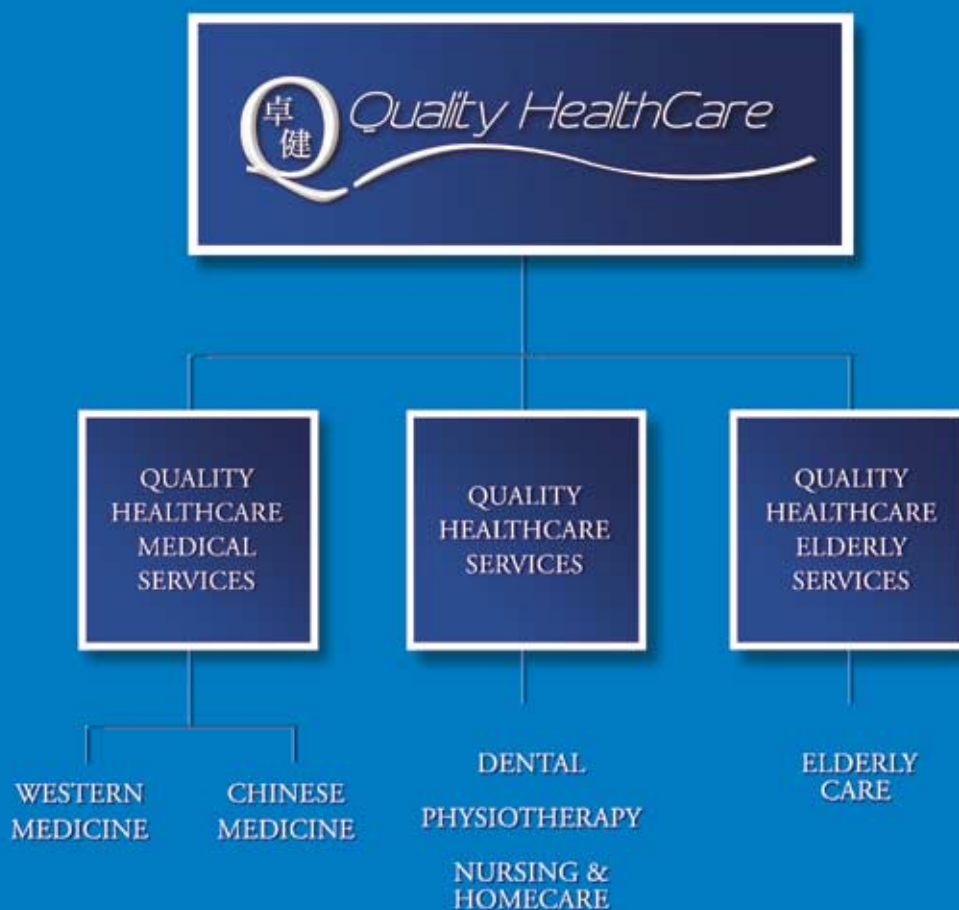

MANAGEMENT DISCUSSION AND ANALYSIS



The Group's 1,000 professionals including 600 doctors, provide care for our private and corporate contract patients through our 700 Western and Chinese medical clinics, dental and physiotherapy centres.

These services are provided by our three core businesses:

Quality HealthCare Medical Services (QHMS)

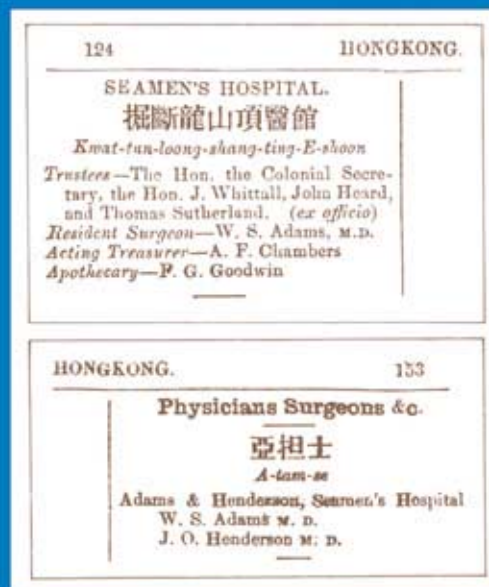
provides Hong Kong with its largest network of private doctors through our owned and affiliated Western and Chinese medical clinics.

