2000 was a year of intensive activity, against a difficult stock market background, and therefore reporting a significant loss is a disappointment to all involved. This is particularly so in view of the tremendous effort put in by staff and the extensive pioneering work undertaken in new business sectors during the year.

Quality means...
care
growth
commitment
professionalism
reach

Throughout this difficult time, Quality HealthCare continued to set the benchmarks for international standards and continued to maintain its position in Hong Kong's private sector as the largest integrated healthcare provider. All of our four core healthcare activities

- Medical
- Dental Physiotherapy Nursing
- Elderly Care
- Healthcare transaction processing through 60.5%-owned subsidiary ehealthcareasia

expanded and developed substantially in 2000.

A year of intense activity and pioneering work.

The single most negative factor on operations and results was the Group's decision to obtain a main board listing on the Hong Kong Stock Exchange for ehealthcareasia. A controlling interest was acquired in an existing listed company, Kin Wing Chinney Holdings Limited, which became the vehicle for the Group's transaction-handling and claims-processing business, under the new name of ehealthcareasia Limited ("EHA"). Complexities in the listing process, delays in satisfying regulatory requirements, and other factors, resulted in completion much later than anticipated, by which time market confidence in the technology sector had collapsed. This prevented the Group from reaping the benefits of having created Asia's leading e-health group. However, we see those benefits as having been postponed, rather than lost.

Medical, and Dental Physiotherapy Nursing, to make improved contributions.

Our Medical, and Dental Physiotherapy Nursing, activities were profitable during the year. Elderly Care's drive towards critical mass through substantial expansion during its second year of operation produced a loss which was 38% lower than the previous year. The Group wrote off all establishment start-up costs/losses for both the Chinese Medicine and Pro-Health businesses.

During 2001, we expect our Medical, and Dental Physiotherapy Nursing, activities to make improved contributions. Provided that anticipated increased occupancy levels are achieved, we target Elderly Care to breakeven for the full year.

2001 will be the second full year of operation for Chinese Medicine and Pro-Health operations. Fulfilment of projected targets would result in breakeven or a small loss.

Throughout the testing period of 2000, we remained resolute in our commitment to lead healthcare evolution in Asia. It is believed that the worst is now behind us, and that the investments made during the year will lead to improved future results.

Turnover from continuing operations rose 49%.

FINANCIAL & GROUP REVIEW

Highlights of the Group's year are set out below and further details can be found in the Operational Review section.

Group turnover for the year 2000 amounted to HK$1,107 million, as compared to HK$461 million for the prior year. Turnover from continuing operations rose 49% to HK$689 million. The ground engineering and construction element, which is now a discontinuing operation, produced revenue of HK$418 million.

Comparison of the 2000 financial results with the prior year is complicated by a number of factors:

i) the impact of new accounting standards, which were announced in April 2000 and effective from the beginning of that year, as set out in the notes to the financial statements;

ii) the sale of certain operations to, and the consolidation of, EHA from 28 June 2000; and

iii) the resulting consolidation of the ground engineering and building construction business of Kin Wing Chinney from 28 June 2000.

Comparison of the 2000 financial results with the prior year is complicated.

Taking the above into account, the overall consolidated results for the year 2000 reflect a loss of HK$46 million after tax and minority interests, compared to a re-stated profit after tax for the prior year of HK$17 million. This represents a loss of 5.4 cents per share for the year 2000 (1999 - re-stated earnings of 2.7 cents per share). No dividend will be recommended for the second half of the year.

To set out the results in the context of the Group's main activities:

It is very clear that there is great potential for EHA.

EHEALTHCAREASIA ('EHA')

The negative impact of both the start-up costs of EHA and the associated finance costs exceeded HK$100 million.

