



Quality HealthCare Asia Limited

卓健亞洲有限公司*

(Incorporated in Bermuda with limited liability)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION



ehealthcareasia Limited

(Incorporated in Bermuda with limited liability)

MAJOR AND CONNECTED TRANSACTION

QHA and the Licensor entered into the Licence Agreement on 24 December 2001 pursuant to which the Licensor has agreed to grant QHA or its nominees an exclusive and perpetual software licence to use and develop the LEON/REACH software for the QHA Group's use and for use by any Affiliates and franchisees under the management of the QHA Group (excluding the EHA Group) within the Greater China Region. The licence fee of HK\$10 million is arrived at after arm's length negotiation between the parties and shall be payable on Completion by setting off such licence fee from the outstanding loan owing by EHA to QHA pursuant to the Loan Facility. In addition, QHA and the Licensor entered into the S&P Agreement on 24 December 2001 pursuant to which QHA agreed to purchase from the Licensor the tools and equipment presently utilised for the LEON/REACH software for the consideration of HK\$1 million. The consideration for the acquisition of fixed assets by QHA from the Licensor will be satisfied by setting off such consideration sum from the outstanding loan owing by EHA to QHA pursuant to the Loan Facility. Upon completion of the Licence Agreement, the S&P Agreement and the rights issue as announced by EHA on 19 November 2001, the outstanding balance of the loan owing by EHA to QHA will be approximately HK\$29 million, assuming that no further loans will be drawn down by EHA during this period pursuant to the Loan Facility.

EHA is a 53.75% owned subsidiary of QHA. The transactions contemplated under the Licence Agreement and the S&P Agreement constitute a very substantial acquisition and a connected transaction for QHA for the purpose of the Listing Rules and is subject to approval by QHA's Independent Shareholders in a general meeting. QHA will not be treated as a new listing applicant under the Listing Rules as a result of the Licence Agreement and the S&P Agreement. The Licence Agreement and the S&P Agreement also constitute a major and connected transaction for EHA for the purpose of the Listing Rules and is subject to approval by EHA's Independent Shareholders in a general meeting. QHA and its associates (as defined in the Listing Rules) shall abstain from voting at the special general meeting of EHA.

Each of QHA and EHA will appoint an independent board committee to advise its independent shareholders respectively on the terms of the Licence Agreement and the S&P Agreement. Independent financial advisers will also be appointed to advise each of the independent board committees. A circular of each of QHA and EHA containing letters from the respective independent board committees and independent financial advisers, an independent valuation report of the LEON/REACH software and a 100% interest in the QHTS Service Agreement, together with a notice convening a special general meeting will be despatched to the respective shareholders of QHA and EHA as soon as practicable.

The Licence Agreement

Date: 24 December 2001

Parties: ehealthcareasia.com Limited (the Licensor)
QHA (the Licensee)
QHTS (the Warrantor)
EHA

The software to be licensed: the exclusive and perpetual licence to use and develop the LEON/REACH software for the QHA Group's use and for use by any Affiliates and franchisees under the management of the QHA Group (excluding the EHA Group) within the Greater China Region.

For the avoidance of doubt, the Licensor may not use, operate, develop, market, sub-contract, sell, sub-licence, operate or assist any other third-party (excluding QHA) to operate or perform such other acts associated with LEON/REACH within the Greater China Region.

Duration of licence: The licence will commence with immediate effect upon Completion and will continue in perpetuity and QHA or its nominees may continue to use and develop the LEON/REACH software for the QHA Group's use without any further payment to the Licensor

License fee: The licence fee for the LEON/REACH software shall be HK\$10 million, which shall be payable on Completion by setting off such licence fee from the outstanding loan (with a principal amount of approximately HK\$60 million as at the date of this announcement) owing by EHA to QHA pursuant to the Loan Facility.

