With different healthcare systems, different governmental outlooks, varied payment responsibility and divergent outlooks in terms of insurance and personal payment systems, Asia is a range of very different states with very different needs.

It is in response to these different environments that EHA is entering the markets of its target regions through different 'doors': entry points to date having been practice management systems in Australia, claims processing in Hong Kong and Singapore, and marketing in Taiwan.

Entering each country's market at any one place helps us to understand the full depth of that market and to identify the opportunities for EHA's established, yet developing, range of capabilities.

We have identified our markets and are geared to respond to them. We also know our skills can serve other purposes for our targeted customer base and have the flexibility to adapt to changing and expanding needs.

FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 14 to the financial statements.

JOINTLY-CONTROLLED ENTITY AND ASSOCIATES

Particulars of the Group's interests in its jointly-controlled entity and associates are set out in notes 15 and 16 to the financial statements, respectively.

INTEREST-BEARING BANK AND OTHER BORROWINGS

Details of the interest-bearing bank and other borrowings of the Company and the Group are set out in note 23 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with reasons therefor, are set out in note 28 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 March 2001, the Company did not have reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended). The Company's share premium account in the amount of HK$1,954,941,000 at 31 March 2001 may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$10,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2001, the percentage of turnover attributable to the Group's five largest customers accounted for approximately 56%, of which, the largest customer contributed approximately 21% to the turnover; and the percentage of purchases attributable to the Group's five largest suppliers were less than 30%.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Brian O'Connor	(appointed on 5 July 2000)
Sam Abunassar	(appointed on 5 July 2000)
Philip Kirkwood	(appointed on 5 July 2000)
Zuric Yuen Keung Chan	
Johnny Wing Sang Yu	
James Sai Wing Wong	(resigned on 27 July 2000)
Herman Man Hei Fung	(resigned on 27 July 2000)
Stephen Sek Kee Yu	(resigned on 27 July 2000)

Non-executive directors:

John Crawford	(appointed on 5 July 2000)
Richard Siemens	(appointed on 5 July 2000)
Claude Giroux	(appointed on 5 July 2000 and resigned on 27 July 2000)

Independent non-executive directors:

Lester Garson Huang	(appointed on 27 July 2000)
Gary Forrest	(appointed on 7 September 2000)
David Chris Tsung Hei Lee	(resigned on 27 July 2000)
Herbert Ho Ming Hui	(resigned on 27 July 2000)

Subsequent to the balance sheet date:

i) Zuric Yuen Keung Chan and Johnny Wing Sang Yu resigned as executive directors of the Company with effect from 6 June 2001; and

ii) On 6 June 2001, Edmond Tak Chuen Ip was appointed as a non-executive director of the Company.

In accordance with the Company's bye-laws, Sam Abunassar, Lester Garson Huang, Gary Forrest and Edmond Tak Chuen Ip will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of Zuric Yuen Keung Chan and Johnny Wing Sang Yu has a service contract with Kin Wing Chinney (BVI) Limited, a subsidiary of the Group, for a period of two years commencing 28 June 2000.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company that is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed in note 33 to the financial statements, no director had a beneficial interest in any material contract to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2001, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Name of company	Name of directors	Nature of interests	Number of Shares/Options
ehealthcareasia Limited	Brian O'Connor	Personal	177,862,500 shares
		Corporate *(Note 1)*	1,520,303 shares
		Family *(Note 2)*	7,929,898 shares
	Sam Abunassar	Personal	59,287,500 shares
	Philip Kirkwood	Personal	19,862,500 shares
	John Crawford	Personal	14,821,875 shares
	Richard Siemens	Corporate	1,661,779 shares
Quality HealthCare Asia Limited	Brian O'Connor	Corporate *(Note 1)*	196,806,375 shares
		Family *(Note 2)*	255,384,184 shares
		Personal *(Note 3)*	17,750,000 share options
	Sam Abunassar	Personal *(Note 3)*	10,000,000 share options
	Philip Kirkwood	Personal	2,000,000 shares
		Personal *(Note 3)*	2,100,000 share options
	Richard Siemens	Corporate	15,732,062 shares

DIRECTORS' INTERESTS IN SHARES (con't)

Notes:

1. These shares are beneficially owned by Cherish Enterprises Limited ("Cherish"), a company incorporated in the British Virgin Islands, which is owned as to 50% by Montel Limited ("Montel"), also a company incorporated in the British Virgin Islands, which is in turn the trustee of a trust of which the family of Brian O'Connor is a beneficiary.

