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Quality HealthCare Asia Limited
卓健亞洲有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 593)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR 2009

CHAIRMAN'S STATEMENT

I am pleased to present the annual results of Quality HealthCare Asia Limited (the "Company") and its subsidiaries (collectively the "Group") for the year 2009 to our shareholders. The Group has achieved solid growth in both revenue and net profit for the reporting period. The Company's positive performance reflects the efforts of the management team and the entire staff in the execution of our business plans and our growth strategies.

We take the view that Quality HealthCare is well positioned to support the Hong Kong Government in its healthcare reform initiatives directed towards striking a better balance between private and public healthcare provision and establishing a sustainable healthcare financing model. According to the Government's Budget for 2010-11, it is estimated that recurrent expenditure on health will reach around HK\$37 billion in 2010-11, accounting for 16.1% of recurrent government expenditure. The Government has pledged to further increase health expenditure to 17% of recurrent government expenditure by 2012 and will seek to make efficient use of the additional funding to improve services and move healthcare reform forward. According to the Government's Budget 2010-11, the Working Group on Primary Care, chaired by the Secretary for Food and Health has put forward a number of proposals to strengthen primary care services, including the extension of the pilot project to enhance support to chronic patients, setting up community health centres or networks, and enhancing primary dental services and oral health promotion programmes, particularly those for the elderly. The Government is also considering revising the value of health care vouchers and adjusting the age limit under the Elderly Health Care Voucher Pilot Scheme. Quality HealthCare will continue to participate and support the Government in these initiatives.

* For identification purposes only

The Group has continued to expand its medical network in the community, providing an integrated range of primary and secondary healthcare services. We are also seeking to develop more extensive wellness services to assist our clients in the early detection, prevention and active management of chronic diseases. We support the Government's new pilot subsidy scheme to be launched in June 2010 enabling patients with diabetes and high blood pressure in the Shatin and Tai Po areas to seek medical care in the private sector. We understand that the scheme will be extended to other clusters in the next stage of development.

The Group has continued to devote resources towards enhancing our capacity to provide efficient and patient-focused care through active staff and client engagement, systems enhancement and process re-engineering. Significant investment in the restructuring and upgrading of IT infrastructure will be made in 2010, in line with Hong Kong Government's intention to have e-health records territory-wide and to increase our operational efficiency. We have also continued to diversify our offerings to provide lifestyle and aesthetics services to the Hong Kong community, and visitors from China, with the same high level of quality and professionalism. The Group will develop two medical spas and specialist diagnostic facility in the coming year. At the same time, the Group continues to seek opportunities for establishing our footprint in China. As healthcare reforms are being rolled out in China, we look forward to assessing potential opportunities in healthcare related businesses, such as medical equipment distribution, healthcare management and consultancy, as well as healthcare service provision.

The Board has in the past indicated that it has been actively exploring opportunities for the deployment of cash surplus to its operational requirements and has also taken the view that if no suitable opportunities were identified it would utilise various methods to return an appropriate portion of these funds to shareholders.

The Board has reviewed the Company's present position and has decided that the Company has funds excess to its current requirements. Accordingly, the Board has decided to return HK\$99 million (net of expenses) of these surplus funds to shareholders via the following two-step process in lieu of proposing a final dividend for 2009.

Firstly, the Company will undertake a share buy back at HK\$4.1 per share to utilise the HK\$99 million. This will enable any shareholders who wish to dispose shares an opportunity to do so at a price which the Board considers appropriate and reasonable for the Company and all its shareholders.

Secondly, the Board has stated its intention to declare a special dividend to remaining shareholders of any balance of the HK\$99 million not utilised for the share buy back. The Company currently expects that it should also be able in the ensuing year to maintain its general dividend policy of paying approximately 40% of its after tax profits as dividends.

A separate announcement containing details of the share buy back has been issued by the Company on 24 March 2010.

2009 has been a challenging and rewarding year for the Group, and we will continue to focus the Group on further growth in the coming year. I would like to express the Group's appreciation to all our staff for their dedication and effort in 2009 in delivering professional and caring service to our clients. I would also like to thank my fellow Directors, our network of doctors, our professional advisors and finally our shareholders for their continuous support during the year.

