Quality means...

care growth commitment professionalism reach

Quality HealthCare (HKSE ticker: 593) is Hong Kong's first listed leading intergrated healthcare provider. While continually introducing new and improved sevices and products, the Company is today caring for more than 550,000 Hong Kong people, at over 340 Western and Chinese medicine, dental, physiotherapy, footcare, nursing and elderly care centres.

Its team of almost 1,100 healthcare professionals is the largest private sector healthcare operator in Hong Kong.

growth
you can depend on

As our customers grow, from babies to teenagers, from parenthood to old age, we develop a lifelong partnership, helping them stay healthy as they progress smoothly through life.

Chairman's Statement

The first six months of 2001 have been a period of solid growth in the Group's core medical services and elderly care businesses both in terms of revenue and improved profitability. Equally important, the Group has also made significant progress towards achieving the objectives of debt reduction and restructuring its subsidiary, ehealthcareasia ("EHA"). Indeed, significant cost cutting and an uncompromising approach to improving profitability, combined with the benefits upon the successful conclusion of the rights issue, will see the Group materially strengthened, both operationally and financially.

Financial review

In the six month period ended 30 June 2001, Quality HealthCare ("QHA") increased turnover to approximately HK$700 million, an increase of approximately HK$369 million over the same period in the prior year. The ground engineering and building construction division, which is now a discontinued operation, contributed an increase in turnover of approximately HK$297 million. More importantly, turnover from continuing operations rose 22% to approximately HK$403 million from HK$331 million in the prior period.

In May 2001, the Group disposed of its remaining interest in its construction subsidiary, Kin Wing Chinney (BVI) Limited, details of which were contained in a circular to shareholders dated 17 April 2001. The Group completed a number of acquisitions during the first six months of 2001 that included an elderly home in Tuen Mun, iClaims21 Limited and the business of MedWeb Limited. Details of these transactions were contained in circulars to shareholders dated 2 December 2000, 7 May 2001 and 20 December 2000, respectively.

The Group's unaudited net profit from ordinary activities attributable to shareholders for the period was approximately HK$14.2 million, representing an improvement from the restated loss of approximately HK$7.3 million in the prior period. The restatement

the professionalism of our people

A team of nearly 1,100 healthcare professionals, experts in their field, and monitored by their peers, provides international standards of practice and ethics, backed by world-class systems and support services.

was required to comply with new accounting standards, which are explained in details under the financial section of this interim report.

The results from the core businesses reflect steady growth in revenues across all activities of the Group and the beginning of the impact of cost cutting/efficiency measures, which started late last year.

The operating results for the six month period do not necessarily reflect the Group's current improved operating position by virtue of various factors, including the following:

– Accelerated effects of cost cutting/efficiency measures;

– Reduced interest on debts;

– Disposal of the ground engineering and construction businesses; and
– EHA cost/cash containment.

Addressing the level of debt that was paralysing QHA, the first initiative was to announce the HK$228 million rights issue. This was approved by shareholders on 17 September 2001. On the successful conclusion of the rights issue, we will use HK$130 million of the proceeds to repay part of the HK$284.2 million debt owed to our principal lender, who has also undertaken to convert the balance of its debt into approximately 342.6 million shares in QHA at HK$0.45 each. The remaining HK$90 million of the proceeds from the rights issue will be utilised for working capital purposes, including approximately HK$30 million for further debt reduction.

The net effect of these transactions will be to reduce the Group debt burden from its previously restrictive level to one that is much reduced and manageable, thereby saving the Company over HK$20 million in annual interest. Clearly, the benefits of these savings are not reflected in the interim results and will only begin to accrue to the Group in the last quarter of 2001.

we care

Our customers' health and satisfaction are our top priorities. We strive to remain responsive to the needs of our individual customers, and to the requirements of our corporate clients.

Business Review

The Company's underlying businesses made good progress during the first six months of 2001, with the medical, elderly care and nursing, physiotherapy and dental divisions posting improvements over the same period in 2000.

