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EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED

精優藥業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 00858)

ACQUISITION OF MINORITY INTEREST IN SMART ASCENT CONNECTED AND DISCLOSEABLE TRANSACTION AND RESUMPTION OF TRADING

On 27 July 2007, the Group entered into the Acquisition Agreement with the Vendor for the acquisition of 49% interest in the share capital of Smart Ascent, the indirect non-wholly owned subsidiary of the Company which is the holding company for the Group's oral insulin operations. Completion is subject to the fulfilment of certain conditions, details of which are set out below.

The Consideration shall be HK\$768.9 million and shall be payable by the Group to the Vendor by the Company allotting and issuing, credited as fully paid, the Consideration Shares to the Vendor at the issue price of HK\$2.563 per Consideration Share in the manner set out below.

As the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Acquisition are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Rule 14.06 of the Listing Rules. Besides, as the Vendor is a substantial shareholder of a subsidiary of the Company by virtue of his interest in Smart Ascent, the Acquisition constitutes a connected transaction for the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

A circular containing, among other things, (1) further information on the Acquisition and the Acquisition Agreement; (2) the recommendation of the Independent Board Committee to the Independent Shareholders; (3) the advice from the Independent Financial Advisers to the Independent Board Committee and the Independent Shareholders; and (4) a notice of the SGM will be despatched to the Shareholders as soon as practicable.

The Directors noted an increase in the price and trading volume of the Shares in the morning of 27 July 2007. In light of the Acquisition, the trading in the Shares on the Stock Exchange was suspended with effect from 12:11 p.m. on 27 July 2007 at the request of the Company pending the release of this announcement and application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 2 August 2007.

THE ACQUISITION AGREEMENT DATED 27 JULY 2007

Parties

Purchaser: Extrawell BVI, a wholly-owned subsidiary of the Company.

Vendor: Mr Ong Cheng Heang, a minority shareholder of Smart Ascent.

Assets to be acquired

The Sale Shares, representing 49% of the issued share capital of Smart Ascent.

Consideration

The Consideration shall be HK\$768.9 million and shall be payable by the Group to the Vendor by the Company allotting and issuing, credited as fully paid, the Consideration Shares to the Vendor at the issue price of HK\$2.563 per Consideration Share in the following manner:

- (i) 273 million Consideration Shares to be allotted and issued, credited as fully paid, to the Vendor on the date of Completion in part payment of the Consideration; and
- (ii) 27 million Consideration Shares to be allotted and issued, credited as fully paid, to the Vendor on the Final Allotment Date.

The above balance of 27 million Consideration Shares shall be allotted and issued to the Vendor only after it has paid the Outstanding Amount, which represents the Outstanding Purchase Price in an aggregate amount of HK\$31,780,000 payable by Smart Ascent for its acquisition of 51% interests in the issued share capital of Fosse Bio in 2004 and all costs (including legal costs), expenses or other liabilities which any of Smart Ascent or Extrawell BVI may incur in connection with the payment of the Outstanding Purchase Price. The Outstanding Purchase Price will be due and payable to the relevant vendor as to HK\$12 million after the issue by the State Food and Drug Administration of the PRC of the certificate of phase III clinical study of the Medicine, and the balance shall be payable after the issuance of the certificate of new medicine for the Medicine by the State Food and Drug Administration of the PRC.

The issue price of HK\$2.563 per Consideration Share to be issued by the Company represents:

- (i) a discount of approximately 15.69% over the closing price of HK\$3.04 per Share as quoted on the Stock Exchange on the last trading day of the Shares immediately before the date of this announcement;
- (ii) a discount of approximately 6.66% over the average closing price of HK\$2.746 per Share as quoted on the Stock Exchange for the last five trading days of the Shares up to and including the date of this announcement;
- (iii) a discount of approximately 2.62% over the average closing price of HK\$2.632 per Share as quoted on the Stock Exchange for the last ten trading days of the Shares up to and including the date of this announcement; and

- (iv) a premium of approximately 1,034.07% over the net asset value of HK\$0.226 per Share as stated in the audited consolidated accounts of the Company for the year ended 31 March 2007.