GROUP RESULTS

The board of directors (the "Board" or the "Directors") of the Company herein presents the consolidated statement of comprehensive income for the year ended 31 December 2009 and the consolidated statement of financial position as at 31 December 2009 of the Group. This annual results announcement has been reviewed by the Company's Audit Committee.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i> (Restated)
Revenue	4	1,100,812	978,264
Other income and gains		25,602	17,310
Changes in inventories recognised as an expense		(63,905)	(55,829)
Employee benefits expense		(429,745)	(374,893)
Depreciation		(20,000)	(18,301)
Other expenses, net		(523,777)	(471,333)
Finance cost		(1)	(62)
Share of profit of a jointly controlled entity		1	54
Profit before income tax	5	88,987	75,210
Income tax expense	6	(13,062)	(10,690)
Profit for the year and total comprehensive income for the year		<u>75,925</u>	<u>64,520</u>
Profit for the year and total comprehensive income attributable to:			
Owners of the Company		<u>75,925</u>	<u>64,520</u>
Earnings per share attributable to the owners of the Company during the year	8		
Basic (HK cents)		<u>33.4</u>	<u>27.2</u>
Diluted (HK cents)		<u>N/A</u>	<u>N/A</u>

Consolidated Statement of Financial Position

as at 31 December 2009

	Notes	2009 HK\$'000	2008 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		38,513	44,555
Goodwill		17,414	17,414
Other intangible assets		9,880	9,880
Interest in a jointly controlled entity		375	525
Deposits for purchases of items of property, plant and equipment		2,083	1,483
Financial assets at fair value through profit or loss		52,388	–
		<u>120,653</u>	<u>73,857</u>
Current assets			
Inventories		16,532	15,945
Trade receivables	9	134,669	129,335
Prepayments, deposit and other receivables		39,251	39,760
Tax recoverable		3,420	3,466
Cash and cash equivalents		226,939	230,031
		<u>420,811</u>	<u>418,537</u>
Current liabilities			
Trade payables, other payables, accruals and deposits received	10	178,990	161,491
Deferred revenue		19,354	17,180
Hire purchase contract payable		–	3
Tax payable		2,933	9,062
		<u>201,277</u>	<u>187,736</u>
Net current assets		<u>219,534</u>	<u>230,801</u>
Total assets less current liabilities		<u>340,187</u>	<u>304,658</u>
Non-current liabilities			
Deferred tax liabilities		300	508
Net assets		<u>339,887</u>	<u>304,150</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		22,504	22,987
Reserves		317,383	255,394
Proposed final dividend		–	25,769
Total equity		<u>339,887</u>	<u>304,150</u>

Notes:

1. GENERAL INFORMATION

During the year, the Group was involved in the following principal activities:

- provision of medical services
- provision of nursing agency, physiotherapy, dental and other services
- provision of elderly care services

2. ADOPTION OF NEW OR AMENDED HONG KONG FINANCIAL REPORTING STANDARDS

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”).

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual financial period beginning on 1 January 2009.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate
HKFRS 2 (Amendment)	Share-based payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving disclosures about financial instruments
HKFRS 8	Operating Segments
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate
Various	Annual improvements to HKFRSs 2008

Other than as noted below, the adoption of these new HKFRSs has had no material effect on how the results and financial positions for the current and prior periods have been prepared and presented.

HKAS1 (Revised 2007) Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. A third statement of financial position as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements. It also gives rise to additional disclosures.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income, for example revaluation of property, plant and equipment. HKAS 1 affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income". Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting policies on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or parent company statement of financial position at 1 January 2008 and accordingly the third statement of financial position as at 1 January 2008 is not presented.

HKAS 27 (Amendments) Cost of an investment in a subsidiary, jointly controlled entity or an associate

The amendment requires the investor to recognise dividends from a subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions are out of the investee's pre-acquisition or post-acquisition reserves. In prior years, the Company recognised dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries, jointly controlled entity or associates (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognised as income in profit or loss.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Company's accounting policy on impairment of non-financial assets.

The new accounting policy has been applied prospectively as required by these amendments to HKAS 27 and therefore no comparatives have been restated.

HKFRS 7 (Amendments) Improving disclosures about financial instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

HKFRS 8 Operating segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously under HKAS 14 Segment Reporting.

Annual improvement 2009

In May 2009, the HKICPA issued annual improvement 2009 that include an amendment to the Appendix to HKAS 18 Revenue which provides additional guidance to determine whether an entity is acting as a principal or an agent. As the amendment is to the Appendix of HKAS 18, no effective date or transitional provision is specified in the amendment.