Quality HealthCare Services (QHS)

provides Dental and Physiotherapy at our 46 centres, and operates Hong Kong's longest-established international nursing service.

Quality HealthCare Elderly Services (QHES)

offers around-the-clock care and company for more than 1,300 Hong Kong elderly citizens at our nine homes across the SAR.



Dr. William Stanley Adams' appointment
as the **FIRST** Health Officer for the Hong Kong Port in
1868

led to the establishment of Drs. Anderson & Partners,
later acquired by Quality HealthCare



Quality HealthCare becomes the

FIRST INTEGRATED HEALTHCARE PROVIDER

listed on The Stock Exchange of Hong Kong Limited (HKSE ticker 593) in

1998



Operational Review

Drivers For Growth

Working Smarter

Our concept of the 'one-stop-shop' is breaking new ground in Hong Kong, and is proving highly popular both with corporate clients and individuals members of the public. With medical, dental, physiotherapy and, in some cases Chinese Medicine offered by different professional teams at one

corporate clients, Government and the insurance industry. In these areas, we have already made good headway with our out-patient medical coverage. Attracting and holding individuals and their families as Quality HealthCare clients is no less important, as they represent 20% of our revenue.

The 'Blue Q'

Quality HealthCare's 'Blue Q' has already developed significant brand equity, and is associated with our 'quality' values. This,

{ With medical, dental, physiotherapy and in some cases Chinese Medicine offered by different professional teams at one centre, we are providing high quality patient service combined with exceptional convenience, while the Company benefits from centralized systems and the economies of scale. }

centre, we are providing high-quality patient service combined with exceptional convenience, while the Company benefits from centralized systems and the economies of scale.

Chinese Medicine and practices are gaining in recognition the world over, and are being integrated into comprehensive medical packages. This is reflected in the demand for our own services, and increasingly our corporate clients in Hong Kong are offering the Chinese Medicine option as part of their staff health programmes. Quality HealthCare leads in the integration of Western and Chinese Medicine in the Hong Kong SAR, and we believe that this flexible capability presents a further solid platform for growth.

Innovation

New business will be captured by Quality HealthCare through innovative products and services, working directly with

together with the possible relaxation of restrictions on the promotion of doctors' practices, represent encouraging drivers for growth.

Technology

Back office efficiency is not 'top of mind' with our patients. But as we provided care for over 1.7 million men, women and children as they visited our clinics in 2001, clients benefit enormously from well-organized clinic and waiting room management, the prompt delivery of drugs, and smooth billing. So do our professionals who provide the care, and our business partners.

Our proprietary LEON computer system and its network, which we have developed over the last two years, are at the heart of our drive for efficiency. LEON provides state-of-the-art chit-processing and clinic support systems, and also helps

affiliated Quality HealthCare doctors in Hong Kong to out-source back office administration through online transaction processing. LEON is a driver of growth both from within the Company and from without, and the 65% increase in the first three months of 2002 alone, in the number of doctors now using our system, gives us confidence that LEON will continue to be a key differentiator for Quality HealthCare.

China's Demand for World-Class HealthCare Services

We have studied the significant changes in healthcare delivery in mainland China, and have established excellent relationships and promising footholds. We have identified that there are significant opportunities to provide world-class medical services in the PRC, and there is a real, and unsatisfied, demand for them. We see China as an important growth area, and we will be working to make 2002 our year of entry into the mainland.



Quality HealthCare Medical Services (QHMS)

QHMS set out in 2001 to build on its established corporate client base and to promote its service delivery through efficiency enhancement, in frontline and administrative areas, as well as expanding its network of affiliate clinics. These actions extended the Group's quality medical services to a widened patient base in Hong Kong.

QHMS achieved a 8.6% growth in its revenue to HK\$584.8 million from HK\$538.3 million for the year 2001, with a 3% growth in the number of patient visits per month. Divisional profit increased by 1.03% in 2001. Economic conditions did not permit us to increase our charges and the full benefit of cost reductions will not be seen until 2002.