Sallmanns (Far East) Limited, an independent professional valuer, has valued the exclusive licence to use the LEON/REACH software within Hong Kong and a 100% interest in the QHTS Service Agreement at approximately HK\$16 million as at 1 November 2001. The licence fee is arrived at after arm's length negotiation between the parties and represents a discount of approximately 37.5% to such independent valuation. The discount is mainly attributable to a 75% reduction of the actual customisation costs of HK\$8 million incurred by EHA for modification of the LEON/REACH software to cope with certain specifications required by the QHA Group pursuant to the QHTS Service Agreement, which QHA Directors consider to be sunk cost and therefore have not accounted for as the basis of consideration. QHA will have to further modify the LEON/REACH software after the acquisition of the licence. QHA Directors cannot at this stage ascertain the estimated cost required for modification of the LEON/REACH software. QHA's Directors and EHA's Directors have agreed the licence fee after taking into account, amongst other things, the customisation costs, the anticipated future modification and maintenance costs to be borne by QHA after the acquisition of the exclusive licence and the past and estimated operating results in relation to the services provided under the QHTS Service Agreement. QHA's Directors and EHA's Directors, consider the licence fee to be fair and reasonable and in the interests of the shareholders as a whole of QHA and EHA respectively.

Conditions: The Licence Agreement is conditional upon:

- the passing of necessary resolutions to approve the Licence Agreement by the respective independent shareholders of EHA and QHA in general meetings to be convened; and
- the entering into of a deed of termination of the QHTS Service Agreement and all other ancillary documents in relation thereto.

If the conditions of the Licence Agreement are not fulfilled or (except for condition (i) above) waived by 28 February 2002, the Licence Agreement will be null and void and of no effect

Completion: Completion will take place on the second business day after satisfaction of all the conditions as set out in the Licence Agreement unless otherwise agreed between the parties, to the intent that completion of the Licence Agreement and the S&P Agreement will take place at the same time and QHA shall not be obliged to complete either agreement unless they are completed at the same time.

The S&P Agreement

QHA and the Licensor entered into the S&P Agreement on 24 December 2001 pursuant to which QHA agreed to purchase from the Licensor the tools and equipment presently utilised for the LEON/REACH software for the consideration of HK\$1 million. The net book value of the tools and equipment under the S&P Agreement is approximately HK\$2.6 million. The consideration of HK\$1 million represents a discount of approximately 61% to the net book value of the tools and equipment under the S&P Agreement. The consideration for the acquisition of fixed assets by QHA or its nominees from the Licensor will be satisfied by setting off such consideration sum from the outstanding loan owing by EHA to QHA pursuant to the Loan Facility. The consideration is arrived at after taking into account, amongst other things, the net book values, conditions, replacement value and the anticipated future upgrading costs of such tools and equipment to be borne by QHA. QHA's Directors and EHA's Directors consider such discount rate to be fair and reasonable for computer related tools and equipment.

The S&P Agreement is conditional upon, amongst other things, the passing of necessary resolutions to approve the S&P Agreement by the respective independent shareholders of EHA and QHA in general meetings to be convened. The S&P Agreement is expected to be completed on the same date as the Licence Agreement. If the conditions as set out in the S&P Agreement cannot be fulfilled on or before 28 February 2002, the S&P Agreement will be null and void and of no effect.

Further information on QHA, EHA and the LEON/REACH software

QHA is a listed private sector provider of healthcare services in Hong Kong. QHA integrates a broad spectrum of healthcare services including medical services, coverage, facilities and services for the elderly, nursing, homecare, dental and physiotherapy services. QHA has been providing its integrated network services since January 1998.

EHA is principally engaged in electronically managing enrolment and eligibility checking for healthcare plans, and transacting billing and settlement procedures for healthcare and healthcare insurance industries. EHA also engages in the distribution of technologically advanced medical equipment. The business model of EHA includes the provision of information to the public and the creation of an e-commerce platform linking doctors, hospitals, pharmacies, suppliers and insurance companies.

The LEON/REACH software was developed by EHA. It is a web-based practice and patient management system as well as a record exchange and clearing house system. It provides a secure application service provider based platform for the exchange of medical, health and insurance records and transaction data. The development of the LEON and REACH software started in April and December 2000 respectively. The Licensor may still use, operate, develop, market, sub-contract, sell, sub-licence, operate or assist any other third-party to operate or perform such other acts associated with LEON/REACH outside the Greater China Region.