The amendment to the Appendix to HKAS 18 provides additional guidance (the “Additional Guidance”) to determine whether an entity is acting as a principal or an agent. Such determination requires judgment and consideration of all relevant facts and circumstances. With reference to the Additional Guidance, the Group has re-assessed certain of its business arrangements. As a result of the assessment, the Group has retrospectively changed the recognition and reporting/presentation of revenue arising from certain arrangements previously reported/presented on a gross basis (that is, based on the gross amount billed to a customer) to the net basis (that is, based on the amount billed to the customer less the amount paid to the corresponding supplier) as, in the opinion of the directors, it would result in a more appropriate presentation of the revenue of the Group based on the substance of the underlying arrangements.

The effect of the change in reporting/presentation of the consolidated statement of comprehensive income is summarised below:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Decrease in revenue – Medical services	96,324	91,704
Decrease in other expenses, net	<u>(96,324)</u>	<u>(91,704)</u>
Net change to the profit for the year	<u><u>-</u></u>	<u><u>-</u></u>

Such change in reporting/presentation has had no impact to the profit attributable to owners of the Company and earnings per share of the Group for the years ended 31 December 2009 and 2008 or the retained profits and other components of the equity of the Group as at 1 January 2009 and 2008.

Save as detailed above and except for in certain cases, giving rise to new and revised accounting policies, revised presentation and additional disclosures, the adoption of these new HKFRSs has had no significant financial effect on these financial statements.

Apart from the above, certain new and amended HKFRS have been published but are not yet effective, and have not been adopted early by the Group.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group’s accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group’s accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group’s financial statements.

HKFRS 3 Business combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors of the Company are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

HKAS 27 Consolidated and separate financial statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors of the Company do not expect the standard to have a material effect on the Group's financial statements.

3. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide but under the overall control of the Chief Executive Officer reporting to the Board of Directors. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments. Summary details of the operating segments are as follows:

- (a) the medical services segment engages in the provision of medical services;
- (b) the nursing agency, physiotherapy, dental and other services segment engages in the provision of nursing agency, physiotherapy, dental, LASIK, ophthalmic and psychological services;
- (c) the elderly care services segment engages in the provision of elderly care services; and
- (d) the corporate and other segment comprises the Group's intra-group management service operations, which principally provides management, treasury and other services to group companies, together with other corporate income and expense items.

Inter-segment sales and transfers are transacted at mutually agree terms.

Information regarding the Group's reportable segments as provided to the Group's executive directors is set out below:

	Medical services		Nursing agency, physiotherapy, dental and other services		Elderly care services		Corporate and other		Eliminations		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)										(Restated)
Income from external customers	905,262	784,509	97,201	97,557	98,349	96,198	-	-	-	-	1,100,812	978,264
Income from inter-segment*	1,248	1,171	26,810	25,234	5,295	5,184	123	200	(33,476)	(31,789)	-	-
Other income and gain#	15,028	10,508	1,033	1,001	493	296	840	840	-	-	17,394	12,645
Reportable segment revenue	<u>921,538</u>	<u>796,188</u>	<u>125,044</u>	<u>123,792</u>	<u>104,137</u>	<u>101,678</u>	<u>963</u>	<u>1,040</u>	<u>(33,476)</u>	<u>(31,789)</u>	<u>1,118,206</u>	<u>990,909</u>
Reportable segment results	<u>72,578</u>	<u>63,397</u>	<u>10,192</u>	<u>9,586</u>	<u>7,718</u>	<u>6,536</u>	<u>(9,709)</u>	<u>(8,966)</u>	<u>-</u>	<u>-</u>	<u>80,779</u>	<u>70,553</u>
Unallocated interest and dividend income											3,836	4,665
Fair value gains on financial assets at fair value through profit or loss											4,372	-
Finance cost											(1)	(62)
Share of profit of a jointly controlled entity	1	54	-	-	-	-	-	-	-	-	1	54
Profit before income tax											88,987	75,210
Income tax expense											(13,062)	(10,690)
Profit for the year											<u>75,925</u>	<u>64,520</u>

Excluding unallocated interest and dividend income and fair value gains on financial assets at fair value through profit or loss.

* These figures are not included in revenue mentioned elsewhere in these financial statements.

