Quality Strength Stability since 1868

Quality HealthCare Asia Limited (www.qualityhealthcareasia.com) is Hong Kong's largest listed healthcare company. The Group provides care for our private and corporate contract patients through 700 Western and Chinese medical centres, and 46 dental and physiotherapy centres. In 2002, our network recorded more than 1.7 million healthcare visits. We operate nine elderly care homes and Hong Kong's longest-established international nursing service. One of our medical practices has been serving Hong Kong people for 135 years.

Quality HealthCare became the first healthcare provider listed on The Stock Exchange of Hong Kong Limited (HKSE ticker 593) in 1998. The Group's healthcare turnover in 2002 exceeded HK$737 million.

Contents

Chairman's Statement

I am pleased to report that all three of the Group's core businesses have moved into profit during the period under report, despite the dampening effect of Severe Acute Respiratory Syndrome ("SARS") on clinic attendance and occupancy rates at our elderly care homes.

During the period, the profit contribution from Quality HealthCare Medical Services (QHMS) increased by 40.4%; Quality HealthCare Services (QHS) reported a 29.0% increase; and Quality HealthCare Elderly Services reported a turnaround from an operating loss to profit. Corporate and other expenses increased by 51.4% as Wanji Pharmaceutical Holdings Limited (formerly ehealthcareasia Limited) no longer shared the overheads of the Group after it ceased to be a subsidiary of the Company in October 2002. In June the Head Office was restructured and streamlined. The resultant savings are expected to materialize in the second half of 2003.

The Group has further consolidated its various operating offices, central pharmacy department, and central medical laboratory all under one roof. This centralized office greatly enhances the output efficiency whilst significantly reducing the operating costs. We believe that the Group now enjoys an excellent foundation for future growth in profit.

On 17 December 2002, Sun Hung Kai & Co. Limited, through a wholly-owned subsidiary, acquired 28.53% of the shares in the Company from interests associated with Mr. Brian O'Connor and accordingly is now the largest shareholder of the Company. A takeover offer instituted by interests associated with Dr. Nelson Wong Chi Kit and Mr. Ronald Carstairs, both ex-Directors of the Company, was not successful.

The Board of Directors has been restructured and I was appointed Executive Chairman on 18 March 2003. Mr. Brian O'Connor remains as a non-executive director and will continue to assist the Company in its future development. We express our appreciation for the commitment contributed by Mr. O'Connor in the development of the Company to date. The new Board is committed to the development of the Company's profitable core businesses in Hong Kong. It is the Board's intention to develop the businesses by providing the best possible services to its customers, a rewarding career path for its staff, and to generate dividends for its shareholders.

FINANCIAL REVIEW

In the six month period ended 30 June 2003, the Group reported a turnover from continuing operations of HK$357.0 million, a reduction of 2.0%, as compared to HK$364.3 million for the same period last year. Net profit from ordinary activities attributable to shareholders was HK$4.4 million, compared with HK$7.9 million in the comparative period in the prior year.

Taking into consideration the non-recurring expense of HK$9.6 million in relation to the professional fee incurred with respect to the takeover offer and corporate restructuring expenses, the six month operating results of the Group in fact significantly improved by 76.8%. The improvement was mainly the result of stringent cost control, reduction in administrative costs, and effective contract management and analysis.

Basic earnings per share for the first half of 2003 were 0.2 cent. No interim dividend is proposed. The Company's dividend policy will be reviewed in conjunction with the annual results.

The finance costs of the Group in the first six months fell from approximately HK$3 million to approximately HK$1.1 million as a result of the reduction in debts.

Group bank borrowings, as at 30 June 2003, were again reduced, to approximately HK$23.6 million, down from approximately HK$67.1 million as at 31 December 2002. The Group's net cash position further improved from HK$22.7 million at 31 December 2002 to HK$26.8 million at 30 June 2003. Net cashflow from operating activities rebounded from an outflow of HK$11.5

million for the six months ended 30 June 2002 to an inflow of HK$10 million for the six months ended 30 June 2003.

BUSINESS REVIEW

Quality HealthCare Medical Services (QHMS)

Western Medicine, Chinese Medicine

During the period, QHMS reported a 40.4% increase in operating profit, whilst revenue was reduced by 2.2%. Turnover for the six months was approximately HK$273.4 million, compared with approximately HK$280.9 million for the corresponding period last year, but operating profit increased to approximately HK$23.3 million, from approximately HK$16.6 million in the corresponding period last year.

The reduction in revenue was a combination of effects from the continued rationalization of certain low-yield contracts and the termination of non-profit making contracts, as well as a reduction in the number of attendances at the medical centres during the peak of SARS.

The Challenge of SARS

SARS was in effect a critical test to QHMS as an integrated group from the management level extending up to the frontline level. Under the guidance of our Medical Standards and Compliance Committee (MSCC), the team are to be congratulated for its success in meeting the challenge and assisting in reducing the spread of the disease in the community.