The Group had planned to reduce its equity holdings in EHA to the level where it would become an associated company (ie less than a 50% holding) through the sale of shares, to both reduce or eliminate the costs of acquisition and offset the EHA start-up costs/losses. Regrettably, due to procedural delays in establishing EHA, and the unfavourable market conditions that have persisted since, the Group has not been able to realise the exceptional gains expected from the sale of such shares, nor has it been able to thereby reduce the HK$304 million debt and associated financing costs arising therefrom, and this is reflected in the losses for the year.

Despite these difficulties, the Group remains committed to EHA, because it is very clear that there is great potential for a company that can provide a range of efficiency-enhancing services to healthcare professionals, insurers and others who pay for healthcare. Others, too, are recognising this. For example, through its recently announced iBusiness transaction, EHA has attracted a number of 'blue chip' shareholders, including HSBC, Cheung Kong, Hang Seng Bank, Hutchison Whampoa and Excel Technology International Holdings. In addition, EHA is also attracting attention from potential international investors and has announced it is in preliminary discussions with an investor who may take a stake in EHA.

EHA is attracting a number of 'blue chip' shareholders.

On 26 March 2001, EHA announced it would sell its 50% interest in the ground engineering and building construction business for HK$88 million cash, and thereby focus on its core healthcare business.

EHA is a real business, not an internet business.

Our expectations are that EHA will show significant improvement in performance in its first full year of public company operations. A key task will be to demonstrate to the equity investors that this is a real business, not an internet business. The internet is merely one of the means by which EHA communicates with its customer base. An investor relations programme is planned for the coming months to promulgate these distinctions.

QUALITY HEALTHCARE MEDICAL SERVICES

Quality HealthCare Medical Services comprises the medical practice businesses, and is the largest delivery network of quality primary healthcare services in Hong Kong.

Medical Services contributed profits of HK$36 million. This is a reduction on the previous year, due to difficulties in increasing charges, given the lingering recessionary/deflationary economy in Hong Kong. In addition, costs were incurred in the latter part of the year, as the outsourcing of 'back office' tasks gathered momentum. This meant the continued employment of processing staff who duplicated those working in EHA.

The largest delivery network of quality primary healthcare services in Hong Kong.

The outsourcing of large blocks of administration functions to EHA means that the duplicated costs referred to above no longer exist, allowing the Medical Services Division to concentrate on marketing and service provision in the future.

Medical Services' already large revenues are budgeted to grow, and the main emphasis for this year is on margin improvement for greater profitability.

QUALITY HEALTHCARE SERVICES

Our Dental Physiotherapy Nursing operation increased its revenue but saw profits reduce to HK$2.0 million, as a result of start-up losses related to the opening of new clinics in 2000.

Through increased utilisation, we expect this division to show an increase in revenue and profit in 2001. Concentration will again be focused on margin improvement.

Chinese Medicine and Pro-Health target to breakeven.

CHINESE MEDICINE AND PRO-HEALTH

2000 was a year of establishing both of these embryonic businesses and costs, which have now been fully absorbed, were substantial at HK$9.5 million.

The costs involved in establishing these initiatives will not need to be repeated in 2001, and therefore breakeven, or a small loss, is targeted for these operations.

QUALITY HEALTHCARE ELDERLY SERVICES

Elderly Care grew by 53%, to some 2,000 elderly care beds, largely by acquisition. Unfortunately, however, the completion of our acquisitions occurred late in 2000 and therefore did not allow the revenues to be reflected in the current year reported operating results.

Elderly Care grew by 53%.

Nevertheless, a greatly reduced loss of HK$10.1 million was reported for the year.

Revenues are expected to grow further in 2001, and management's focus is on improvements in margins through increasing occupancy levels in existing homes and stringent cost controls.

We will also look for opportunities to acquire homes which meet our strict criteria in respect of location, size, occupancy, profitability, cost and lease terms.

The fundamentals of the physical healthcare businesses are sound.