	Medical services		Nursing agency, physiotherapy, dental and other services		Elderly care services		Corporate and other		Eliminations		Consolidated	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	290,772	310,243	26,274	39,947	37,433	32,842	130,802	105,371	-	-	485,281	488,403
Interest in a jointly- controlled entity	375	525	-	-	-	-	-	-	-	-	375	525
Financial assets at fair value through profit or loss											52,388	-
Tax recoverable											3,420	3,466
Total assets											<u>541,464</u>	<u>492,394</u>
Reportable segment liabilities	162,892	145,091	16,357	16,580	14,091	12,816	5,004	4,184	-	-	198,344	178,671
Hire purchase contract payable											-	3
Tax payable											2,933	9,062
Deferred tax liabilities											300	508
Total liabilities											<u>201,577</u>	<u>188,244</u>
Depreciation	15,156	12,285	3,807	4,520	823	1,335	214	161	-	-	20,000	18,301
Impairment losses of trade receivable	600	2,829	-	921	66	32	-	-	-	-	666	3,782
Loss on disposal/ write- off of items of property, plant and equipment, net	254	21	6	43	13	17	-	-	-	-	273	81
Capital expenditure	<u>12,723</u>	<u>24,302</u>	<u>1,122</u>	<u>5,112</u>	<u>475</u>	<u>610</u>	<u>24</u>	<u>359</u>	<u>-</u>	<u>-</u>	<u>14,344</u>	<u>30,383</u>

No further geographical information is presented as over 90% of the Group's revenue is derived from customers based in Hong Kong, and over 90% of the Group's assets are located in Hong Kong.

The largest external customer of medical services segment accounted for 11.2% (2008: 12.1%) of the Group's revenue.

4. REVENUE

The Group's principal activities are disclosed in note 1. Turnover of the Group is the revenue from these activities.

Revenue from the Group's principal activities recognised during the year is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i> (Restated)
Revenue from rendering:		
– Medical services	905,262	784,509
– Nursing agency, physiotherapy, dental and other services	97,201	97,557
– Elderly care services	98,349	96,198
	<hr/>	<hr/>
Total revenue	<u>1,100,812</u>	<u>978,264</u>

5. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived after charging/(crediting):

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Impairment losses on trade receivables	666	3,782
Loss on disposal/write-off of items of property, plant and equipment, net	273	81
Bank interest income (<i>note</i>)	(966)	(3,794)
Interest income from financial assets designated at fair value through profit or loss (<i>note</i>)	(2,270)	–
Sales of medicine and dispensary supplies (<i>note</i>)	(5,418)	(5,103)
Rental income from sub-lease (<i>note</i>)	(107)	(106)
Dividend income from unlisted investments (<i>note</i>)	(600)	(871)
Gain on distribution of assets (<i>note</i>)	(377)	–
Fair value gains on financial assets designated at fair value through profit or loss (<i>note</i>)	(4,372)	–
	<hr/> <u>(4,372)</u>	<hr/> <u>–</u>

Note: Included in “Other income and gains” on the face of the consolidated statement of comprehensive income.

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits for the year has been calculated on the estimated assessable profit for the year at the rate of taxation prevailing in the country in which the Group operates. No overseas profits tax was provided for the year ended 31 December 2008 as there was no estimated assessable profits.

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Current tax – Hong Kong		
Charge for the year	13,771	12,130
Overprovision in prior years	<u>(514)</u>	<u>(815)</u>
	13,257	11,315
Current tax – Overseas	<u>13</u>	<u>–</u>
	13,270	11,315
Deferred tax – current year	<u>(208)</u>	<u>(625)</u>
Total income tax expense	<u>13,062</u>	<u>10,690</u>

7. DIVIDENDS

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Proposed final – Nil (2008: HK11.25 cents) per ordinary share	<u>–</u>	<u>25,769</u>
	<u>–</u>	<u>25,769</u>

8. EARNINGS PER SHARE

The calculation of the basic earnings per share amounts is based on the profit attributable to owners of the Company of HK\$75,925,000 (2008: HK\$64,520,000) and the weighted average number of ordinary shares of 227,530,468 (2008: 237,185,926) in issue during the year.

No diluted earnings per share is presented for the years ended 31 December 2008 and 2009, as the Company had no potential ordinary shares outstanding during the respective years.

9. TRADE RECEIVABLES

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Trade receivables, gross	138,869	136,134
Less: Provision for impairment of trade receivables	<u>(4,200)</u>	<u>(6,799)</u>
Trade receivables, net	<u><u>134,669</u></u>	<u><u>129,335</u></u>

Trade receivables generally have 30 to 60 days' credit terms and no interest is charged to the Group's business-related customers. The Group has a credit policy in place, and exposures are monitored and overdue balances are reviewed by senior management on an ongoing basis. Based on the invoice dates, the ageing analysis of trade receivables, gross is as follows :

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Current to 30 days	95,709	80,765
31 to 60 days	18,632	20,347
61 to 90 days	6,832	7,906
Over 90 days	<u>17,696</u>	<u>27,116</u>
	<u><u>138,869</u></u>	<u><u>136,134</u></u>