The medical division recorded a 14% and 27% increase in turnover and operating profit, respectively, over the same period last year. The turnover of the elderly care division increased by 86% with operating loss reduced by 30%. The elderly care division currently has improved its occupancy rate and expects to break-even on a monthly basis by the year end. The nursing, physiotherapy and dental division recorded a 9% and 28% increase in turnover and operating profit, respectively.

However, the contributions from the above achievements are obscured in the interim results by losses during the period from EHA, which continued to face difficult market conditions. Nevertheless, EHA in less than two years, has built a number of profitable operations and has delivered world-class systems to our core businesses in Quality HealthCare Medical Services ("QHMS").

The objective in recent months has been to achieve a position where QHA no longer has to provide financial support to EHA. The management of EHA has and will continue to reduce costs to achieve such cash break-even position. Now that the LEON systems have been delivered to QHMS, further material cost reductions are achievable in both EHA and QHMS. When these are completed over the next two months, the headcount in EHA will drop significantly. The only operation that has been permitted to increase its headcount is the profitable direct marketing business in Taiwan.

During the period under review, management has focused on restructuring the Group as I outlined in our last annual report. This has been painful for all concerned, but I am pleased to report that, before the year end, we will have achieved our objectives, and will

commitment

of the highest standards of quality and excellence

We are dedicated to providing premier levels of healthcare services, whilst maximising shareholder value.

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truly begin to fulfil the potential of our unique market leadership position in the medical and elderly care services sectors.

We have concentrated intensely on the three priorities, which I identified in last year's annual report as follows:

- to reduce or eliminate debt of HK$284 million, incurred principally through the creation of EHA;
- to achieve a position where QHA would not have to put any further cash into EHA; and
- to increase profitability in the core operations through concentrating on improved information systems and implementing cost cutting and efficiency measures.

The changing market conditions have presented enormous challenges, but significant progress has been made in all areas and we are now well positioned to benefit from the changes and to build on them.

In addition to the debt reduction described above, I am also pleased to report that EHA by calendar year end will no longer require further cash injections from QHA. QHA will have capped its financial support for EHA and will no longer need to provide liquidity or as much executive time.

To achieve this position, EHA has made and continues to make deep cuts throughout its businesses. As a result, it has effectively closed its operations in Singapore; brought its considerable software assets in Australia under one profitable operation and has expanded its growing, and profitable, direct marketing business in Taiwan. In Hong Kong, operating costs have continued to fall, largely reflecting the coming on-line of a highly efficient new medical management computer system, LEON.

we reach the community

From East to West, day and night, an extension SAR-wide network of over 340 medical and healthcare related service centres ensures that we are always accessible and ready. Hong Kong remains our near term focus, and represents our launch pad for future regionwide opportunities.

We are confident that the cost cuts that have been implemented, together with the stimulation of its profit centres, will result in EHA no longer requiring cash injections from QHA.

Within QHA itself, an intense focus on developing our core businesses is delivering positive results. Each of the underlying principal operations is showing steadily improving figures. This is rewarding and reflects the beginning of the realisation of the plans set out in last year's annual report. The benefits of such realisation have been accelerating as the year progresses and are expected to materially benefit future operations.

Outlook

Following the successful conclusion of the current rights issue together with the debt conversion, and the improvements in efficiency at QHA, combined with the measures taken to contain

EHA's cost, the Group will have been restructured to succeed in today's much changed operating environment.

As QHA goes forward, we will be operating exclusively in our core business areas where we have special knowledge and market positions, and without the need to further finance EHA. We will also have a stronger balance sheet, and will be lean and ready to leverage our unique portfolio of medical and elderly care products and services.

The last six months have been difficult for the Group, its staff, and its shareholders, and the support of all stakeholders is much appreciated. Now, with the actions I have outlined behind us, together with a strengthened financial position and growing underlying businesses, the Group is correctly structured and focused for the future. Quality HealthCare is now well positioned and strengthened to fully realise its recognised potential in the medical and elderly care service sectors.

Brian O'CONNOR

Chairman

Hong Kong, 25 September 2001