Enhanced Efficiency : making a difference

QHMS serves more than 145,000 clients per month, and efficient enrolment eligibility checking, coupled with the capturing of attendance information, have led to happier customers, reduced claims processing procedures and earlier payment to those providers in the affiliate network. LEON, our proprietary web-based processing system developed within Quality HealthCare, was rolled out to the QHMS network in 2001.

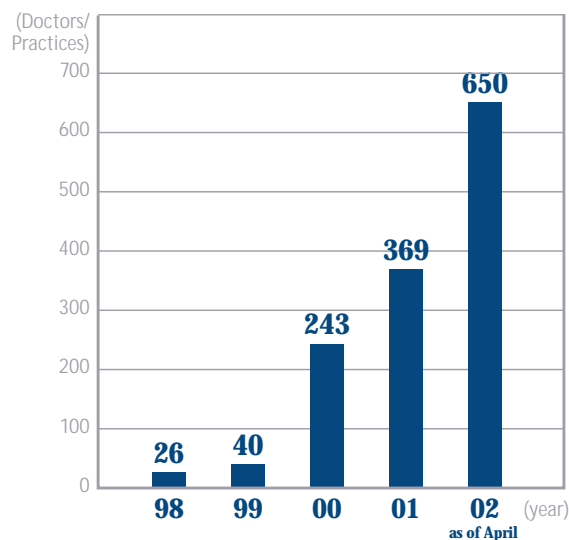
Besides its service enhancement benefits for existing corporate clients, LEON also enables QHMS to be an effective provider, as well as manager, of individual medical plans (IMPs), a major trend in healthcare services. Individual medical plans are healthcare plans purchased by individuals with set limits on various service coverage. Therefore, effective online eligibility checking at the clinic reception through LEON is fundamental for smooth service delivery, as well as data capturing.

Expanding Medical Network : growing needs

Doctors affiliated with QHMS are effectively partners of the Company, sharing our commitment to deliver quality medical services to our clients. With the maturity of our core medical centres and infrastructure now well established, we took the initiative to ally an additional 130 doctors into the Group during 2001. It is our intention to expand our medical network even further in 2002 while ensuring that our stringent 'Blue Q' quality assurance measures remain in place.



Combined Owned & Affiliated Doctors/ Practice Network Growth for QHMS



left page:
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A Quality HealthCare Medical Centre

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LEON System

left

Women's Health Centre

right

Airline Flight Kit refurbished
by QHMS with detailed
quality control procedures

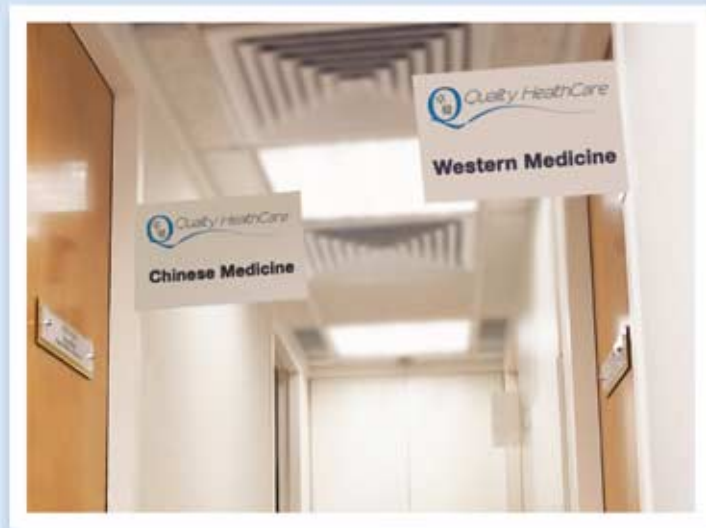




The sovereignty of Hong Kong returned to China
under the Basic Law based on
“ONE COUNTRY, TWO SYSTEMS”
in July **1997**



Quality HealthCare opens its first integrated
CHINESE AND WESTERN MEDICAL CLINIC
in Shau Kei Wan during
September **2001**





Quality HealthCare Chinese Medicine (QHCM)

In 2001 we opened our flagship Chinese Medicine clinic. This followed the success of a pilot programme initiated in 1999 and was an important milestone towards the realization of our vision to provide another increasingly popular choice of healthcare to our clients.

