

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2002.

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 18 to the financial statements. Other than the disposal and discontinuance of the Group's ground engineering and building construction and telemarketing services businesses as further detailed in note 7 to the financial statements, there were no significant changes in the nature of the Group's principal activities during the year.

Segment information

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March 2002 is set out in note 5 to the financial statements.

Results and dividends

The Group's loss for the year ended 31 March 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 91.

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 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. The amounts for certain years in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policies affecting goodwill and proposed final dividend, as detailed in note 3 to the financial statements. This summary does not form part of the audited financial statements.

Summary of financial information (con't)

| | 2002 HK\$'000 | Year ended 31 March | | | |
|---|------------------|--------------------------------|------------------|------------------|------------------|
| | | 2001 HK\$'000 (Restated) | 2000 HK\$'000 | 1999 HK\$'000 | 1998 HK\$'000 |
| RESULTS | | | | | |
| Turnover | 111,347 | 925,911 | 686,436 | 341,664 | 351,647 |
| Profit/(loss) before tax | (294,058) | (2,169,236) | 6,363 | 5,551 | 60,766 |
| Tax credit/(charge) | (378) | (3,416) | (844) | 1,040 | (10,503) |
| Profit/(loss) before minority interests | (294,436) | (2,172,652) | 5,519 | 6,591 | 50,263 |
| Minority interests | 11,819 | 2,685 | – | – | (167) |
| Net profit/(loss) from ordinary activities attributable to shareholders | (282,617) | (2,169,967) | 5,519 | 6,591 | 50,096 |
| ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Total assets | 43,526 | 620,601 | 483,323 | 300,714 | 315,988 |
| Total liabilities | 62,072 | 495,231 | 294,231 | 116,617 | 127,682 |
| Minority interests | – | 92,015 | – | – | – |
| Shareholders' equity/(deficiency in assets) | (18,546) | 33,355 | 189,092 | 184,097 | 188,306 |
| Total liabilities and shareholders' equity | 43,526 | 620,601 | 483,323 | 300,714 | 315,988 |

Fixed assets

Details of movements in the fixed assets of the Group are set out in note 15 to the financial statements.

Subsidiaries

Particulars of the Company's principal subsidiaries are set out in note 18 to the financial statements.

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 27 to the financial statements.

Share capital and share options

Details of movements in the Company's share capital and share options during the year are set out in note 32 to the financial statements.

Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's employees, including any full-time employees or directors of the Company and its subsidiaries. The Scheme has been adopted since 24 September 1998 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum entitlement of each eligible participant is limited to 25% of the aggregate number of shares for the time being issued and issuable under the Scheme. The maximum number of ordinary shares in which share options may be granted under the Scheme may not exceed 10% of the issued share capital of the Company excluding any shares issued upon exercise of share options granted from time to time.

The offer of a grant of share options may be accepted within 30 days from the date of the offer with no consideration being payable by the grantee. The exercise period of the share options granted is determinable by the directors at any time from the date of grant of the relevant share options to the close of business on the second anniversary of that date or 24 September 2008, whichever is the earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) 80% of the average closing prices of the ordinary shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five (5) trading days immediately preceding the date of the offer of the option; or (ii) the normal value of the ordinary shares.

On 1 September 2001, the Stock Exchange amended Chapter 17 (Share Option Schemes) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). In accordance with the revised rules, it is possible for the Company to grant further options from its existing scheme only if the options granted are in accordance with the requirements of the new rules of Chapter 17 and the options already granted before 1 September 2001 would not be affected by such new rules.

As at 31 March 2002, the number of shares issuable upon exercise of all share options granted under the Scheme was 150,000, which represented approximately 0.03% of the Company's shares in issue as at that date. Those share options have been lapsed on 27 June 2002.

At the beginning of the year, the Company has 1,000,000 share options outstanding under the Scheme. Those share options were granted on 7 December 2000 to certain employees of the Group and have an exercise price of HK\$0.50 with an exercise period ranging from 7 December 2000 to 6 December 2002. No options were granted and/or exercised during the year.