The Consideration Shares represent approximately 13.10% of the existing issued share capital of the Company and approximately 11.58% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. As the general mandate to issue additional Shares granted to the Directors will expire at the forthcoming annual general meeting of the Company which is expected to be convened in late August or early September. There is no assurance that the SGM can be convened before the forthcoming annual general meeting or a new general mandate will be granted by the Shareholders thereat, or the number of Shares authorised to be allotted and issued under such new general mandate will be sufficient to cover the Consideration Shares. To ensure that the Company will be properly authorised to allot and issue the Consideration Shares pursuant to the terms and conditions of the Acquisition Agreement, the Company will seek the specific mandate from the Independent Shareholders at the SGM for the allotment and issue of the Consideration Shares. The Company will apply to the Listing Committee of the Stock Exchange for the granting of listing of, and permission to deal in, the Consideration Shares on the main board of the Stock Exchange.

The Vendor has undertaken that within the six-month period (“**First Moratorium Period**”) from the date on which such number of the Consideration Shares are allotted and issued to the Vendor, the Vendor will not sell, transfer or otherwise dispose of (or enter into any agreement to dispose of), any of Consideration Shares or any interest therein (collectively, “**Disposal Activities**”), nor permit the registered holder of the Consideration Shares to conduct the Disposal Activities in respect of any of the Vendor’s direct or indirect interests in such Consideration Shares. The Vendor has also undertaken that for a further period of six months commencing from the expiry of the First Moratorium Period, he will not conduct any Disposal Activities in respect of 50% or more of such Consideration Shares or any interest therein, nor permit the registered holders of such Consideration Shares to conduct Disposal Activities in respect of any of the Vendor’s direct or indirect interests in 50% or more of such Consideration Shares.

The Consideration, including the issue price per Consideration Shares was determined after arm-length’s negotiations between the Group and the Vendor with reference to the value of Smart Ascent and its subsidiaries of approximately HK\$2,186 million as at 30 June 2007, as appraised by Castores Magi Asia Limited, an independent professional valuer. Castores Magi Asia Limited has used discounted cash flow method in evaluating the business carried out by Smart Ascent and its subsidiaries. The issue price of the Consideration Shares was based on the last 30-day average closing price of the Shares as quoted on the Stock Exchange.

The Directors consider that the terms of the Acquisition Agreement, including the Consideration and the issue price of the Consideration Shares, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion is conditional upon the following conditions being fulfilled or, as the case may be, waived:

- (i) the Independent Shareholders approving the Acquisition Agreement and the transactions contemplated thereby, including but not limited to the Acquisition and the allotment and issue of the Consideration Shares, and all other consents and acts required under the Listing Rules being obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules being obtained from the Stock Exchange;
- (ii) the Board having approved and authorised the transactions contemplated under the Acquisition Agreement;
- (iii) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Consideration Shares on the main board of the Stock Exchange; and

- (iv) none of the warranties and representations of the Vendor contained in the Acquisition Agreement having been breached in any material respect or being misleading or untrue in any material respect.

The Group may waive the condition (iv) above at its discretion. The Group has no present intention to waive such condition. If any of the conditions set out above has not been satisfied (or, as the case may be, waived by the Group) on or before 12:00 noon on 31 October 2007 or such later date as the Group may agree, the Acquisition Agreement shall cease and determine (save for the provisions in respect of confidentiality thereunder) and none of the parties shall have any obligations and liabilities thereunder save for any antecedent breaches of the terms of the Acquisition Agreement.

The terms for satisfying the allotment and issue of the 27 million Consideration Shares, i.e. the provision of the written evidence showing that the payment of the Outstanding Amount in full or payment of Outstanding Amount for the purposes of payment of Outstanding Purchase Price, does not constitute a condition precedent to the sale and purchase of the Sales Shares.