Quality HealthCare currently operates four Chinese Medicine clinics served by 12 specialist professionals and staff. At the same time, we continue to provide this specialized care through our existing affiliate network of 20 Chinese Medicine clinics.

Integration : East meets West

We have taken large strides towards integrating the Chinese Medicine practices into our established network of Western medical clinics. Combining the advantages of traditional Chinese Medicine's diagnostic, preventive and therapeutic values with those of Western medicine, all under one roof, is a step further into the one-stop solution for clients. It also represents an important breakthrough in the crossover of clinical knowledge, practice standards and patient care.



Growth : updating traditional ways

Our delivery of modernized and scientific Chinese Medicine service is already escalating in popularity among insurance companies and corporate clients. As a result, in 2002, we plan to increase the number of core clinics, while maintaining the already established network of 20 affiliate clinics. In addition, regular Chinese Medicine outreach services are organized for elderly care centres throughout Hong Kong, as Chinese Medicine is often the preferred choice for our elderly care home residents.

Led by an experienced management team and frontline practitioners, the Chinese Medicine division looks towards 2002 as a year for growth as well as harvest.



Quality HealthCare : into the communities / health for all

Healthcare has never been closer to home. The launching of our innovative Quality HealthCare CareVan brings health one step closer to Hong Kong people.

The Quality HealthCare CareVan travels throughout Hong Kong during weekends, offering advice on a broad range of topical health and nutritional issues. The van is also used for joint events with charities, with the aim of meeting the healthcare needs of different communities.

Quality HealthCare's LEON computer system will also allow the Group to capture information from its practices, which represent the largest private sector medical services group in Hong Kong. The Company is committed to using this data bank in the best interest of health surveys, and to promote healthcare information to the general public in the region.

left page:
top A QHCM Clinic

this page:
top left Chinese Medicine
consultation

top right CareVan

right Convenient herbal packs
brewed according to
individualized
prescription





In the early days, doctors only made house calls and hospital visits.