Following the completion of the capital reorganisation and the rights issue of the Company during the year, the number and exercise price of the options have been adjusted. Further details of the adjustment are set out in a prospectus of the Company dated 27 December 2001.

Share option scheme (con't)

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time the options are exercised, and no charge is recorded in the profit and loss account or the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise are recorded in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the directors, employees and others, because in the absence of a readily market value of the share options on the ordinary shares of the Company, the directors were unable to arrive at an assessment of the value of these options.

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 33 to the financial statements.

Distributable reserves

At 31 March 2002, 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\$33,472,000 at 31 March 2002 may be distributed in the form of fully paid bonus shares.

Major customers and suppliers

For the year ended 31 March 2002, the percentage of turnover attributable to the Group's five largest customers accounted for approximately 43% and the largest customer contributed approximately 17% to the turnover of the Group, and the percentage of purchases attributable to the Group's five largest suppliers was less than 30%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

Directors

The directors of the Company during the year were:

Executive directors:

Brian O'Connor
Sam Abunassar
Chan Yuen Keung, Zuric (resigned on 6 June 2001)
Yu Wing Sang, Johnny (resigned on 6 June 2001)
Philip Kirkwood (resigned on 13 December 2001)

Non-executive directors:

Richard Siemens
John Crawford (resigned on 28 September 2001)
Ip Tak Chuen, Edmond (appointed on 6 June 2001 and resigned on 30 November 2001)

Independent non-executive directors:

Lester Garson Huang
Gary Forrest

Subsequent to the balance sheet date:

- i) Mr. Sam Abunassar resigned as an executive director of the Company with effect from 30 April 2002; and
- ii) On 30 April 2002, Mr. Wong Tai Chun, Mark was appointed as an executive director of the Company.

In accordance with the Company's bye-laws, Messrs. Wong Tai Chun, Mark and Richard Siemens will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Directors' service contracts

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 of compensation, other than statutory compensation.

Directors' interests in contracts

Saved as disclosed in note 38 to the financial statements, no director had a material beneficial interest in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiary was a party during the year.

Directors' interests in securities

As at 31 March 2002, the interests of the directors and their associates in the share capital and share options 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 securities |
|--|--|---------------------|--------------------------|
| ehealthcareasia Limited | Brian O'Connor | Personal | 17,786,250 shares |
| | | Corporate (Note 1) | 152,030 shares |
| | | Family (Note 2) | 792,989 shares |
| ehealthcareasia Limited | Richard Siemens | Corporate | 329,764 shares |
| | Sam Abunassar | Personal | 5,928,750 shares |
| | Quality HealthCare Asia Limited ("QHA") | Brian O'Connor | Corporate (Note 1) |
| Family (Note 2) | | | 317,195,946 shares |
| Personal | | | 300,000,000 shares |
| Personal (Note 3) | | | 15,500,000 share options |
| Quality HealthCare Asia Limited ("QHA") | Richard Siemens | Corporate | 66,471,182 shares |
| | Sam Abunassar | Personal (Note 3) | 20,000,000 share options |

Notes:

1. These shares are beneficially owned by Cherish Enterprises Limited ("Cherish"), a company incorporated in the British Virgin Islands, which is wholly owned by Montel Limited ("Montel"), a company also incorporated in the British Virgin Islands, which is the trustee of a trust of which Mr. Brian O'Connor's family is the beneficiary.
2. Montel owns 640,959 shares in the Company and 117,155,618 shares in QHA. In addition, Montel wholly owns Cherish which in turn owns 152,030 shares in the Company and 200,040,328 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 for QHA's ordinary shares granted in favour of certain directors of the Company are as set out below:

| Name of directors | Number of share options ^(Note) | | | Date of grant of share options | Exercise period of share options | Exercise price of share options ^(Note) HK\$ |
|-------------------|---|------------------------|-------------------|--------------------------------|----------------------------------|---|
| | At 1 April 2001 | Lapsed during the year | At 31 March 2002 | | | |
| Brian O'Connor | 20,000,000 | (20,000,000) | – | 03-02-98 | 03-08-98 to 02-08-01 | 0.235 |
| | 750,000 | – | 750,000 | 19-11-98 | 19-11-99 to 18-05-02 | 0.330 |
| | 750,000 | – | 750,000 | 19-11-98 | 19-11-00 to 18-05-02 | 0.330 |
| | 3,000,000 | – | 3,000,000 | 19-04-99 | 03-05-00 to 02-11-02 | 0.435 |
| | 3,000,000 | – | 3,000,000 | 19-04-99 | 03-05-01 to 02-11-02 | 0.435 |
| | 8,000,000 | – | 8,000,000 | 08-11-99 | 15-05-00 to 14-05-03 | 0.640 |
| | <u>35,500,000</u> | <u>(20,000,000)</u> | <u>15,500,000</u> | | | |
| Sam Abunassar | 14,000,000 | – | 14,000,000 | 22-01-00 | 15-08-00 to 04-07-03 | 1.175 |
| | 6,000,000 | – | 6,000,000 | 03-08-00 | 16-02-01 to 04-07-03 | 0.960 |
| | <u>20,000,000</u> | <u>–</u> | <u>20,000,000</u> | | | |
| | <u>55,500,000</u> | <u>(20,000,000)</u> | <u>35,500,000</u> | | | |

Note: QHA completed a rights issue by issuing rights shares at a price of HK\$0.25 per rights share on the basis of one (1) rights share for every existing share of QHA held on 17 September 2001. Accordingly, the number and exercise price of the outstanding share options have been adjusted as a result of the rights issue during the year.

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 company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial shareholders

As at 31 March 2002, the following interests of 10% or more in the issued 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 of substantial shareholders | Number of shares held | Percentage of the Company's issued share capital |
|--|-----------------------|--|
| QHA (Note) | 237,745,963 | 53.75% |
| Quality HealthCare Investment Limited (Note) | 237,745,963 | 53.75% |

Note: Quality HealthCare Investment Limited and QHA are deemed to be interested in the same parcel of shares by virtue of Section 8(2) of the SDI Ordinance.

Save as disclosed above, as far as the directors are aware, there are no other persons who are, 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 note 38 to the financial statements, the Group had connected transactions during the year as set out below:

I. Disposal of the remaining 50% interest in Kin Wing Chinney (BVI) Limited ("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 86.05% owned by Chinney Investments, Limited ("Chinney") and as to 13.95% by Mr. Chan Yuen Keung, Zuric. Mr. Wong Sai Wing, James, a director of KWC BVI, is also 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 the completion of the Asset Disposal, all monies amounting to HK\$89,999,999 (plus accrued interest), be released to Chinney, Mr. Chan Yuen Keung, Zuric and Mr. Yu Wing Sang, Johnny.

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

Both the Asset Disposal and the execution of the supplemental deed took place on 8 May 2001 (the "Completion Date").

Connected transactions (con't)

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

During the period from 1 April 2001 to the Completion Date (the "Period"), KWC BVI and its subsidiaries (collectively referred to as the "KWC BVI Group") carried out construction work amounting to approximately HK\$2.6 million (2001: HK\$84.3 million) for Hon Kwok Land Investment Company, Limited ("Hon Kwok") and its subsidiaries (collectively referred to as the "Hon Kwok Group"), in which Mr. Yu Wing Sang, Johnny and Mr. Chan Yuen Keung, Zuric are directors and/or beneficial shareholders.

The aggregate value of the construction work carried out by the Group for the Hon Kwok Group for the Period amounted to 2.3% of the Group's consolidated turnover for the year.

Mr. Yu Wing Sang, Johnny and Mr. Chan Yuen Keung, Zuric were the directors of the Company and the KWC BVI Group. Both of them had beneficial interests in Hon Kwok. Accordingly, under 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 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; and
- (c) carried out in accordance with the terms of the agreements governing the Transactions.

The aggregate value of the Transactions for the year ended 31 March 2002 did not exceed 25% of the Group's consolidated turnover.

As a condition pursuant to which the abovementioned 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 2002;
- (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 on going transactions with QHA, the ultimate holding company, and its subsidiaries (collectively the "QHA Group") 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, upon an 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 approval was given by the independent shareholders in respect of the Ongoing Connected Transactions.