Completion

Completion shall take place on the 5th Business Day falling on the date of fulfilment or waiver (as the case may be) of the conditions set out in the paragraph above.

EFFECT ON SHAREHOLDING STRUCTURE

The shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately upon the issue and allotment of the Consideration Shares upon Completion and on the Final Allotment Date pursuant to the Acquisition Agreement is as follows:

	As at the date of this announcement		Immediately upon the issue and allotment of the Consideration Shares upon Completion		Immediately upon the issue and allotment of the Consideration Shares on the Final Allotment Date	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
				(Note 1)		(Note 1)
Connected persons' interests						
JNJ Investments Ltd. (Note 2)	450,000,000	19.65	450,000,000	17.56	450,000,000	17.37
Fudan Pharmaceutical Limited (Note 2)	30,000,000	1.31	30,000,000	1.17	30,000,000	1.16
Well Success Limited (Note 3)	52,000,000	2.27	52,000,000	2.03	52,000,000	2.01
The Vendor	0	0.00	273,000,000	10.65	300,000,000	11.58
Public shareholders	1,758,000,000	76.77	1,758,000,000	68.59	1,758,000,000	67.88
Total	2,290,000,000	100.00	2,563,000,000	100.00	2,590,000,000	100.00

Notes:

- This percentage is calculated on the basis of 2,290,000,000 Shares in issue as at the date of this announcement, taking into account 273,000,000 Shares to be issued as consideration but does not take into account of any Shares which will fall to be allotted and issued upon the exercise of the options granted or to be granted under the share option scheme adopted by the Company.
- JNJ Investments Ltd. ("JNJ Investments") and Fudan Pharmaceutical Limited ("FPL") hold 450,000,000, and 30,000,000 Shares respectively.

The entire issued share capital of JNJ Investments is owned by Biowindow Gene Development (Hong Kong) Limited ("HK Biowindow"), the issued share capital of which is owned as to 99% by United Gene Group Ltd., as to 0.99% by United Gene Holdings Limited (聯合基因科技有限公司) (a company established in the PRC) and as to 0.01% by Shanghai Biowindow Gene Development Co., Ltd.. The issued share capital of United Gene Group Ltd. is owned as to 33% by United Gene Holdings Limited (a company incorporated in the British Virgin Islands) ("United Gene-BVI") and as to 33% by Ease Gold Investments Limited. The issued share capital of United Gene-BVI and Ease Gold Investments Limited was wholly-owned by Dr. Mao Yu Min and Dr. Xie Yi respectively, who are the executive Directors.

HK Biowindow owned 80% of the share capital of FPL.

3. The entire issued share capital of Well Success Limited is beneficially owned by Mr. Ho Yu Ling, an executive Director.

As at the date of this announcement, neither the Vendor nor any of his associates has any interest in the issued share capital of the Company. The Vendor has no any relationship with the other three Shareholders, namely, JNJ Investments, FPL and Well Success Limited. As at the date hereof, there was no outstanding share option under the share option scheme adopted by the Company.

INFORMATION ON SMART ASCENT

Smart Ascent is a private company incorporated in Hong Kong with limited liability, having an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each, all of which have been issued and are fully paid and beneficially owned as to 51% by Extrawell BVI and 49% by the Vendor as at the date of this announcement.

Smart Ascent is principally engaged in investment holding and is the holding company for the Group's oral insulin operations. The material assets of which are Fosse Bio and Welly Surplus, both being 51% non wholly-owned subsidiaries of Smart Ascent.

Based on the unaudited consolidated management accounts of Smart Ascent which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, the consolidated net asset value of Smart Ascent was approximately HK\$77,197,000 as at 31 March 2007. For each of the two years ended 31 March 2007, the consolidated net loss before and after taxation and extraordinary items of Smart Ascent amounted to approximately HK\$258,300 and HK\$215,500 respectively.