2. Montel owns 6,409,595 shares in the Company and 58,577,809 shares in Quality HealthCare Asia Limited ("QHA"). In addition, Montel owns 50% of Cherish which owns 1,520,303 shares in the Company and 196,806,375 shares in QHA.

3. These share options were granted under QHA's share option scheme adopted on 5 July 1993.

Save as disclosed above and in the section "Directors' rights to acquire securities" below, none of the directors or their respective associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance which are required to be recorded in the register kept under Section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Pursuant to the share option scheme of QHA, options on its ordinary shares have been granted in favour of certain directors as set out below:

Name of Director	Number of share options at 31 March 2000	Number of share options granted during the year	Number of share options outstanding at end of year	Exercise period of share options (both dates inclusive)	Exercise price of share options
					HK$
Brian O'Connor	10,000,000	–	10,000,000	3-8-1998 to 2-8-2001	0.47
	375,000	–	375,000	19-11-1999 to 18-5-2002	0.66
	375,000	–	375,000	19-11-2000 to 18-5-2002	0.66
	1,500,000	–	1,500,000	3-5-2000 to 2-11-2002	0.87
	1,500,000	–	1,500,000	3-5-2001 to 2-11-2002	0.87
	4,000,000	–	4,000,000	15-5-2000 to 14-5-2003	1.28
Sam Abunassar	7,000,000	–	7,000,000	15-8-2000 to 4-7-2003	2.35
	–	3,000,000	3,000,000	16-2-2001 to 4-7-2003	1.92
Philip Kirkwood	300,000	–	300,000	19-11-1999 to 18-5-2002	0.66
	300,000	–	300,000	19-11-2000 to 18-5-2002	0.66
	500,000	–	500,000	27-4-2000 to 26-10-2002	0.87
	500,000	–	500,000	27-4-2001 to 26-10-2002	0.87
	500,000	–	500,000	2-5-2000 to 1-5-2003	1.19
	26,850,000	3,000,000	29,850,000		

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES (con't)

Pursuant to a trust deed, the details of which are set out in a circular dated 5 June 2000 to the shareholders of the Company (the "5 June 2000 circular"), the independent trustee granted Brian O'Connor, Philip Kirkwood, John Crawford and Sam Abunassar, directors of the Company, the rights to subscribe for certain shares in ehealthcareasia (BVI) Limited ("EHA BVI") at an issue price of HK$1.50 each.

Pursuant to a deed in respect of the acquisition of EHA BVI (the "EHA Acquisition Deed"), the details of which are set out in the 5 June 2000 circular and in the section of this report on connected transactions, the aforementioned directors exercised their rights to subscribe for shares in EHA BVI and disposed of these shares to Quality HealthCare Asia Limited ("QHA") in consideration for shares in Kin Wing Chinney Holdings Limited ("KWC"), subsequently renamed as ehealthcareasia Limited ("EHA"), on 28 June 2000 as set out below.

Name of Director	Number of shares in EHA BVI converted and disposed	Number of shares in EHA subscribed
Brian O'Connor	9,000,000	177,862,500
Sam Abunassar	3,000,000	59,287,500
Philip Kirkwood	1,000,000	19,762,500
John Crawford	1,000,000	19,762,500

Pursuant to the EHA Acquisition Deed, Ontario Investments Limited ("Ontario") disposed of 8,000,000 shares in EHA BVI to QHA in consideration for 158,100,000 shares in EHA. Ontario is beneficially owned as to 75% by Claude Giroux and as to 25% by John Crawford.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding companies, or any of its subsidiaries and fellow subsidiaries a party to any arrangements to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2001, the following interests of 10% or more in the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held
Quality HealthCare Asia Limited – *Note*	1,584,973,105
Quality HealthCare Investment Limited	1,584,973,105

Note:

Quality HealthCare Investment Limited is a wholly-owned subsidiary company of Quality HealthCare Asia Limited. Accordingly, it indirectly owns 1,584,973,105 shares in the Company.

Save as disclosed above, as far as the directors are aware, there are no other persons who were, directly or indirectly, beneficially interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

CONNECTED TRANSACTIONS

Further to those items set out in notes 25, 33 and 34(c) to the financial statements, the Group had connected transactions during the year and up to the date of this report as set out below.