10. TRADE PAYABLES, OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Trade payables	28,866	23,700
Other payables, accrued expenses and deposits received	<u>150,124</u>	<u>137,791</u>
	<u><u>178,990</u></u>	<u><u>161,491</u></u>

Based on the invoice dates, the ageing analysis of the trade payables were as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Current to 90 days	26,389	23,033
91 to 180 days	1,760	230
Over 181 days	<u>717</u>	<u>437</u>
	<u><u>28,866</u></u>	<u><u>23,700</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

- (i) The Group delivered a net profit of HK\$75.9 million in 2009, a 17.7% growth compared to HK\$64.5 million in 2008. The profit growth was inclusive of fair value gains on financial assets designated at fair value through profit or loss of HK\$4.4 million. Basic earnings per share for 2009 were HK33.4 cents compared to HK27.2 cents in 2008.
- (ii) Revenue for the Group in 2009 increased by 12.5%, including full year contribution of GHC Medical group, to HK\$1,100.8 million from HK\$978.3 million (as restated) in 2008.
- (iii) Profit before income tax was HK\$89.0 million in 2009 compared to HK\$75.2 million in 2008. Quality HealthCare Medical Services (“QHMS”) delivered divisional profit of HK\$72.6 million in 2009, up 14.5% on 2008; Quality HealthCare Services (“QHS”) delivered divisional profit of HK\$10.2 million, up 6.3% on the previous 12 months. Divisional profit for Quality HealthCare Elderly Services (“QHES”) was HK\$7.7 million, an increase of 18.1% compared with 2008.

Finance costs of the Group amounted to HK\$1,000 for the year.

Net cash inflow from operating activities for the year was HK\$96.3 million (2008: HK\$101.6 million). Cash and bank balances at 31 December 2009 were HK\$226.9 million (2008: HK\$230.0 million).

Net assets at 31 December 2009 was HK\$339.9 million compared to HK\$304.2 million at 31 December 2008.

Divisional Report

Quality HealthCare Medical Services (QHMS)

Income from external customers in 2009 increased by 15.4% to HK\$905.3 million, compared to HK\$784.5 million (as restated) in 2008, while divisional profit in 2009 was HK\$72.6 million, an increase of 14.5% compared to HK\$63.4 million in 2008. Major contributors to this result are summarised below.

Network growth

As a result of the acquisition of GHC Medical group in late 2008 and the opening of new core medical centres, QHMS expanded from 42 to 58 core medical centres in 2009. This expanded General Practice service base for QHMS was well received by our clients, accounting for over 40% of the revenue growth in 2009. In addition, QHMS continued to explore new channels for expanding our network, and in 2009 we opened our first medical centre within the Mannings store in Jordan.

Specialist Care

Expanding our specialist services continued to be a key initiative. In 2009, we commenced our first community specialist centre in Shatin, and we also devoted resources towards enhancing the facilities of our minor operating theatres at the different medical centres. There was an 18% increase in the number of in-patient cases in 2009, and this together with the specialist care delivered at our out-patient settings, has accounted for over 30% of the revenue growth for the reporting period. We will continue to expand our specialist services and will establish a diagnostic facility in 2010.

Lifestyle and Aesthetic Services

Cosmetic skin services grew steadily in 2009, addressing the lifestyle needs of our clients. Together with our standalone cosmetic skin centre CASE, our lifestyle and aesthetic services contributed 16% of revenue growth for 2009. We will make efforts to expand the market share and presence of CASE in the coming year as a complementary service to the medical services offered through our physicians. Revenue from our Chinese Medicine services increased by 8% in 2009 compared with 2008, and the total number of visits also showed a slight increase of 2%. A new standalone Chinese Medicine centre opened in late 2009 in the Kowloon East area, providing a full range of consultation, treatment and product sales.

Third Party Administration

Our third party administration services continued to expand, contributing 8% of the revenue growth for 2009. We will develop these services further as opportunities arise.

Strategic Focus

QHMS has continued to focus on three areas to maintain growth.

Enhancing Operational Efficiency

With the steady growth in the scale and complexity of our business, the management team has devoted resources towards revamping our IT platform with the object of enhancing operational efficiencies at both the frontline and head office. This will help us to maintain our competitive edge and protect our business margin through lower costs. We plan to continue invest in IT development in the next two to three years.

Achieving Service Excellence

Key performance indicators have been developed for the medical centres and our different departments to allow regular reviews and audits. We also expanded our Customer Service Department in 2009 to enhance our capacity to support our customers, doctors and business counterparts. We are pleased to report that in our 2009 annual customer satisfaction survey, 88% of the respondents rated us “above average” and “very satisfied” in the overall rating of our medical centres and service. We continue

to have a strong retention rate among our corporate and insurance clients with no loss of any major accounts in 2009.