From the early stages, the team was on the alert and we were one of the first medical groups to start infection control by providing masks to our patients. Stringent guidelines on infection control, including disinfecting protocols, human resources quarantine policies, clinical protocols, and protective gear were issued to all of our frontline healthcare professionals. The guidelines were updated frequently so that the latest medical findings were shared. At the same time, we posted up-to-date

SARS information on our website as well as provided the information to our corporate clients regularly. A special team of doctors and nurses were gathered to provide health talks on SARS to our clients. We worked closely with the Department of Health in reporting any suspected SARS case. Throughout the SARS outbreak period, despite the fact that we had handled a number of suspected SARS cases, the increased vigilance, aggressive infection control and dissemination of updated information were successful and none of our staff was infected.

SARS also presented a challenge to the Group from the business perspective, as it had resulted in a sustained reduction in the number of attendances at the medical centres. However, the positive outcome has been the heightened awareness of the importance of health in the community. This is in line with the Group's ongoing direction in promoting preventive healthcare. We will henceforth devote more resources to such promotion, especially towards target groups such as children and men. Current attendance figures at our clinics have rebounded and are encouraging.

Working with Insurance Companies

We have achieved more opportunities to act as the provider of healthcare services for various insurance companies and this is in fact becoming a significant driver in business growth. Our unique back office data capturing and billing capabilities proved to be extremely popular amongst insurance companies seeking reduction in redundant paperwork, accurate and timely billing, and better client satisfaction. We plan to continue to work with the insurance sector to develop more diversified health plans capturing an array of curative and preventive healthcare services.

Consumer Market

We have actively tapped the consumer markets through alliances with banks, pharmaceutical companies, and different clubs and associations. We believe we have successfully increased our brand awareness in the local community with our innovative service packages and we will sustain this initiative through more events such as public seminars and health exhibitions.

Affiliate Network

Our affiliate network continues to support our service delivery for different contracts. Whilst consolidating the network through our internal auditing and quality assurance programme in Hong Kong, we are also extending this network management to Macau.

Life Enhancement

Our initiative of introducing life enhancement services, such as cosmetic skin services and LASIK, has been successful in revenue generation as well as brand marketing. These services have not only been popular amongst our corporate clients, but have also captured a new segment of private clients.

Chinese Medicine

As the volume of business from corporate clients grow, our Chinese Medicine team is progressing further service alignment

and consolidations, as well as enhancing business flow and billing capabilities through upgrading systems support following the model of QHMS.

SARS has heightened the awareness of the local community to the benefits of the integration of Western and Chinese medicine. Throughout the SARS period, there was a significant growth in demand for herbal health maintenance prescription. Chinese medicine was, in fact, one of our divisions that was least affected by SARS.

Quality HealthCare Services (QHS)

Dental, Physiotherapy, and Nursing Services

QHS's six-month turnover increased by 0.2% to HK$28.4 million, from HK$28.3 million in the same period in 2002. Operating profit also rose by 29% to HK$1,076,000, from HK$834,000 in the same period in 2002.

DENTAL: Quality HealthCare Dental (QHD) expanded its network with the opening of a new core centre in April 2003. This new dental centre was strategically integrated within QHMS's flagship medical centre in Central, hence facilitating the one-stop-shop service delivery.

Our diversification into cosmetic dentistry services has been successful, and the range of teeth whitening systems carried was expanded to include in-office systems as well as systems for home-use. In addition, the specialty of children's dentistry has been added to the range of services at QHD.

NURSING: Quality HealthCare Nursing (QHN) remained extremely active during the SARS period with the pressing demand for relief nurses in the hospitals, for companies operating special SARS projects, and for the delivery of public education in the community.

QHN is actively working with various insurance companies to expand the services for home based health screening. The continual shortage of nurses in a number of overseas countries is also presenting an opportunity for QHN to provide training and overseas placement of Hong Kong and China trained nurses.

PHYSIOTHERAPY: Utilization of our physiotherapy centres, although slightly reduced at the peak of SARS, rebounded quickly and showed an overall increase in this six month period.

Whilst continuing to expand its core curative physiotherapy services, Quality HealthCare Physiotherapy (QHP) is also diversifying its services to focus on preventative health programmes such as postural and balance screening, workshops for healthier workstations, and a customized footcare programme.

Quality HealthCare Elderly Services (QHES)

Quality Provider of Residential Elderly Care

QHES achieved a turnaround in the first six months of 2003. Turnover for this period was HK$55.2 million, marginally above turnover of HK$55.1 million from the same period last year. The net profit of HK$329,000 was achieved, compared to the net loss of HK$1,472,000 for the same period last year.