I. Disposal of 50% interest in Kin Wing Chinney (BVI) Limited ("KWC BVI")

On 23 March 2000, the Company entered into an agreement with All Profit Investment Inc. ("All Profit") relating to the disposal of 104 shares of US$1.00 each in KWC BVI, representing 50% of the existing issued share capital of KWC BVI, for a cash consideration of HK$90 million. All Profit was a company owned and controlled as to 77.11% by Chinney Investments, Limited ("Chinney"), 12.50% by Zuric Yuen Keung Chan and 10.39% by Johnny Wing Sang Yu. The completion of the agreement took place on 28 June 2000. Further details of the disposal were set out in a circular dated 5 June 2000 to the shareholders of the Company.

II. Ongoing connected transactions between the KWC BVI Group and the Hon Kwok Group

During the year, KWC BVI and its subsidiaries (the "KWC BVI Group") had the following significant transactions with companies in which certain directors of the Company, who had resigned from the board of the Company as at the date of this report, had beneficial interests:

Name of companies	Director interested	Nature of transactions	Amount
			HK$'000
Hon Kwok Land Investment Company, Limited ("Hon Kwok") and its subsidiaries (collectively referred to as the "Hon Kwok Group")	James Sai Wing Wong Zuric Yuen Keung Chan Johnny Wing Sang Yu	Construction work	84,290

CONNECTED TRANSACTIONS (con't)

II. Ongoing connected transactions between the KWC BVI Group and the Hon Kwok Group (con't)

The aggregate value of the construction work carried out by the Group for the Hon Kwok Group for the year ended 31 March 2001 amounted to 9% of the Group's consolidated turnover for the year.

James Sai Wing Wong is a director of the KWC BVI Group and Zuric Yuen Keung Chan and Johnny Wing Sang Yu are directors of the Company and the KWC BVI Group. All of them have beneficial interests in Hon Kwok. Accordingly, under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the transactions as set out above (the "Transactions") constitute connected transactions for the Company and would normally require full disclosure and/or prior independent shareholders' approval each time any such transaction is entered into. On 25 November 1999, a conditional waiver was granted by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to the Company from the requirement to comply with the connected transactions requirements under the Listing Rules in respect of such transactions.

The Transactions have been reviewed by the independent non-executive directors who have confirmed that the Transactions were:

(a) conducted on normal commercial terms and in the ordinary and usual course of business of the Group;

(b) fair and reasonable so far as the shareholders of the Company are concerned;

(c) carried out in accordance with the terms of the agreements governing the Transactions; and

(d) the aggregate value of the Transactions for the year ended 31 March 2001 did not exceed 25% of the Group's consolidated turnover.

As a condition pursuant to which the waiver was granted, Ernst & Young were engaged to perform certain agreed upon procedures in accordance with International Standards of Auditing. Based on the procedures so conducted, Ernst & Young reported their factual findings to the directors of the Company as follows:

(a) the total value of the Transactions, as reported by management of the Company, did not exceed 25% of the consolidated turnover of the Group for the year ended 31 March 2001;

(b) the Transactions were approved by the independent non-executive directors of the Company;

(c) the Transactions were conducted in accordance with the terms of the agreements relating to the Transactions; and

(d) the Transactions were entered into in accordance with the Group's pricing policies, being at cost plus a percentage mark-up.

CONNECTED TRANSACTIONS (con't)

III. Ongoing connected transactions with the QHA Group

On 5 June 2000, the Company issued a circular (the "Circular") which included reference to various ongoing transactions with QHA, the ultimate holding company of EHA, conducted within their ordinary and normal courses of business (the "Ongoing Connected Transactions").

The Ongoing Connected Transactions were deemed to constitute connected transactions under the Listing Rules. The Stock Exchange, on application by the Company, issued a letter to the Company granting a waiver (the "Waiver") of strict compliance by the Company with announcement requirements under the Listing Rules in respect of the Ongoing Connected Transactions. At a special general meeting held on 28 June 2000, the required approvals were given by the independent shareholders in respect of the Ongoing Connected Transactions.

Pursuant to the Waiver, the independent non-executive directors shall review each of the sale arrangements, the service agreement and the advertising agreement, summary details of which are stated below, annually and confirm in the Company's annual report and financial statements the relevant Ongoing Connected Transactions which have been entered into as being:

(i) in the ordinary and usual course of business;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company.

1. Sales Arrangements

The QHA Group currently purchases medical equipment for their use from the Group, which also involve maintenance services contracts for such sales (the "Sales Arrangements").