Engaging Our Customers

We have continued to develop our knowledge management platform so that different teams can work closely to share their knowledge and formulate new ideas to engage our customers. A new self service knowledge base has been introduced to our new corporate website whereby our customers can search for information in an efficient manner. We have also been working closely with our corporate and insurance partners to identify key areas in our current business processes that can be streamlined and automated to further reduce costs in health delivery and management.

Growth Opportunities

QHMS will continue with the expansion of its network and its specialist care services, as well as its lifestyle and aesthetics services. With the ageing population, increased prevalence of chronic disease, and higher demand for quality of life, we will devote resources to develop new centres focusing on promotion of wellness, including screening and specialised programs to prevent and manage health risks.

We believe that our medical and wellness network will serve the needs of the private sector, and is also well positioned to support the Government in serving clients currently in the public sector, as well as visitors from China. In addition, our management team will continue to explore growth platforms in China for Quality HealthCare.

Quality HealthCare Services (“QHS”)

Income from external customers of QHS recorded a slight decrease of 0.4% to HK\$97.2 million in 2009, compared to HK\$97.6 million in 2008. However, divisional profit increased by 6.3% to HK\$10.2 million in 2009 compared to HK\$9.6 million in 2008.

Key Initiatives

Our Nursing Agency was awarded ISO 9001:2008 Quality Management System accreditation in 2009. Despite the severe shortage of nurses in the market, Nursing Agency was successful in growing its staff relief business for public and private hospitals, and will continue exploring new service niches. We are pleased to note that in the Government’s Budget 2010-11, one of the key initiatives to be funded by the Hospital Authority is the strengthening of the training of nurses to meet service growth and development needs. It is expected that 1,400 nurses will graduate in 2010, an increase of 40% over 2009, and the number will rise to 2,150 in 2012.

During the reporting period, Dental services continued to expand its network with the addition of a new clinic in the New Territories. The division also developed its new line of facial aesthetic service products as an adjunct to its core cosmetic dental services, and the implant dentistry service was

expanded to the General Practitioner level for easier access by clients. In 2009, there was an 8.6% growth in the enrolment of corporate dental services. Dental will continue to expand its network and upgrade its facilities with a new flagship centre in Central in 2010.

Physiotherapy services saw a 3% increase in total attendance in 2009 compared to the previous year and will continue to explore further network expansion opportunities. At the same time, more corporations approached our physiotherapists for customised advice on workstations and further resources will be devoted to expand services in this area.

Following the relocation of our ophthalmic centre to Mongkok in December 2008, we have also added ophthalmic services to one of our medical centres in Central in 2009. Our Cataract centre recorded steady growth in cataract surgeries in 2009. With the long waiting list for cataract surgeries in the public sector, we are well positioned to support the Government's initiatives to shorten the waiting list through the cataract surgeries outsourcing program.

Psychological services recorded a 55% growth in the number of corporate clients subscribing for its Employee Assistance Program and over 70% growth in number of attendances for individual counseling services. We have developed with our strategic partner an online wellness portal with content and language capabilities that suit the Asia Pacific region: this new service was launched in late 2009. Psychological services will continue to expand its services in conjunction with the overall, delivery of wellness services.

Quality HealthCare Elderly Services (“QHES”)

QHES achieved a growth of 2.2% in income from external customers to HK\$98.3 million in 2009. The divisional profit increased by 18.1% from HK\$6.5 million in 2008 to HK\$7.7 million in 2009, reflecting increases in home occupancy and service fees.

With the recovery in the economy and an active employment market, QHES faces the dual challenges of staff shortages and cost escalation. The high demand for nurses in the market caused significant difficulties in recruitment even at escalated salaries. In addition, rental and other operating costs also increased. However, we managed to reduce margin pressure by an increase in monthly service fees.

According to the latest projection from the Hong Kong Government, the number of people aged 65 or above will double sharply in the next 20 years. At present, on average, one in every eight persons in Hong Kong is 65 or over. By 2036 it is expected to be one in every four persons. The demand for elderly care and health services are expected to continue to grow substantially.

In view of this situation, the Government announced in the 2010-11 Budget that it will strengthen residential care services for elderly people who cannot be taken care of at home, especially frail elderly people requiring nursing care. In January 2010, the Elderly Commission released its consultancy study report on Residential Care Services for the Elderly. It pointed out that, with a rapidly ageing population, a longer life expectancy and a low tax regime, increasing the supply of subsidised residential care places alone will not be sufficient to meet the ever-growing demand for long-term care services of the

elderly. The study recommends that the Government should develop community care services to help the elderly age in place.