During the SARS period, stringent preventive measures such as restricted visiting, shoe disinfecting, wearing of disposable masks, caps, and gowns, and enhanced cleaning regimes and reverse isolation, were carried out at all of the nine homes for the elderly. The infection control administered by our home managers and our nurses, was effective and there was no spread of SARS at our homes. In fact, our Man Kee home was selected by the Social Welfare Department as one of the five outstanding private elderly homes for its contribution during the SARS period and our representative was invited to a post-SARS party organized by the HKSAR government.

The elderly industry is slowly recovering from the adverse SARS impact especially with the staged uplifting of the "no visitor" policy in public hospitals which began on 1 August 2003. In the future, the awarding of the new batches of Enhanced Bought Place Scheme quotas, as well as the eventual implementation of the centralized voucher system, should provide a positive impact to the occupancy of our homes. With our world class nursing care standards, commitment to continuous staff training, and highly experienced management team, QHES is well positioned to benefit from the long-term elderly policies adopted by the HKSAR government.

PEOPLE

Our healthcare professionals undertook the very important role as the front line troops in the prevention of the spread of SARS in the community. I would like to sincerely thank all of them as well as all our staff for their hours of selfless dedication and professionalism in maintaining Hong Kong as a safer and healthier place.

Everyone at Quality HealthCare learned with much sadness that Mr. Ronald Carstairs passed away in May 2003. Ron had served for many years as independent non-executive director and then deputy chairman of the Group and his experience had been of great help to the Company. Ron will be greatly missed as the mentor and friend of many of us.

OUTLOOK

The encouraging results presented in this interim report indicate the quality, strength, and stability of the Group. We have successfully negotiated challenges such as SARS and we will continue to focus on the growth of our core businesses.

SARS has again highlighted the urgency to restructure the public healthcare system and to re-strike a balance between the public and private healthcare sectors. We encourage the HKSAR government to continue its initiatives on outsourcing to the private sector and to challenge the private sector to form public/private partnerships as soon as possible in the interest of achieving affordable and better healthcare for Hong Kong.

The Closer Economic Partnership Agreement (the "CEPA") signed between China and the HKSAR government is an encouraging development towards healthcare reforms currently taking place in China. The Group will investigate opportunities to expand into China at the appropriate time whilst in the meantime consolidating our position in Hong Kong.

Unaudited Condensed Consolidated Interim Financial Statements

The board of directors of Quality HealthCare Asia Limited (the "Company") herein presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the six month period ended 30 June 2003 together with comparative amounts for the relevant corresponding period. These unaudited condensed consolidated financial statements have not been audited, but have been reviewed by the Company's auditors and audit committee.

Condensed Consolidated Profit and Loss Account – Unaudited

Six months ended 30 June 2003

	Notes	Six months ended 30 June 2003 HK$'000	2002 HK$'000
Turnover	2		
Continuing operations		357,000	364,332
Discontinued operations	3	–	11,802
		357,000	376,134
Other revenue and gains		5,540	5,488
Purchases and changes in inventories of finished goods and dispensary supplies consumed+		(12,182)	(18,222)
Staff costs		(131,830)	(147,319)
Depreciation		(10,878)	(10,974)
Amortisation of goodwill/intangible assets		(246)	(519)
Loss on disposal of discontinued operations	3	–	(466)
Professional fees in connection with a takeover offer	4	(4,759)	–
Corporate restructuring expenses	5	(4,800)	–
Impairment losses		–	(3,143)
Other operating expenses		(188,988)	(203,525)
Profit/(loss) from operations			
Continuing operations		8,857	9,991
Discontinued operations	3	–	(12,537)
		8,857	(2,546)
Finance costs – Interest on borrowings/ finance lease payables		(1,110)	(2,970)
Share of results of a jointly-controlled entity		(446)	(321)
Profit/(loss) before tax			
Continuing operations		7,301	8,474
Discontinued operations		–	(14,311)
		7,301	(5,837)
Tax	6		
Continuing operations		(2,900)	(1,400)
Profit/(loss) before minority interests		4,401	(7,237)
Minority interests		–	15,135
Net profit from ordinary activities attributable to shareholders		4,401	7,898
Earnings per share	8		
Basic		0.2 cent	0.4 cent
Diluted		0.2 cent	N/A