By **1932**, patients could also see Dr. Anderson and

his colleagues at their **OFFICE PRACTICE**

in Alexandra Building

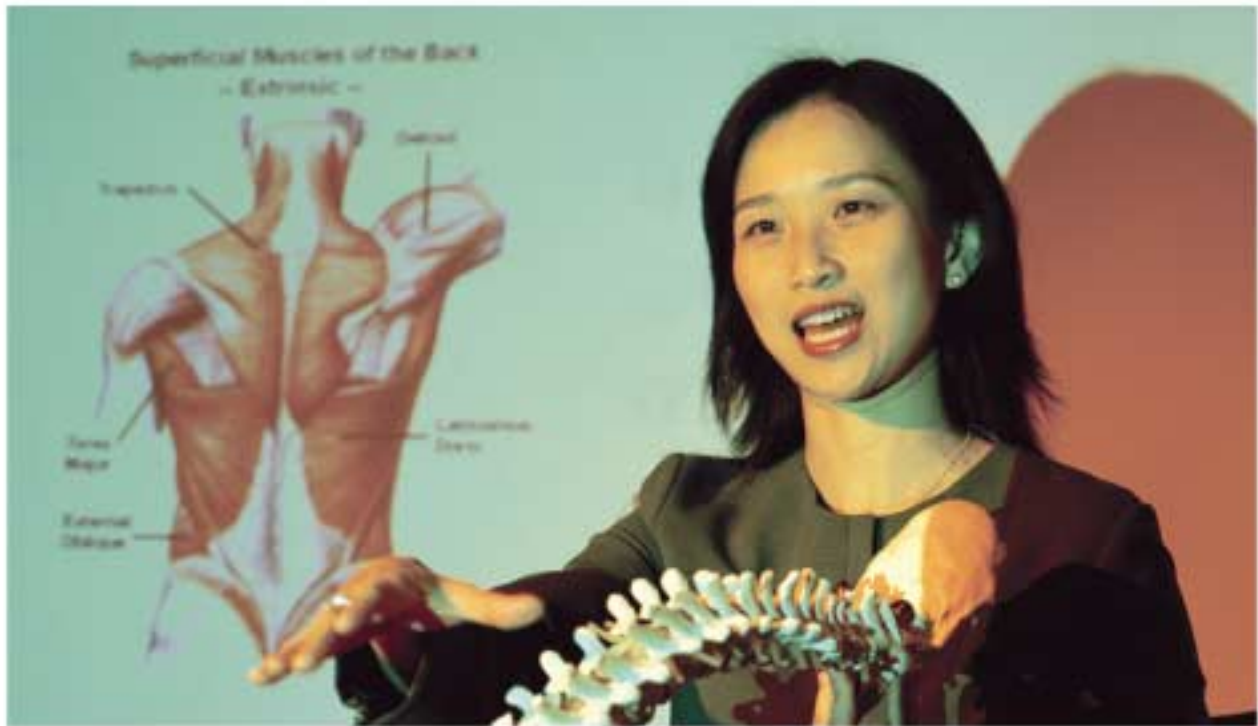


Quality HealthCare launches an
INTEGRATED HEALTHCARE CLINIC
at the **WORKPLACE**

for staff at Hong Kong International Airport's Cathay City, with a team
of doctors, nurses, dentists, physiotherapists and podiatrists during

June **2001**





{ Quality HealthCare Services (QHS) }

Quality HealthCare Services, incorporating our Dental, Physiotherapy and Nursing services, employs some 70 professional staff in 19 clinics and the head office. Our nursing service was founded in 1975 and is Hong Kong's longest-established private nursing agency, while both our Dental and Physiotherapy practices have been established since 1989.

In 2001, the division achieved a solid 4.3% growth in turnover to HK\$59.7 million from HK\$57.2 million in the prior year. Start-up costs in new clinics caused our net profit to decrease by 2.1%. These investments will, however, bring worthwhile returns in 2002.

Initiatives : Dental, Physiotherapy and Nursing

Our network of Physiotherapy and Dental services continued to expand. In June 2001, we established these services in a comprehensive staff clinic at Cathay City, Hong Kong International Airport, to provide full medical, dental, physiotherapy and footcare services to over 18,000 staff and families of Hong Kong's flagship airline, Cathay Pacific.

Quality HealthCare Physiotherapy also extended its geographic coverage during the year, with the opening of the new centres in Quarry Bay and Tsuen Wan, addressing the needs of our corporate clients as well as our private patients, and to those who 'walk-in'.

The development of more service locations in 2001 has given Quality HealthCare Physiotherapy a comprehensive network through which it can expand its corporate care and work injury care services. It has also strengthened our ability to offer physiotherapy care schemes. Physiotherapy is also developing innovative rehabilitation programmes for corporate clients that represent breakthroughs for the industry and bring preventive services right into the offices and work sites of our clients.

Quality HealthCare Dental has a long history in corporate dental care and continues to promote dental health for the general public through its 33 dental clinics.



2001 was an active year for Quality HealthCare Nursing, involving new initiatives in career workshops, case management, training, and other innovative services. For 2002, Nursing plans further expansion of its value-for-money homecare programmes that can produce savings for insurance companies, reduce the burden upon the public hospital system, and enhance recovery for clients in their own home environment.

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top*

One of our physiotherapist
delivers a lecture on back care

*this page:
top right*

Research nursing service

right

Proper dental care education
from a very young age





Equipped with 269 BEDS,
Quality HealthCare's first residential care centre,
Fuk Kwan Home, opens in December

1998



Providing individualized care to Hong Kong's elderly citizens,
Quality HealthCare Elderly Services grows to operate
NINE HOMES WITH OVER 1,800 BEDS
during **2001**





Quality HealthCare Elderly Services (QHES)

The fastest growing division of the company, Quality HealthCare Elderly Services (QHES) operates nine elderly care homes in Hong Kong and cares for more than 1,000 residents.

In 2001, the division achieved a 63.4% increase in turnover to HK\$107.5 million from HK\$65.8 million in the prior year, a balanced cash flow and a reduction in its loss by 24% to about HK\$8 million.

We will benefit in 2002 from the contracts signed with the Social Welfare Department (SWD) and with the Non-Government Organizations (NGOs).

Following rapid growth from zero to 1,829 elderly care beds in the last three years, we are moving towards our targeted critical mass. We are applying yield management techniques as used by the hotel industry to extract maximum revenue as our occupancy grows.