Upon Completion, Smart Ascent will become an indirect wholly-owned subsidiary of the Company and the financial results of which will continue to be consolidated into the financial statements of the Group.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the marketing and distribution of pharmaceutical products to customers in the PRC, the development, manufacture and sales of pharmaceutical products in the PRC, the business of commercial exploitation and development of genome-related technology and the development and commercialisation of oral insulin products.

Upon Completion, Smart Ascent will become an indirect wholly-owned subsidiary of the Company. By buying out the minority interest in Smart Ascent, the Group will be able to exercise absolute control over the management of, and financial benefits from, Smart Ascent, which is the holding company of Fosse Bio and Welly Surplus. Fosse Bio is principally engaged in the research and development of oral insulin products in collaboration with Tsinghua University, Beijing, and is the developer of the Medicine, which will be launched upon completion of the clinical trial study and the grant of approval by the relevant PRC authority. As disclosed in the Company's announcement dated 24 October 2006, Welly Surplus has also entered into acquisition and cooperation agreement with an independent third party for the acquisition and construction of a new manufacturing plant in the PRC for the manufacturing of the Medicine. Therefore, the Directors believe that the Group will be better positioned to tap the business opportunities arising from the launch of the Medicine and other oral insulin products in the future with the enlarged profit attributable to Shareholders. The Directors consider that the terms of the Acquisition Agreement and the Consideration are in ordinary course of business and on normal commercial terms which are fair and reasonable and in the interest of the shareholders of the Company as a whole.

CONNECTED AND DISCLOSEABLE TRANSACTION

As the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Acquisition are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Rule 14.06 of the Listing Rules. Besides, as the Vendor is a substantial shareholder of a subsidiary of the Company by virtue of his interest in Smart Ascent, the Acquisition constitutes a connected transaction for the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. The Vendor and his associates, and any connected persons of the Company who are materially interested in the Acquisition are therefore required to abstain from voting on the resolution proposed to be passed at the SGM for approving the Acquisition and any matters relating thereto.

SGM AND SHAREHOLDERS' CIRCULAR

In view of the foregoing, the Company will convene a SGM to seek the approval of the Independent Shareholders on the Acquisition, the Acquisition Agreement and the transactions contemplated thereby.

The Company will establish the Independent Board Committee to advise the Independent Shareholders as to whether the Acquisition, the Acquisition Agreement (including the terms of the Consideration) and the transactions contemplated thereby are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the shareholders of the Company as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the independent financial adviser. In this connection, Hantec has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Acquisition, the Acquisition Agreement (including the terms of the Consideration) and the transactions contemplated thereby are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the shareholders of the Company as a whole, and to advise the Independent Shareholders on how to vote.

A circular containing, among other things, (1) further information on the Acquisition and the Acquisition Agreement; (2) the recommendation of the Independent Board Committee to the Independent Shareholders; (3) the advice from the Independent Financial Advisers to the Independent Board Committee and the Independent Shareholders; and (4) a notice of the SGM will be despatched to the Shareholders as soon as practicable.