Pursuant to the Waiver, the independent non-executive directors of the Company shall review the Ongoing Connected Transactions under each of the sales arrangements, the advertising agreement and the service agreement, summary details of which are stated below, that the relevant Ongoing Connected 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 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 involves 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\$2.4 million for the year ended 31 December 2001;
- 2) details of the agreements should be disclosed in the annual report;
- 3) the independent non-executive directors of the Company should review the agreements 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 governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company; and
- 4) the auditors of the Company should annually provide a letter to the board of the Company (with a copy to the Stock Exchange) confirming that the agreements (i) have received the approval of the respective boards; (ii) have been entered into in accordance with the terms of the agreements governing such transactions; and (iii) have not exceeded their cap amounts.

Connected transactions (con't)

III Ongoing Connected Transactions with the QHA Group (con't)

1. Sales Arrangements (con't)

During the year ended 31 December 2001, sales made by the Group to the QHA Group amounted to approximately HK\$611,000, which was within the cap amount stated in the Waiver.

2. Advertising Agreement

As stated in the circular dated 5 June 2000, 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, whilst the Group will also provide such advertising service 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.

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\$4.4 million, and the amount charged by the QHA Group to the Group should not exceed HK\$1.4 million for the year ended 31 December 2001; and
- (ii) the same conditions applying as set out in the points 2, 3 and 4 of the aforementioned Sales Arrangements.

During the year ended 31 December 2001, no advertisements had been placed on the specified web sites by the specific companies and accordingly no fees were charged by either party to the Advertising Agreement.

Connected transactions (con't)

III Ongoing Connected Transactions with the QHA Group (con't)

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 has 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 web site.

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

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 the service agreement 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 year ended 31 December 2001, the total amount of the service fees was within the aggregate cap amount of HK\$35.7 million. The Group charged the QHA Group chit-processing fees of approximately HK\$23.3 million for the year ended 31 December 2001.

The independent non-executive directors confirm that the Ongoing Connected Transaction under 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.

Connected transactions (con't)

III Ongoing Connected Transactions with the QHA Group (con't)

3. Service Agreement (con't)

On 4 February 2002, following the sale of exclusive and perpetual software licence to QHA as detailed hereinafter, the Service Agreement was terminated by means of a deed of termination. Further details also are set out in a circular of the Company dated 18 January 2002.

IV. Intercompany loan agreement

On 5 October 2000, QHA entered into an intercompany loan agreement for the grant by QHA to the Company of a revolving term loan up to HK\$75 million, which was repayable by 31 December 2001. On 22 November 2001, the Company and QHA entered into another agreement pursuant to which QHA agreed to extend the loan facility to the Company with a maximum principal amount of HK\$60 million initially, and subsequently to be reduced to HK\$45 million. Further details are set out in note 29 to the financial statements.

V. Disposal of exclusive and perpetual software licence to QHA

On 24 December 2001, the Group entered into an agreement with QHA, pursuant to which the Group granted QHA an exclusive and perpetual software licence to use and develop the LEON/REACH software for the QHA Group to use and for use by any affiliates and franchises under the management of the QHA Group within the Greater China Region for a consideration of HK\$10 million. In addition, the Group entered into an agreement with QHA, pursuant to which QHA agreed to purchase from the Group the tools and equipment presently utilised for the software for a consideration of HK\$1 million. The agreements constituted a major and connected transaction for the Company under Chapter 14 of the Listing Rules and were approved by independent shareholders at a special general meeting held on 4 February 2002. Further details are also set out in a circular of the Company dated 18 January 2002.

Audit Committee and Remuneration Committee

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

Purchase, sale or redemption of listed securities of the Company

There have been no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year.

Compliance with the Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, which specifies the best practices to be followed by the directors and non-executive directors throughout the year ended 31 March 2002, except that all 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 retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

Ernst & Young were appointed as auditors of the Company in place of the retiring auditors, Deloitte Touche Tohmatsu at the annual general meeting held on 28 September 2000. There have been no other changes of auditors in the past three years.

ON BEHALF OF THE BOARD

Brian O'Connor

Chairman

Hong Kong, 25 July 2002