The Elderly Demographic And The Market

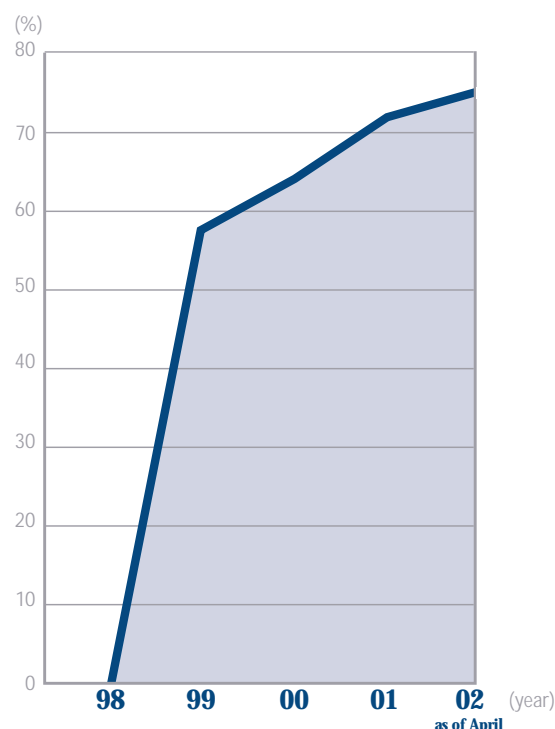
Like elsewhere in the world, Hong Kong is facing the challenge of providing proper care, at a reasonable cost, for its increasing elderly population. This concern applies to the growing number of 'old-olds', and to the 'greying', who equally require decent, caring and reasonably-priced, residential accommodation.

left page:
top Happy Birthday

this page:
left Individualized care for the differing needs of our residents



Occupancy Rate of QHES Homes



In the middle of 2001, the total number of elderly on the waiting list for Government Funded places in its Residential Care Service Delivery System, was more than 29,000. This number increases by 1% every 3 months. Initial results of the 2001 Census demonstrate an increasing average age, and that Hong Kong faces a rapidly ageing population. In 2001, there were nearly 750,000 people aged 65 and over, accounting for 11.1% of the total population. 2021 projections see this rising to 15.7% (1,322,500 people), and a likely 19.8% in 2029 (1,792,000 people).

Quality HealthCare's leadership position in the market was recognized in August 2001, when QHES became the first private sector elderly care provider to be selected by the SAR Government to support non-governmental organizations (NGOs) for the SAR's Enhanced Home and Community Care Programme for the elderly.

Furthermore, our QHES Man Kee Home was allocated 100 places by the Social Welfare Department's (SWD) Enhanced Bought Places Scheme, whereby publicly-funded residents are cared for in private sector units. Man Kee has been awarded an A1 grading.

In line with Quality HealthCare's stated objective to build partnerships with the public sector, the Group will be active in tendering for the operation of publicly-owned homes as and when such opportunities arise.

In this way, the Group can make available to the Government's expanding elderly care programme, the benefits of private sector practices and cost-effective management, while bringing value to our shareholders.

"Hotels" With Care : residence for elders

Not unlike the highly service-orientated hotel industry, the core business of QHES, which provides individualized care for the elderly, relies for success on the occupancy levels of its homes. From QHES's very first, Fuk Kwan Home, which opened in 1998 with 269 beds, we have grown to a total of 1,829 beds across nine homes, with an occupancy rate of 75%. In view of the opportunities in both the private and public sectors, and with the innovative approach taken by SWD, QHES aims to achieve a significant increase in occupancy in the year of 2002.



In 2001, as a result of major restructuring over the last two years, EHA was successful in reaching its twin goals of reducing costs and achieving breakeven in its lines of business, so that no further cash injections were necessary from its parent company, Quality HealthCare.

The specialist technology expertise of EHA has contributed significantly towards the development of the LEON system, which QHMS has now acquired. As reported above, LEON greatly enhances the capacity and ability of QHMS to operate corporate and individual medical plans, efficiently and cost-effectively.

EHA's medical equipment business is also gaining ground in its exclusive distributorship of X-ray guided biopsy systems. The company has installed the first single beat non-contact arrhythmia mapping system in Hong Kong, a breakthrough technology in cardiac electrophysiology mapping.