SUSPENSION AND RESUMPTION OF TRADING

The Directors noted an increase in the price and trading volume of the Shares in the morning of 27 July 2007. In light of the Acquisition, the trading in the Shares on the Stock Exchange was suspended with effect from 12:11 p.m. on 27 July 2007 at the request of the Company pending the release of this announcement and application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 2 August 2007.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Acquisition”	the proposed acquisition of the Sale Shares by Extrawell BVI from the Vendor
“Acquisition Agreement”	a conditional sale and purchase agreement entered into between Extrawell BVI and the Vendor on 27 July 2007 in connection with the Acquisition
“associates”	have the same meanings ascribed thereto under the Listing Rules
“Board”	board of Directors
“Company”	Extrawell Pharmaceutical Holdings Limited, a company incorporated in Bermuda with limited liability and whose shares having a par value of HK\$0.01 each are listed on the main board of the Stock Exchange
“Completion”	completion of the Acquisition in accordance with the Acquisition Agreement
“Consideration”	an aggregate consideration of HK\$768.9 million payable by Extrawell BVI to the Vendor pursuant to the payment terms as set out in the Acquisition Agreement
“Consideration Shares”	300 million new Shares to be allotted and issued, credited as fully paid, to the Vendor as Consideration and which shall rank pari passu in all respects among themselves and with the then existing Shares in issue
“Directors”	the directors of the Company
“Extrawell BVI”	Extrawell (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Final Allotment Date”	the date falling on the 5th Business Day after the earlier of (a) written evidence showing that the Outstanding Amount having been paid in full to the satisfaction of Extrawell BVI; or (b) the Vendor having paid to the Company in cash an amount equivalent to the Outstanding Amount for payment of the Outstanding Purchase Price
“Fosse Bio”	Fosse Bio-Engineering Development Ltd., a company incorporated in Hong Kong with limited liability, 51% interests of which are owned by Smart Ascent
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Hantec”	Hantec Capital Limited, a licensed corporation under Securities and Futures Ordinance (cap 571, the laws of Hong Kong) to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, and is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition as contemplated under the Acquisition Agreement
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of the Board to be established for the purpose of advising the Independent Shareholders on the Acquisition, the Acquisition Agreement and the transactions contemplated thereby, the members of which include all the independent non-executive Directors, namely Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jin Song
“Independent Shareholders”	shareholders of the Company, other than the Vendor and his associates and any connected persons who have material interests in the Acquisition and all other transactions contemplated under the Acquisition Agreement
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Medicine”	Oral Insulin Enteric-Coated Soft Capsules (口服胰島素腸溶膠丸), one of the oral insulin products developed by the Group through Fosse Bio in collaboration with Tsinghua University, Beijing
“Outstanding Amount”	the Outstanding Purchase Price, together with all costs (including legal costs), expenses or other liabilities which any of Smart Ascent or Extrawell BVI may incur in connection with the payment of the Outstanding Purchase Price, which the Vendor and Ms. Wu Kiet Ming had jointly and severally undertaken and be responsible to pay in full such Outstanding Purchase Price for and on behalf of the Company if and when it becomes due and payable by the Company pursuant to the agreement for the Group’s acquisition of 51% interest in the share capital of Smart Ascent as disclosed in the Company’s announcement dated 4 March 2004
“Outstanding Purchase Price”	an aggregate amount of HK\$31,780,000, being part of the consideration payable by Smart Ascent for its acquisition of 51% interests in the issued share capital of Fosse Bio in 2004, which remains outstanding as at the date of this announcement and will be due and payable to the relevant vendor as to HK\$12 million after the issue by the State Food and Drug Administration of the PRC of the certificate of phase III clinical study of the Medicine, and the balance shall be payable after the issuance of the certificate of new medicine for the Medicine by the State Food and Drug Administration of the PRC.
“PRC”	the People’s Republic of China
“Sale Shares”	the aggregate of 4,900 ordinary shares of HK\$1.00 each in the issued share capital of Smart Ascent

“SGM”	the special general meeting proposed to be held by the Company for the purpose of approving the Acquisition, the Acquisition Agreement and the transactions contemplated thereby (including but not limited to the allotment and issue of the Consideration Shares by the Company)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Smart Ascent”	Smart Ascent Limited, a company incorporated in Hong Kong with limited liability, the entire issued capital of which is owned as to 51% by Extrawell BVI and 49% by the Vendor
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Mr Ong Cheng Heang, the vendor to the Acquisition and one of the existing shareholders of Smart Ascent
“Welly Surplus”	Welly Surplus Development Limited, a company incorporated in Hong Kong with limited liability and is owned as to 51% by Smart Ascent
“%”	per cent.

By order of the Board
EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED
Mao Yu Min
Chairman

Hong Kong, 1 August 2007

As at the date of this announcement, the executive Directors of the Company are Dr. Mao Yu Min, Mr. Ho Chin Hou, Mr. Ho Yu Ling, Mr. Li Qiang and Dr. Xie Yi and the independent non-executive Directors of the Company are Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jin Song.

* *For identification purpose only*