While the market has been competitive, we have also stepped-up our promotional campaign, to achieve increased occupancy, to result in breakeven for the full year. Overall, the fundamentals of the physical healthcare businesses are sound, and further attention is being focused on their profitability in 2001 and beyond, by extracting better margins from our substantial existing, and expanding, revenue base.

OUR PEOPLE

The Group employs 880 people in its 'physical healthcare' operations and EHA has 250 in Asia and Australia. I must thank every member of staff for bringing Quality HealthCare through a hectic year involving great change. They have all demonstrated tremendous dedication to the Group and support for its commitment to quality patient care.

Staff dedication and support in a hectic year.

The Board recognises the need to strengthen the senior management and is pleased to welcome Geoff Broomhead to the position of Group Chief Financial Officer. Mr Broomhead is well known to Quality HealthCare. He joined the Group when EHA acquired Software Associates in Australia last year. He has now relocated to Hong Kong, has been instrumental in restructuring EHA and has instituted strong financial controls and management information systems, while creating an effective in-house team. He has over 20 years' experience in corporate accounting and the financial management of both private and public companies. He holds a fellowship with both the Australian Society of Accountants and the Institute of Chartered Secretaries and Administrators. Key elements of Mr Broomhead's remit will be the improvement of management information systems and ensuring that key financial targets are met.

During the year, Mr Mark Wong, who has acted as Chief Financial Officer since September 1997, joined the Board of directors as Finance Director. Additionally, Dr Frank Innes stepped down from the Board to take up the new post of Senior Medical Director for the Group. During the year, Dr Nelson Wong replaced SM Pang as Chief Executive of Quality HealthCare Medical Services and, subsequent to the year end, joined the Quality HealthCare Asia Board, when Mr Pang stepped down.

EHA has emerged as the leader in its field. Its future is most encouraging.

We aim to become a truly regional force.

HEALTHCARE REFORM

Healthcare is in the early stages of a major reformation process throughout Asia.

In Hong Kong, in particular, the Government has issued a consultation paper on the long term restructuring of the SAR's healthcare system. Such major reforms present opportunities for the Group, and these are addressed in a separate section entitled 'Healthcare Environment'. Other indications of future Government outsourcing have become evident, but we are disappointed by the slow pace of the action which Government itself acknowledges is much needed.

OUTLOOK

Quality HealthCare continues to build its position as the market-leading 'integrated healthcare services provider' in Hong Kong, with the largest network of healthcare professionals and the widest range of services in the private sector. The Group has also taken the lead in forging best practices and quality commitments in Hong Kong's healthcare system.

With very large revenues being generated by our businesses, we recognise the significance of improving our margins and, in 2001, are focused on achieving this objective.

The Group has received several approaches from potential investors seeking a minority stake in our Elderly Care operations, which focus on serving Hong Kong's rapidly greying population. The Group is prepared to consider this, as it would provide additional finance to reduce debt and continue the development of the Elderly Care business. Further information will be given to shareholders if and when these the approaches bear fruit.

EHA has emerged as the leader in its field in Asia. The business is targeted to improve its performance significantly during its financial year ending March 2002, and its future is most encouraging.

A significant upturn in operations during 2001.

Quality HealthCare looks forward to the time when consolidation in the very fragmented Asian healthcare market becomes appropriate. In particular, we are monitoring China's healthcare reform programme. There is no doubt that profitable opportunities for established providers such as Quality HealthCare will present themselves in the relatively near future.

In time, we aim to become a truly regional force, as I stated last year in our Vision 2002 initiative.

Throughout the 2000 year, Quality HealthCare continued to demonstrate what 'Quality' means and, in so doing, practices the five elements that make up the Group's approach: Care, Growth, Commitment, Professionalism and Reach. With these messages in mind, we are all working towards consolidating our businesses and achieving an upturn in operations during 2001.

Our tasks are clear - increased profitability through concentration on improving the margins in our existing revenue base, the reduction of debt, and more emphasis on promoting the 'Blue Q' brand to the general public.

Brian O'CONNOR

Chairman