Financial Review

Capital Structure and Treasury Policy

Equity and Debt Structure

	2001 HK\$'000	2000 HK\$'000 (restated)
Share capital	216,852	91,242
Reserves	(172,467)	(237,487)
Shareholders' funds	44,385	(146,245)
Bank and other borrowings	120,093	571,741
	164,478	425,496

Reconciliation of Shareholders' Funds

	HK\$'000
Balance at 1 January 2001	(146,245)
Net proceeds from rights issue	220,468
Debt conversion to equity	154,200
Net loss for the year	(183,583)
Other capital and reserve movements	(455)
	44,385

The Group's shareholders' funds restored from a deficiency of approximately HK\$146.2 million last year to a positive value of approximately HK\$44.4 million this year. The increase was mainly the resultant effect of the rights issue of approximately HK\$220 million, the conversion of a loan due to a financial institution to equity of approximately HK\$154 million and the net loss for the year.

The Group used approximately HK\$160 million out of the net rights issue proceeds to repay outstanding bank and other borrowings. The balance of approximately HK\$60 million was set aside for general working capital purpose. The remaining proceeds at 31 December 2001 amounted to approximately HK\$10 million.

The Group's bank and other borrowings reduced from approximately HK\$571.7 million in 2000 to approximately HK\$120.1 million in 2001 because of the loan conversion to equity aforementioned, the elimination of bank loans associated with the disposal of the construction operations and the scheduled repayments of bank loans.

During the year, a subsidiary of the Group issued convertible notes of HK\$40 million as part of the consideration for entering into certain licence and cooperative arrangements with iBusinessCorporation.com Limited, i21 Limited and Excel Technology International Holdings Limited. Prior to the year end 31 December 2001, the Group redeemed the convertible notes at a discount for HK\$26 million.

Debt Maturity Profile:

	2001 HK\$'000	2000 HK\$'000
Repayable:		
Within one year and on demand	52,762	185,820
In the second year	35,358	376,790
In the third to fifth years, inclusive	31,973	9,131
	120,093	571,741

Upon the repayable of a substantial portion of the bank and other borrowings through the loan conversion to equity, the Group negotiated with its bankers for more favourable terms in the maturity profile of its facilities.

Net Debt/Equity

	2001 HK\$'000	2000 HK\$'000 (restated)
Shareholders' funds	44,385	(146,245)
Net debt:		
Bank and other borrowings	120,093	571,741
Cash and bank balances	(48,532)	(115,259)
	71,561	456,482

The gearing ratio comparing net debt to equity was 1.61 at 31 December 2001.

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 were denominated in Hong Kong dollars.

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

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

The Group's assets denominated in foreign currency are limited to its operations in Australia and Taiwan, which had been disposed of before and subsequent to the year end, respectively. 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.

Material Acquisitions and Disposal of Subsidiaries During the Year

During the year the Group completed the purchase of fixed assets of an elderly care home in Tuen Mun for a consideration of approximately HK\$16 million.

The Group disposed of its remaining 50% interest in the construction operations for a consideration of HK\$88 million. The Group regarded construction as a non-core operation and its disposal would enable the Group to concentrate its resources on its expanding healthcare related businesses and generate additional working capital for the Group.

The Group also acquired iClaims21 Limited and certain business operations and business assets and liabilities of MedWeb Limited during the year for a consideration of HK\$10 million, and HK\$89 million, respectively. In December 2001, the Group disposed of its Australian operations, which included the business operations and business assets and liabilities of MedWeb Limited.

Pledge of Assets

At 31 December 2001, the Group pledged certain receivables and rights under medical services contracts, a leasehold property and a property for sale of the Group to obtain certain of the Group's bank loans and overdrafts.

Contingent Liabilities

At 31 December 2001, the Company has given guarantees in connection with tenancy agreements entered into by its subsidiaries of approximately HK\$53.9 million and guarantees given to banks in connection with banking facilities granted to its subsidiaries of HK\$118.6 million.

Employees

At 31 December 2001, the Group had approximately 1,100 employees. In addition to salaries, the Group provides certain benefits including a medical scheme for its employees. The Group has also adopted a discretionary bonus programme and a share option scheme for its employees, with awards determined based on the performance of the Group and individual employees.