Termination of the QHTS Service Agreement

On 29 April 2000, QHA and QHTS entered into the QHTS Service Agreement pursuant to which, the QHTS Group (including the Licensor) agreed to provide to members of the QHA Group certain services including, without limitation, services for web-based applications and practice management systems, transaction facilitation services, third party administration services, data mining services and consultation services as well as information and customer services to support WAP (wireless application protocol). The QHTS Service Agreement includes the use by the QHA Group of the LEON/REACH software worldwide. The transactions under the QHTS Service Agreement constituted ongoing connected transactions for QHA and EHA that had been disclosed in their respective circulars dated 5 June 2000 and approved by their respective independent shareholders on 28 June 2000. For the year ended 31 March 2001, the EHA Group processed medical transactions for the QHA Group using the LEON/REACH software and charged the QHA Group transaction processing fees amounting to approximately HK\$17.8 million according to the terms of the QHTS Service Agreement. For the year ended 31 March, 2001, EHA recorded a loss of approximately HK\$37 million from the chat processing operation which included the use of the LEON/REACH software, as the related cost incurred by EHA for the provision of such service exceeded the fee charged to the QHA Group.

QHA's Directors and EHA's Directors consider that the service provided by the LEON/REACH software to QHA is the only recurring service that the QHA Group currently requires from the EHA Group under the QHTS Service Agreement. The grant of an exclusive licence to use LEON/REACH software within the Greater China Region from the Licensor to QHA Group will replace the service currently provided under the QHTS Service Agreement and the termination of the QHTS Service Agreement is one of the conditions of the Licence Agreement. The independent valuation has included the value of a 100% interest in the QHTS Service Agreement (having taken into account,

amongst other things, the past and estimated operating results in relation thereto) in addition to the value of the exclusive licence to use the LEON/REACH software within Hong Kong.

Reasons for the Licence Agreement and the S&P Agreement

QHA's Directors consider that the LEON/REACH software brings greater efficiency to patients and doctors by offering instant eligibility check and claims processing which benefits both the business development and the clients of QHA. The QHA Group has been utilizing the services provided by the Licensor pursuant to the QHTS Service Agreement and the acquisition by QHA of an exclusive and perpetual licence allows the QHA Group to use and develop the LEON/REACH software in the ordinary and usual course of its business without any further payment. The duration of the QHTS Service Agreement is five years, whilst the exclusive licence granted by the Licensor to the QHA Group will be perpetual. The QHA Directors are of the view that the usage of the LEON/REACH software provides value-added services to its clients and is vital to the business operation of the QHA Group.

During the course of 2000 and 2001, EHA has initiated a number of measures to improve its financial position including the disposal of Kin Wing Chinney (BVI) Limited as jointly announced by QHA and EHA on 26 March 2001, and the rights issue and disposal of eHealth Australia Pty Ltd as jointly announced by QHA and EHA on 19 November 2001. The operating environment of EHA has been difficult given the global economic downturn. QHA, as EHA's controlling shareholder, has been extending its continuous support and assisting EHA in reshaping its operations and financial position so that EHA may be better positioned to take up business opportunities which may arise in the future. In this regard, QHA renewed the Loan Facility to EHA on 22 November 2001. QHA has been the sole user of the LEON/REACH software in Hong Kong so far under the QHTS Service Agreement and there are no other users of the LEON/REACH software in other countries. Upon completion of the Licence Agreement, the Licensor will retain all rights and interests associated with the LEON/REACH software outside the Greater China Region. The Licence Agreement will improve the gearing position and reduce the finance costs of EHA. Given that EHA is still owing QHA an outstanding loan amounting to approximately HK\$60 million (before completion of the rights issue of EHA as announced on 19 November 2001 and the Licence Agreement and S&P Agreement) pursuant to the Loan Facility, EHA's Directors are of the view that the grant of the exclusive licence of LEON/REACH software will reduce the liability of EHA Group and also alleviate the financial burden of undertaking a loss making operation. Upon completion of the Licence Agreement, the S&P Agreement and the rights issue as announced by EHA on 19 November 2001, the outstanding balance of the loan owing by EHA to QHA will be approximately HK\$29 million, assuming that no further loans will be drawn down by EHA during this period pursuant to the Loan Facility.

Both QHA's Directors and EHA's Directors, consider the terms of the Licence Agreement and the S&P Agreement to be fair and reasonable and in the interests of the shareholders as a whole of QHA and EHA respectively.