+ Being cost of inventories sold for the period

Condensed Consolidated Balance Sheet

30 June 2003

	Notes	30 June 2003 HK$'000 (Unaudited)	31 December 2002 HK$'000 (Audited)
Non-current assets			
Fixed assets		47,797	53,047
Long term investments		420	600
Convertible note		7,000	7,000
Goodwill		8,639	8,885
		63,856	69,532
Current assets			
Inventories		7,377	7,618
Accounts receivable	9	62,452	77,365
Prepayments, deposits and other receivables		33,904	35,383
Cash and bank balances		50,399	89,821
		154,132	210,187
Current liabilities			
Interest-bearing bank borrowings		20,236	52,347
Accounts and bills payable, other payables, accruals and deposits received	10	78,187	103,751
Dividend payable		10,817	–
Tax payable		15,534	12,581
		124,774	168,679
Net current assets		29,358	41,508
Total assets less current liabilities		93,214	111,040
Non-current liabilities			
Interest-bearing bank borrowings		3,344	14,754
Deferred tax		2,496	2,496
		5,840	17,250
		87,374	93,790
Capital and reserves			
Issued capital		216,343	216,343
Reserves		(128,969)	(133,370)
Proposed final dividend		–	10,817
		87,374	93,790

Condensed Consolidated Statement of Changes in Equity – Unaudited

Six months ended 30 June 2003

	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 January 2002	216,852	293,748	534,880	(495)	(1,004,671)	–	40,314
Net profit for the period	–	–	–	–	7,898	–	7,898
Repurchase of own shares (note)	(509)	(654)	–	–	–	–	(1,163)
Release on disposal of subsidiaries	–	–	–	429	–	–	429
At 30 June 2002	216,343	293,094	534,880	(66)	(996,773)	–	47,478
At 1 January 2003	216,343	293,094	524,063	–	(950,527)	10,817	93,790
Net profit for the period	–	–	–	–	4,401	–	4,401
Final 2002 dividend declared	–	–	–	–	–	(10,817)	(10,817)
At 30 June 2003	216,343	293,094	524,063	–	(946,126)	–	87,374

Note: During the six months ended 30 June 2002, 5,090,000 ordinary shares of the Company of HK$0.10 each were repurchased by the Company through The Stock Exchange of Hong Kong Limited for a total cash consideration plus related expenses of approximately HK$1,163,000 at prices ranging from HK$0.198 to HK$0.229 per share and the repurchased shares were subsequently cancelled. The premium paid and the expenses incurred on the repurchase of shares were charged against the share premium account.

Condensed Consolidated Cash Flow Statement – Unaudited

Six months ended 30 June 2003

	Six months ended 30 June	
	2003	2002
	HK$'000	HK$'000
Net cash inflow/(outflow) from operating activities	**10,035**	(11,509)
Net cash inflow/(outflow) from investing activities	**(5,936)**	1,400
Net cash outflow from financing activities	**(43,521)**	(18,082)
Decrease in cash and cash equivalents	**(39,422)**	(28,191)
Cash and cash equivalents at beginning of period	**89,821**	45,056
Cash and cash equivalents at end of period	**50,399**	16,865
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**50,399**	26,005
Bank overdrafts	**–**	(9,140)
	50,399	16,865

1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and basis of preparation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2002, except for the adoption of the revised SSAP 12 "Income taxes" for the first time in the preparation of the current period's unaudited condensed consolidated interim financial statements.

SSAP 12 prescribes the basis for accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax). The adoption of the revised SSAP 12 has had no material effect on these unaudited condensed consolidated interim financial statements and no prior year adjustment is required.

2. Segment information – Unaudited

(a) Business segments

An analysis of the Group's revenue and profit/(loss) for the six months ended 30 June 2003 by the Group's business segments is as follows:

	Continuing operations								Discontinued operations					
	Medical services		Nursing, physio & dental services		Elderly care services		Corporate and others		Healthcare transaction operations		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:														
Sales to external customers	273,413	280,898	28,390	28,333	55,197	55,101	–	–	–	11,802	–	–	357,000	376,134
Intersegment revenue	1,486	1,636	3,861	2,111	61	–	–	1,509	–	12,123	(5,408)	(17,379)	–	–
Other revenue and gains	4,166	2,755	318	469	212	276	445	–	–	1,892	–	–	5,141	5,392
Total	279,065	285,289	32,569	30,913	55,470	55,377	445	1,509	–	25,817	(5,408)	(17,379)	362,141	381,526
Segment results	23,297	16,598	1,076	834	329	(1,472)	(6,439)	(4,254)	–	1,289	–	(11,509)	18,263	1,486
Unallocated interest income													399	96
Unallocated expenses													(246)	(3,662)
Professional fees in connection with a takeover offer													(4,759)	–
Corporate restructuring expenses													(4,800)	–
Loss on disposal of discontinued operations													–	(466)
Profit/(loss) from operations													8,857	(2,546)
Finance costs													(1,110)	(2,970)
Share of results of a jointly-controlled entity	(446)	(321)	–	–	–	–	–	–	–	–	–	–	(446)	(321)
Profit/(loss) before tax													7,301	(5,837)
Tax													(2,900)	(1,400)
Profit/(loss) before minority interests													4,401	(7,237)
Minority interests													–	15,135
Net profit from ordinary activities attributable to shareholders													4,401	7,898

(b) Geographical segments

During the period, over 90% of the Group's revenue and results from operations were attributable to its operations in Hong Kong. Accordingly, no analysis by geographical segment is presented.