The Waiver was granted by the Stock Exchange on the following conditions:

1) sales should not exceed HK$2 million for the period ended 31 December 2000;

2) details of the agreement(s) should be disclosed in the annual report;

3) the independent non-executive directors of the Company should review the agreement(s) annually and confirm in the annual report that the transactions have been entered into (i) in the ordinary and usual course of business; (ii) on normal commercial terms; and (iii) in accordance with the agreement(s) governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company; and

CONNECTED TRANSACTIONS (con't)

III. Ongoing connected transactions with the QHA Group (con't)

1. Sales Arrangements (con't)

4) annually the auditors of the Company should provide a letter to the board of the Company (with a copy to the Stock Exchange) confirming that the agreement(s) (i) have received the approval of the respective boards, (ii) have been entered into in accordance with the terms of the agreement(s) governing such transactions and (iii) that the cap amount has not been exceeded.

During the period ended 31 December 2000, sales made by the Group to the QHA Group amounted to HK$251,000 which was well within the cap stated in the Waiver.

2. Advertising Agreement

As stated in the Circular, it was anticipated that the Group and the QHA Group would place advertisements on various Internet sites, including sites which are operated by members of the QHA Group or the Group. Pursuant to an advertising agreement (the "Advertising Agreement") dated 29 April 2000 between QHA and Quality HealthCare Technologies and Services Limited ("QHTS"), a subsidiary of the Group, the QHA Group will provide such advertising services to members of the Group, and EHA will also provide such advertising services to members of the QHA Group.

The provision of services by each party to the other under the Advertising Agreement will be on equivalent terms and conditions as would be required by the service-providing party when providing the same service to an independent third party. The price (the "Advertising Price") charged for any service rendered by the service-providing party under the Advertising Agreement will be equivalent to the price charged by the service-providing party to an independent third party when dealing at arm's length, having regard to any other special circumstances such as arm's length negotiated volume discounts. The other party shall not be bound to subscribe for any service of the service-providing party if:

(a) it is able to carry out the service with its internal resources at a lower cost than the Advertising Price; or

(b) a third party is able to provide such service at a price lower than the Advertising Price.

The service-providing party shall not be required to provide any service at a price which it does not consider to be cost effective, or in its best interests.

CONNECTED TRANSACTIONS (con't)

III. Ongoing connected transactions with the QHA Group (con't)

2. Advertising Agreement (con't)

The Waiver was granted by the Stock Exchange on the following conditions:

(i) the amount charged by the Group to the QHA Group should not exceed HK$3.6 million and the amount charged by the QHA Group to the Group should not exceed HK$1.2 million for the period ended 31 December 2000; and

(ii) the same conditions applying as set out in the points 2, 3 and 4 of the aforementioned Sales Arrangements.

During the period ended 31 December 2000, no advertisements were placed on the specified web sites by the specific companies and so no fees were charged by either party to the Advertising Agreement.

3. Service Agreement

By a service agreement (the "Service Agreement") dated 29 April 2000 between QHA and QHTS, the Group agreed to provide to members of the QHA Group certain services including, without limitation, services for web-based applications and practice management systems, transaction facilitation services, third party administration services, data mining services and consultation services as well as information and customer services to support WAP (wireless application protocol) agreements entered into by the QHA Group.

Under the Service Agreement, the QHA Group agreed to provide, and to procure other members of the QHA Group to provide, to the Group, services including, without limitation, consultation services and health-related information for the Group's website.

The provision of services by each party to the other under the Service Agreement is to be on equivalent terms and conditions as would be required by the service-providing party when providing the same service to an independent third party. The price (the "Service Price") charged for any service rendered by the service-providing party under the Service Agreement is to be equivalent to the price charged by the service-providing party to an independent third party when dealing at arm's length, having regard to any other special circumstances such as arm's length negotiated volume discounts. The other party shall not be bound to subscribe for any service of the service-providing party if:

(a) it is able to carry out the service with its internal resources at a lower cost than the Service Price; or

(b) a third party is able to provide such service at a price lower than the Service Price.

CONNECTED TRANSACTIONS (con't)

III. Ongoing connected transactions with the QHA Group (con't)

3. Service Agreement (con't)

The service-providing party is not required to provide any service at a price which it does not consider either to be cost effective, or in its best interests.

The Waiver was granted by the Stock Exchange on the following conditions:

(i) the total amount under this heading is expected not to exceed HK$35.7 million annually; and

(ii) the same conditions applying as set out in points 2, 3 and 4 of the aforementioned Sales Arrangements.