General

Ernst & Young Corporate Finance Limited has been retained as the financial adviser to EHA and QHA in respect of the Licence Agreement and the S&P Agreement.

EHA is a 53.75% owned subsidiary of QHA. The transactions contemplated under the Licence Agreement and the S&P Agreement constitute a very substantial acquisition and a connected transaction for QHA for the purpose of the Listing Rules and is subject to approval by QHA's Independent Shareholders in a general meeting. QHA will not be treated as a new listing applicant under the Listing Rules as a result of the Licence Agreement and the S&P Agreement. The transactions contemplated under the Licence Agreement and the S&P Agreement also constitute a major and connected transaction for EHA for the purpose of the Listing Rules and is subject to approval by EHA's Independent Shareholders in a general meeting. QHA and its associates (as defined in the Listing Rules) shall abstain from voting at the special general meeting of EHA.

Each of QHA and EHA will appoint an independent board committee to advise its independent shareholders on the terms of the Licence Agreement and the S&P Agreement. Independent financial advisers will also be appointed to advise each of the independent board committees. A circular of each of QHA and EHA containing the letters from the respective independent board committees and the independent financial advisers, an independent valuation report of the LEON/REACH software and a 100% interest in the QHTS Service Agreement, together with a notice convening a special general meeting will be despatched to the respective shareholders of QHA and EHA as soon as practicable.

DEFINITIONS

"Affiliate(s)"	any individual or entity that, by virtue of a majority ownership interest, directly controls or is controlled by QHA (or any of its subsidiaries) or any individual or entity that by virtue of a service provider agreement with QHA (or any of its subsidiaries), provides services to the clients of QHA (or any of its subsidiaries), but excluding any member of the EHA Group
"Completion"	completion of the Licence Agreement pursuant to the terms of the Licence Agreement
"EHA"	ehealthcareasia Limited, a 53.75% subsidiary of QHA and a company incorporated in Bermuda with limited liability, the securities of which are listed on the Stock Exchange
"EHA Group"	EHA and its subsidiaries
"EHA's Directors"	the directors of EHA
"EHA's Independent Shareholders"	shareholders of EHA other than QHA and those shareholders of EHA who are interested in the Licence Agreement and/or the S&P Agreement and their respective associates (as defined in the Listing Rules)
"Greater China Region"	the region including the territory of China, Hong Kong, Macau and Taiwan
"LEON/REACH"	a processing system for healthcare services developed by the Licensor as described in this announcement
"Licence Agreement"	the conditional agreement dated 24 December 2001 entered into between QHA, the Licensor, QHTS and EHA in relation to the acquisition by QHA of an exclusive and perpetual right to use and develop the LEON/REACH software for the QHA Group's use within the Greater China Region
"Licensor"	ehealthcareasia.com Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of EHA
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Loan Facility"	the revolving loan facility granted by QHA to EHA pursuant to a loan agreement dated 5 October 2000 as amended by a renewed loan agreement dated 22 November 2001, details of which were disclosed in QHA's announcement dated 22 November 2001
"QHA" or "Licensee"	Quality HealthCare Asia Limited, a company incorporated in Bermuda with limited liability, the securities of which are listed on the Stock Exchange
"QHA Group"	QHA and its subsidiaries
"QHA's Directors"	the directors of QHA
"QHA's Independent Shareholders"	shareholders of QHA other than those who are interested in the Licence Agreement and/or the S&P Agreement and their respective associates (as defined in the Listing Rules)
"QHTS" or "Warrantor"	Quality HealthCare Technologies and Services Limited, a company incorporated in the British Virgin Islands and an indirect wholly owned subsidiary of EHA
"QHTS Service Agreement"	the agreement entered into between QHA and QHTS dated 29 April 2000 together with the relevant supplements
"S&P Agreement"	the conditional agreement dated 24 December 2001 entered into between QHA, EHA and the Licensor in relation to the purchase of the tools and equipment presently utilised for the LEON/REACH software from the Licensor by the QHA Group
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

By order of the Board of
Quality HealthCare Asia Limited
Lam Hon Yiu, Leo
Company Secretary

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ehealthcareasia Limited
Lam Hon Yiu, Leo
Company Secretary

Hong Kong, 24 December 2001

* For identification purposes only