3. Discontinued operations

In view of the Group's strategy of concentrating on its core/profitable activities, the Group discontinued its healthcare transaction operations in 2002.

(i) In February 2002, the Group disposed of its telemarketing operations, which were reported under the healthcare transaction operations segment, to an independent third party together with an assignment of an intercompany loan of approximately HK$14.5 million to the purchaser for an aggregate cash consideration (net of related costs) of approximately HK$7.4 million, which was fully settled in 2002. The carrying amount of the net assets disposed of amounted to approximately HK$7.5 million. The loss on disposal of such operations amounted to approximately HK$0.5 million (after the release of a debit exchange fluctuation reserve of approximately HK$0.4 million). There was no tax arising from the disposal. Further details of the disposal are set out in a circular of the Company dated 8 March 2002.

(ii) In October 2002, the Group completed the discontinuance of its remaining healthcare transaction operations, which were reported under the healthcare transaction operations segment of the Group, through direct and deemed disposals of its entire equity interest in Wanji Pharmaceutical Holdings Limited (formerly ehealthcareasia Limited ("EHA")) to an independent third party. The consideration for the direct disposal amounted to approximately HK$19 million, which was fully settled by cash in 2002. The deemed disposal was effected through the subscription of 5,000,000,000 new EHA shares by the purchaser and the total consideration for the share subscription amounted to approximately HK$50 million, which was fully settled by cash in 2002. The incidental costs related to the direct disposal and the deemed disposal were approximately HK$6.1 million. The gain on the direct disposal and deemed disposal (after the release of a debit exchange fluctuation reserve of HK$67,000) and the consolidated net liabilities of EHA disposed of were approximately

HK$37.6 million and HK$24.8 million, respectively. There was no tax arising from the direct disposal and the deemed disposal.

The turnover, other revenue and gains, expenses, loss before tax and tax attributable to the healthcare transaction operations for the six month period ended 30 June 2002 are as follows:

	HK$'000 (Unaudited)
Turnover	13,925
Other revenue and gains	11,948
Purchase and changes in inventories of finished goods	(6,189)
Staff costs	(9,606)
Depreciation and amortisation expenses	(1,096)
Loss on disposal of discontinued operations	(466)
Impairment losses	(3,143)
Other operating expenses	(7,910)
Loss from operations	(2,537)
Finance costs	(1,774)
Loss before tax from ordinary activities	(4,311)
Tax	–
Loss after tax	(4,311)

Note: The turnover and other revenue and gains of the healthcare transaction operations included intra-group turnover and other revenue for the period of HK$2,123,000 and HK$10,000,000, respectively, which were eliminated on consolidation. The intra-group other revenue of the healthcare transaction operations for the period represented the revenue from the granting of an exclusive and perpetual software licence to the medical services segment, which was capitalised as an intangible asset of that segment and was eliminated on consolidation. Accordingly, this has resulted in an increase in the loss from discontinued operations for the period by HK$10,000,000 in the unaudited condensed consolidated profit and loss account.

The carrying amounts of the total assets and liabilities of the discontinued healthcare transaction operations at 30 June 2002 are as follows:

	HK$'000 (Unaudited)
Total assets	36,198
Total liabilities	(59,275)
	(23,077)

4. Professional fees in connection with a takeover offer

The professional fees were incurred in connection with a conditional offer (the "Offer") by Anglo Chinese Corporate Finance, Limited on behalf of Caduceus Medica Limited for shares in the Company other than those held by Caduceus Medica Limited as further detailed in a response document of the Company dated 1 April 2003, and other related activities. The Offer (as revised) lapsed on 7 May 2003.

5. Corporate restructuring expenses

The expenses were incurred in connection with a restructuring of the corporate head office of the Group during the period, which included compensation for termination of service agreement of certain senior executives (including a director of the Company) of the Group.

6. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2002:16%) on the estimated assessable profits arising in Hong Kong during the period.

	Six months ended 30 June	
	2003	2002
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Group:		
Current – Hong Kong profits tax charge for the period	**2,900**	1,400

There was no significant unprovided deferred tax in respect of the six months ended 30 June 2003 and 2002.

Subsequent to the balance sheet date, the Hong Kong Inland Revenue Department (the "IRD") had tax disputes with certain medical practices related to prior years and issued notices of additional assessments to the medical practices which the Group has business interest. The medical practices have objected against these additional assessments and are in the process of providing additional information to the IRD. No provision for the effect of the potential charges under the additional assessments has been made for the purpose of the unaudited condensed consolidated interim financial statements as, in the opinion of the Directors, the outcome of the objection and its financial impact to the Group cannot be determined with reasonably certainty at this time.

7. Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil). The Company's dividend policy will be reviewed in conjunction with the annual results.

8. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK$4,401,000 (2002: HK$7,898,000), and the weighted average of 2,163,428,848 (2002: 2,163,933,323) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2003 is based on the net profit attributable to shareholders for that period of HK$4,401,000. The weighted average number of ordinary shares used in the calculation is the 2,163,428,848 ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 1,986,892 ordinary shares assumed to have been issued at no consideration on deemed exercise of all outstanding share options during the period.

No diluted earnings per share is presented for the six months ended 30 June 2002, as the potential ordinary shares outstanding during that period had an anti-dilutive effect on the basic earnings per share for that period.

9. Accounts receivable

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

An aged analysis of the Group's accounts receivable as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	30 June 2003 HK$'000 (Unaudited)	31 December 2002 HK$'000 (Audited)
Current – 90 days	**62,452**	77,291
91 – 180 days	**–**	74
	62,452	77,365

10. Accounts and bills payable, other payables, accruals and deposits received

An aged analysis of accounts and bills payable included in accounts and bills payable, other payables, accruals and deposits received at the balance sheet, based on invoice date, is as follows:

	30 June 2003 HK$'000 (Unaudited)	31 December 2002 HK$'000 (Audited)
Accounts and bills payable:		
Current – 90 days	**16,487**	18,465
91 – 180 days	**129**	32
Over 360 days	**–**	73
	16,616	18,570
Other payables, accruals and deposits received	**61,571**	85,181
	78,187	103,751

11. Contingent liabilities

As at 30 June 2003, the Group had a number of current employees who have completed the required number of years of service to the Group under the Hong Kong Employment Ordinance (the "Employment Ordinance") in order to be eligible for long service payments if their employment is terminated under certain circumstances. If the employment of all these employees were terminated on 30 June 2003 under circumstances meeting the requirements of the Employment Ordinance, the Group's contingent liability in respect of possible future long service payments at that date would have been approximately HK$9,941,000 at 30 June 2003 (31 December 2002: HK$8,882,000). No provision has been made in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

12. Capital commitments

At the balance sheet date, the Group did not have any significant capital commitments (31 December 2002: Nil).

13. Operating lease arrangements

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

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	30 June 2003 HK$'000 (Unaudited)	31 December 2002 HK$'000 (Audited)
Within one year	**59,024**	65,940
In the second to fifth years, inclusive	**60,272**	64,757
After five years	**–**	329
	119,296	131,026

14. Related party transactions

The Group had the following material related party transactions during the six months ended 30 June 2003 not disclosed elsewhere in these unaudited condensed consolidated financial statements or in the consolidated financial statements of the Group for the year ended 31 December 2002:

(a) During the six months ended 30 June 2003, the Group paid approximately HK$1,241,000 (2002: Nil) as insurance premium to Sun Hung Kai Insurance Consultants Limited, a subsidiary of Sun Hung Kai & Co. Limited, which is a substantial shareholder of the Company, based on mutually agreed terms.

(b) During the six months ended 30 June 2002, a then independent non-executive director of the Company, Ronald Carstairs, was the Vice Chairman and non-executive director of Dah Sing Financial Holdings Limited. 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$5,000 at prevailing bank deposit rates. In addition, certain bank and factoring loans were drawn from Dah Sing Bank Limited, with interest rate at the Hong Kong dollar prime rate plus 1.25%, during the six months ended 30 June 2002. An interest expense of approximately HK$1,537,000 was incurred during that period in respect thereof.

15. Approval of the unaudited condensed consolidated interim financial statements

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 3 September 2003.

Management Discussion and Analysis

1. CAPITAL STRUCTURE AND TREASURY POLICY

(a) Equity and debt structure

	30 June 2003 HK$'000	31 December 2002 HK$'000
Issued capital	216,343	216,343
Reserves	(128,969)	(133,370)
Proposed final dividend	–	10,817
Shareholders' funds	87,374	93,790
Bank borrowings	23,580	67,101
	110,954	160,891

Reconciliation of shareholders' funds

	HK$'000
Balance at 1 January 2003	93,790
Net profit attributable to shareholders	4,401
2002 final dividend declared	(10,817)
Balance at 30 June 2003	87,374

The Group's bank borrowings reduced from approximately HK$67.1 million as at 1 January 2003 to approximately HK$23.6 million as at 30 June 2003 because of the repayments of bank loans. Subsequent to 30 June 2003, the Group decided to reduce its debt level further by repaying HK$3 million earlier than scheduled.