During the period ended 31 December 2000, the Group charged the QHA Group chit processing fees of HK$11,045,000 for the period ended 31 December 2000 whilst the QHA Group charged HK$18,000,000 to the QHTS Group for consultation services, together with the provision of health-related information for the Group's website. The aggregate amount of these service fees was within the cap stated in the Waiver.

The independent non-executive directors confirm that the Sales Arrangements, the Advertising Agreement and the Service Agreement have been entered into (i) in the ordinary and usual course of business; (ii) on normal commercial terms; and (iii) in accordance with the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company.

IV. Disposal of remaining 50% interest in KWC BVI

On 26 March 2001, the Company entered into an agreement with New Luck Assets Limited ("New Luck") in relation to the disposal of its 104 shares in KWC BVI, representing 50% of the issued share capital of KWC BVI, for a cash consideration of HK$88 million (the "Asset Disposal").

New Luck is owned 86.05% by Chinney and as to 13.95% by Zuric Yuen Keung Chan. James Sai Wing Wong, a director of KWC BVI, is a director of Chinney and has a controlling equity interest therein.

On 26 March 2001, the Company entered into a supplemental deed pursuant to which QHA conditionally agreed that, subject to completion of the Asset Disposal, all monies amounting to HK$89,999,999 (plus accrued interest) be released to Chinney, Zuric Yuen Keung Chan and Johnny Wing Sang Yu from a custodian account.

Further details of the Asset Disposal and the supplemental deed are set out in a circular dated 17 April 2001 to the shareholders of the Company.

Both the Asset Disposal and the execution of the supplemental deed took place on 8 May 2001.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events of the Group are set out in note 34 to the financial statements.

AUDIT COMMITTEE AND REMUNERATION COMMITTEE

The board has established an Audit Committee which comprises all of the independent non-executive directors as members. The role of the Audit Committee is to monitor the Group's accounting and financial reporting practices and internal control systems. In addition, the board has also established a Remuneration Committee, which also consists of all of the independent non-executive directors, to advise the board on the annual remuneration packages of the directors of the Company.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 March 2001, the Group's total borrowings (including interest-bearing bank and other borrowings, finance lease and hire purchase contract payables and loan from the ultimate holding company) were as follows:

i) HK$72.78 million attributable to the ground engineering and building construction businesses, the disposal of such businesses was announced on 26 March 2001 as "operations to be discontinued"; and

ii) HK$95.27 million attributable to the "continuing operations" of the Group.

As at 31 March 2001, the Group's total borrowings of HK$168.05 million were principally denominated in Hong Kong dollars. The portion of total borrowings repayable within 12 months was approximately HK$145.85 million of which HK$51.24 million is attributable to the ground engineering and building construction businesses. As at 31 March 2001, total cash and bank balances of the Group amounted to approximately HK$52.48 million. The amounts denominated in foreign currencies are not material. After deducting the cash and bank balances of HK$52.48 million at 31 March 2001, the net borrowings of the Group were HK$115.57 million at 31 March 2001. The Group's gearing ratio, as measured by the net borrowings over the shareholder's funds, was 346.5% as at 31 March 2001.

FUNDING AND TREASURY POLICY

The Group adopts a prudent funding and treasury policy. Surplus funds are maintained in the form of cash deposits with leading banks. Borrowings are mainly denominated in Hong Kong dollars and bear interest at floating rates.

EMPLOYEES, REMUNERATION POLICY AND EMPLOYEE BENEFITS

At 31 March 2001, the Group had over 600 employees, 347 of which were engaged in the ground engineering and building construction businesses. Remuneration is determined by reference to market terms and the performance, qualifications and experience of the staff concerned. Performance of staff is appraised annually to provide a basis for the review of the remuneration package. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance during the year. In addition to salaries, the Group provides certain benefits including a medical scheme for its employees. The Group has also adopted a discretionary bonus program and a share option scheme for its employees, with awards determined based on the performance of the Group and individual employees.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There have been no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 March 2001 with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that certain non-executive directors of the Company have no fixed terms of office but will retire from office on a rotation basis in accordance with the Company's bye-laws.

AUDITORS

Ernst & Young were appointed as auditors of the Company in place of the retiring auditors, Deloitte Touche Tohmatsu at the last annual general meeting held on 28 September 2000. There have been no other changes of auditors in the past three years. Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Brian O'CONNOR
Chairman

Hong Kong, 26 July 2001