The Government has agreed with the general direction of “ageing in place” advocated in the study report, which is in line with the Government’s policy of “supporting ageing in the community as the core, institutional care as back-up”. The Government will launch an elderly home care pilot scheme to provide more personalised home care services for the elderly who are waiting for nursing home places.

QHES believes that with its experience and its professional staff, which includes registered/enrolled nurses, physiotherapists, social workers and occupational therapists, the Company is well-positioned to support the above initiatives.

People

The Group is proud to congratulate the 37 awardees for 10-year, 15-year, 20-year and 25-year Long Service Awards, and the 18 Service Ambassador awardees. Six of our medical centres, one dental and one physiotherapy centre were recognised as Centres of Excellence, while five medical centres received Centre Service Improvement Awards. We congratulate all our awardees for their excellent achievements. We are also proud to report that Dr. Lincoln Chee, Chief Executive Officer of Quality HealthCare Asia Limited, was a winner of the Outstanding Entrepreneurship Award presented by Asia Pacific Entrepreneurship Awards 2009 Hong Kong.

Active staff engagement to assist our staff to grow and excel in their profession and career path, continues to be our key priority. We have initiated a series of occupational health and safety audits to enhance the well being of our staff, and we organised our first Corporate Wellness Day in December 2009 at our head office.

Community Obligations

In 2009, our staff has participated actively in the Group’s community projects, including Walk Up Jardine House organised by Mindset Limited, and Heart-to-Heart Charity Walk organised by the Children’s Heart Foundation. Donations were made to the Hong Kong Cancer Fund; Ronald McDonald House Charities Hong Kong Limited; Hong Kong Red Cross; and Bring Me a Book Hong Kong Limited. Total contributions, were over HK\$98,000.

Outlook

Whilst there has been a relatively fast recovery of the Hong Kong economy, challenges remain as corporations are conservative in their budget and manpower planning. Rising costs in the health care sector remain a significant issue. Quality HealthCare will continue to focus on understanding the needs of our customers, and delivering quality services that are caring, affordable, ethical, and responsive to the changing environment. We will continue to invest and develop opportunities as they are identified.

Our management team continues to focus on our core competencies in providing an integrated range of health and wellness services for the Hong Kong community, while actively and responsibly exploring expansion opportunities in China.

Financial Resources and Liquidity

As at 31 December 2009, the equity attributable to owners of the Company amounted to HK\$339.9 million, representing an increase of HK\$35.7 million from that of 31 December 2008. During the year, the issued share capital of the Company was reduced by HK\$483,000 as a result of the repurchase and cancellation of 4,836,452 ordinary shares with par value of HK\$0.1 each, for an aggregate consideration of HK\$14,550,000 (including expenses).

The Group's cash and bank balances amounted to HK\$226.9 million (31 December 2008: HK\$230.0 million). It is the Group's objective to ensure there are adequate funds to meet its liquidity requirements in the short and longer term.

In 2009, the Group purchased bonds in a number of reputable listed companies in Hong Kong to enhance the interest yield on temporarily surplus funds. The bonds are classified as "financial assets at fair value through profit or loss" in the financial statements. The value of the Group's bond investments amounted to HK\$52.4 million as at 31 December 2009 and the Group recorded a fair value gain to the profit or loss of HK\$4.4 million since their acquisition.

The Group made no bank and other borrowings at 31 December 2009. As at 31 December 2008, the only outstanding borrowing was an obligation under a hire purchase contract of approximately HK\$3,000.

Since the Group had no bank and other borrowings, the gearing ratio comparing net debt (borrowings net of cash and bank balances available) to equity was not applicable at 31 December 2009.

Currency and Financial Risk Management

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

All bank facilities are denominated in Hong Kong dollars. Interest is chargeable on a floating rate basis with reference to Hong Kong Best Lending Rate or HIBOR.

Most cash and bank balances are denominated in Hong Kong dollars. Short-term time deposits are made for varying periods between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

As at 31 December 2009, the Group had certain foreign currency assets denominated in US dollars. As the Hong Kong dollar is pegged to the US dollar, the Group considers the foreign exchange risk to be insignificant, and accordingly, it does not have any requirement to use financial instruments for hedging purposes.

Pledge of Assets

At 31 December 2009, the Group had no assets under pledge.

Contingent Liabilities

As at 31 December 2009 and 2008, the Group was engaged in certain litigation and claims which have not been disclosed in detail, as the possibility of an outflow of resources embodying material economic benefits is considered remote.