(b) Debt maturity profile

	30 June 2003 HK$'000	31 December 2002 HK$'000
Repayable:		
Within one year or on demand	20,236	52,347
In the second year	3,344	14,754
	23,580	67,101

(c) Net cash position

	30 June 2003 HK$'000	31 December 2002 HK$'000
Shareholders' funds	87,374	93,790
Net Cash:		
Cash and bank balances	50,399	89,821
Bank borrowings	(23,580)	(67,101)
	26,819	22,720

(d) Currency and financial risk management

The Group's main operating subsidiaries are located in Hong Kong and over 90% of the Group's sales and purchases during the period were denominated in Hong Kong dollars.

All bank borrowings are denominated in Hong Kong dollars. During the period, interest was charged on a floating rate basis with reference to Hong Kong Best Lending Rate and HIBOR.

Most cash and bank balances are denominated in Hong Kong dollars. Any surplus cash is placed in savings and short-term bank deposits to earn interest income.

The Group's foreign currency assets are immaterial. The Group's exposure to foreign exchange risk is minimal and as such did not have any requirement to use financial instruments for hedging purpose.

2. PLEDGE OF ASSETS

At 30 June 2003, the Group pledged certain receivables and rights under medical services contracts to secure certain of the Group's banking facilities.

3. CONTINGENT LIABILITIES

Details regarding the contingent liabilities of the Group at 30 June 2003 are set out in note 11 to the Group's unaudited condensed consolidated interim financial statements on page 24.

4. MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the period under review, there has been no material acquisition or disposal of subsidiaries and associated companies by the Group.

5. MANAGEMENT AND STAFF

As at 30 June 2003, the total number of employees was 949 (2002: around 900). Total staff costs amounted to approximately HK$131.8 million (2002: HK$147.3 million). The staffing structure is under constant review as the shape of the Group develops. Remuneration packages are calculated at market rates, with share options offered at the discretion of the board of directors. All executive directors' remuneration and option packages must first be recommended by the Remuneration Committee which is composed of all of the independent non-executive directors, namely, Messrs. Moses Cheng Mo Chi and Ian Robert Strachan.

Share Options

Pursuant to the Company's share option scheme (the "Old Scheme") adopted on 5 July 1993, the directors of the Company might grant options to executive directors and full-time employees of the Group to subscribe for shares in the Company. On 7 June 2002, ordinary resolutions were passed by shareholders at a special general meeting to terminate the Old Scheme and approve the adoption of new share incentive plan (the "Plan") in order to comply with Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Pursuant to the Plan, the directors of the Company may, at their discretion, invite any employees, executive and non-executive directors (including independent non-executive directors), officers, advisers, consultants or such other persons from time to time to be an eligible person to whom share options will be granted as an incentive for his contribution to the business development of the Group.

Upon adoption of the Plan, no further options would be granted under the Old Scheme but in all other respects, the provisions of the Old Scheme should remain in force and all options granted prior thereto should continue to be valid and exercisable. On 5 July 2003, the Old Scheme expired and all of its unexercised options have ceased to be exercisable.

(a) The Old Scheme

The following share options were outstanding under the Old Scheme during the period:

Name or category of participant	Outstanding as at 1 January 2003	Cancelled/ lapsed during the period	Outstanding as at 30 June 2003	Date of grant	Exercise period of share options (both dates inclusive)	Exercise price of share options
	Number of share options				(Note 2)	HK$
Directors						
Brian Damian O'Connor	8,000,000	(8,000,000)	–	8/11/1999	15/5/2000 to 14/5/2003	0.640
Mark Wong Tai Chun	750,000	–	750,000	21/2/2000	24/2/2001 to 4/7/2003	1.450
	750,000	–	750,000	21/2/2000	24/2/2002 to 4/7/2003	1.450
	1,500,000	–	1,500,000	10/6/2000	14/6/2001 to 4/7/2003	1.150
	1,500,000	–	1,500,000	10/6/2000	14/6/2002 to 4/7/2003	1.150
	4,500,000	–	4,500,000			
Nelson Wong Chi Kit (Note 1)	6,000,000	–	6,000,000	3/8/2000	7/2/2001 to 4/7/2003	1.025
Other employees						
In aggregate	2,440,000	(2,440,000)	–	1/11/1999	2/5/2000 to 10/5/2003	0.595
	9,048,000	(132,000)	8,916,000	16/2/2000	16/2/2001 to 4/7/2003	1.450
	1,200,000	–	1,200,000	21/2/2000	24/2/2001 to 4/7/2003	1.450
	800,000	–	800,000	22/7/2000	18/2/2001 to 4/7/2003	0.990
	2,250,000	–	2,250,000	25/8/2000	25/8/2001 to 4/7/2003	1.160
	15,738,000	(2,572,000)	13,166,000			
	34,238,000	(10,572,000)	23,666,000			

(b) The Plan

The following share options were outstanding under the Plan during the period:

	Number of share options					
Name or category of participant	Outstanding as at 1 January 2003	Cancelled/ lapsed during the period	Outstanding as at 30 June 2003	Date of grant	Exercise period of share options (both dates inclusive) (Note 3)	Exercise price of share options HK$
Directors						
Brian Damian O'Connor	2,000,000	–	2,000,000	16/10/2002	16/10/2003 to 15/10/2007	0.15
Mark Wong Tai Chun	1,500,000	–	1,500,000	16/10/2002	16/10/2003 to 15/10/2007	0.15
Nelson Wong Chi Kit (Note 1)	2,000,000	–	2,000,000	16/10/2002	16/10/2003 to 15/10/2007	0.15
Consultant	200,000	(200,000)	–	16/10/2002	16/10/2003 to 15/10/2007	0.15
Other employees						
In aggregate	19,745,000	(500,000)	19,245,000	16/10/2002	16/10/2003 to 15/10/2007	0.15
	25,445,000	(700,000)	24,745,000			

Notes:

1. Dr. Nelson Wong Chi Kit resigned as a director of the Company on 22 April 2003 and his share options under the Old Scheme and the Plan were lapsed on 5 July 2003 and 22 July 2003 respectively.

2. The vesting period of the share options under the Old Scheme is from date of acceptance until the commencement of the exercise period.

3. The vesting period of the share options under the Plan is from date of grant until the commencement of the exercise period.

During the period, no share options of the Company were granted and/or exercised under the Old Scheme and the Plan.

Directors' Interests

As at 30 June 2003, the directors and their associates had the following interests or short position in shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO ")) as recorded in the register required to be kept under section 352 of the SFO:

Name of directors	Nature of interests	Beneficial interest in shares (Note 1)	Beneficial interest in underlying shares (Notes 1 & 2)	Approximate % of the issued share capital
Mark Wong Tai Chun	Personal interest (held as beneficial owner)	500,400	6,000,000	0.30%
Brian Damian O'Connor	Personal interest (held as beneficial owner)	–	2,000,000	0.09%

Notes:

1. Interests in the shares and underlying shares of equity derivatives are long position.

2. Details of the interests of directors and chief executives of the Company in the underlying shares of equity derivatives in respect of options granted to them pursuant to the Old Scheme and the Plan are stated in the above section "SHARE OPTIONS".

Save as disclosed above, as at 30 June 2003, none of the directors and chief executive of the Company, or any of their associates, had any personal, family, corporate or other interests in any interests or short positions in any shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules.

Substantial Shareholders' Interests

So far as is known to the Directors or Chief executive of the Company, as at 30 June 2003, the following parties had an interest in the shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of substantial shareholders	Number of shares held	Approximate % of the issued share capital	Notes
Wah Cheong Development (B.V.I.) Limited ("Wah Cheong")	617,195,946	28.53	
Sun Hung Kai & Co. Limited ("Sun Hung Kai")	617,195,946	28.53	1,2
Allied Properties (H.K.) Limited ("Allied Properties")	617,195,946	28.53	1,3
Allied Group Limited ("Allied Group")	617,195,946	28.53	1,4
CLSA Capital Limited	342,666,666	15.84	
Arisaig Greater China Fund ("Arisaig Fund")	184,836,000	8.54	
Arisaig Partners (Mauritius) Limited ("Arisaig Mauritius")	184,836,000	8.54	5

Notes:

1. The figure refers to the same holding of 617,195,946 shares held by Wah Cheong.
2. Sun Hung Kai owned 100% interest in the issued share capital of Wah Cheong and was therefore deemed to have interest in the shares.
3. Allied Properties owned 100% interest in the issued share capital of AP Jade Limited which in turn owned 100% interest in the issued share capital of AP Emerald Limited ("AP Emerald"). AP Emerald owned approximately 74.44% interest in the issued share capital of Sun Hung Kai and therefore Allied Properties was deemed to have interest in the shares.
4. Allied Group owned approximately 74.28% interest in the issued share capital of Allied Properties and was therefore deemed to have interest in the shares.
5. The figure refers to the same holding of 184,836,000 shares held by the Arisaig Fund. Arisaig Mauritius is the investment manager of the Arisaig Fund.
6. All interests stated above represent long position. As at 30 June 2003, no short positions were recorded in the register required to be kept under section 336 of the SFO.

Audit Committee Review

The Board has established an Audit Committee, which comprises the non-executive directors, namely, Messrs. Richard Owen Pyvis, Moses Cheng Mo Chi and Ian Robert Strachan. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report for the six months ended 30 June 2003. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditors in accordance with Statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants. The Audit Committee has not undertaken detailed independent audit checks.

Code of Best Practice

In the opinion of the directors, the Company has 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 all directors, executive and non-executive, throughout the six months ended 30 June 2003, except that 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.

Purchase, Sale or Redemption of Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the six months ended 30 June 2003.

On behalf of the Board
Arthur George Dew
Executive Chairman

Hong Kong, 3 September 2003