Material Acquisition and Disposal of Subsidiaries and Associates

During the year, there was no material acquisition or disposal of subsidiaries and associates by the Group.

Management and Staff

At 31 December 2009, the total number of employees was approximately 1,140. Total staff costs amounted to approximately HK\$429.7 million (2008: HK\$374.9 million). The Group offers competitive remuneration packages, together with discretionary bonuses to its staff, based on industry practices, individual and Group performances. The Group also offers training courses and continuous education sessions as part of the Group's emphasis on staff training and development.

DIVIDEND

The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2009 (2008: HK11.25 cents).

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2009, the Company has applied the principles of, and complied with, the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except for certain deviations which are summarised below:

Code Provisions B.1.3 and C.3.3

Code provisions B.1.3 and C.3.3 of the CG Code stipulate that the terms of reference of the Remuneration Committee and Audit Committee should include, as a minimum, those specific duties as set out in the respective code provisions.

The terms of reference of the Remuneration Committee adopted by the Company are in compliance with the code provision B.1.3, except that the Remuneration Committee should review (as opposed to determine under the code provision) and make recommendations to the Board on the remuneration packages of the Executive Directors only and not senior management (as opposed to Executive Directors and senior management under the code provision).

The terms of reference of the Audit Committee adopted by the Company are in compliance with the code provision C.3.3, except that the Audit Committee should recommend (as opposed to implement under the code provision) the policy on the engagement of the external auditors to supply non-audit services.

The reasons for the above deviations were set out in the section “Corporate Governance Report” contained in the Company’s annual report for the financial year ended 31 December 2008. The Board has reviewed the terms during the year under review and considers that the Remuneration Committee and the Audit Committee should continue to operate according to the terms of reference adopted by the Company. The Board will review the terms at least annually and make appropriate changes if considered necessary.

Further information on the Company’s corporate governance practices during the year under review will be set out in the corporate governance report to be contained in the Company’s 2009 annual report which will be sent to the shareholders of the Company before end April 2010.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2009, the Company repurchased a total of 4,836,452 shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of approximately HK\$14,550,000 (including expenses). All the repurchased shares were subsequently cancelled.

Particulars of the repurchases are as follows:

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Price per share		Aggregate consideration paid (including expenses) HK\$'000
		Highest HK\$	Lowest HK\$	
February 2009	818,000	1.95	1.90	1,598
April 2009	1,124,452	2.20	2.20	2,485
May 2009	40,000	2.62	2.60	105
June 2009	482,000	2.70	2.60	1,276
July 2009	480,000	3.07	2.70	1,398
September 2009	256,000	4.05	3.89	1,017
October 2009	1,344,000	4.10	3.90	5,485
November 2009	292,000	4.10	4.00	1,186
	4,836,452			14,550

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the year ended 31 December 2009.

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with the management of the Company the Group's annual results for the year ended 31 December 2009.

SCOPE OF WORK OF GRANT THORNTON

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2009 have been agreed by the Group's auditors, Grant Thornton, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Grant Thornton in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Grant Thornton on the preliminary announcement.

PROPOSED AMENDMENTS TO THE BYE-LAWS

In order to bring the bye-laws of the Company (“Bye-laws”) in line with certain recent changes to the Listing Rules and current requirements of the Companies Act of Bermuda, the Directors have proposed to amend the Bye-laws relating to, among other things, the use of websites for communication with shareholders, the minimum notice period for general meetings, the mandatory poll voting at general meetings and allowing the Directors to fill the causal vacancy of auditors.

The proposed amendments to the Bye-laws will be subject to approval of the shareholders of the Company (the “Shareholders”) by way of special resolutions to be proposed at the 2010 Annual General Meeting of the Company (“AGM”). Full text of the special resolutions containing details of the proposed amendments to the Bye-laws and the adoption of the reprinted Bye-laws will be contained in the notice of the AGM. A circular containing, inter alia, the notice of the AGM, will be despatched to Shareholders in due course.

On behalf of the Board
Arthur George Dew
Chairman

Hong Kong, 24 March 2010

As at the date of this announcement, the Board comprises Dr. Lincoln Chee Wang Jin (Chief Executive Officer) and Mr. Mark Wong Tai Chun being the Executive Directors, Mr. Arthur George Dew (Chairman) being the Non-Executive Director, and Messrs. Francis J. Chang Chu Fai (Deputy Chairman), Li Chak Hung and Carlisle Caldwell Procter being the Independent Non-Executive Directors.