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## IMPORTANT

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The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

**If you have sold or transferred** all your shares in Extrawell Pharmaceutical Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

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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 NOTICE OF SPECIAL GENERAL MEETING

**Independent financial adviser to the Independent Board Committee  
and the Independent Shareholders**



**Hantec Capital Limited**

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A letter from the Board is set out on pages 5 to 14 of this circular. A letter from the Independent Board Committee is set out on page 15 of this circular. A letter from Hantec containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 27 of this circular.

Notice of the SGM to be held at Salon 5, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 20 September 2007 at 4:00 p.m. is set out on pages 44 to 45 of this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM or any adjournment thereof if you so wish.

\* *For identification purpose only*



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## DEFINITIONS

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

<b>“Acquisition”</b>	the proposed acquisition of the Sale Shares by Extrawell BVI from the Vendor
<b>“Acquisition Agreement”</b>	a conditional sale and purchase agreement entered into between Extrawell BVI and the Vendor on 27 July 2007 in connection with the Acquisition
<b>“Announcement”</b>	the announcement dated 1 August 2007 issued by the Company in relation to the Acquisition, the Acquisition Agreement and the transactions contemplated thereby
<b>“associates”</b>	have the same meanings ascribed thereto under the Listing Rules
<b>“Board”</b>	board of Directors
<b>“Business Day”</b>	a day (excluding Saturday and any day on which a tropical cyclone warning no.8 or above or a “black” rainstorm warning is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon) on which licensed banks in Hong Kong are open for business
<b>“Company”</b>	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
<b>“Completion”</b>	completion of the Acquisition in accordance with the Acquisition Agreement
<b>“Consideration”</b>	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
<b>“Consideration Shares”</b>	300 million new Shares to be allotted and issued, credited as fully paid, to the Vendor as Consideration and which shall rank <i>pari passu</i> in all respects among themselves and with the then existing Shares in issue
<b>“Directors”</b>	the directors of the Company
<b>“Extrawell BVI”</b>	Extrawell (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company

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## DEFINITIONS

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<b>“Final Allotment Date”</b>	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
<b>“Fosse Bio”</b>	Fosse Bio-Engineering Development Ltd., a company incorporated in Hong Kong with limited liability, 51% interests of which are owned by Smart Ascent
<b>“Group”</b>	the Company and its subsidiaries
<b>“Hantec”</b>	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
<b>“Hong Kong”</b>	The Hong Kong Special Administrative Region of the PRC
<b>“HK\$”</b>	Hong Kong dollars, the lawful currency of Hong Kong
<b>“Independent Board Committee”</b>	the committee of the Board 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
<b>“Independent Shareholders”</b>	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
<b>“Latest Practicable Date”</b>	20 August 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
<b>“Listing Rules”</b>	Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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<b>“Medicine”</b>	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
<b>“Outstanding Amount”</b>	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
<b>“Outstanding Purchase Price”</b>	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 Latest Practicable Date 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.
<b>“PRC”</b>	the People’s Republic of China and, for the purpose of this circular only, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
<b>“Purchaser”</b>	Extrawell BVI, a wholly-owned subsidiary of the Company
<b>“Sale Shares”</b>	the aggregate of 4,900 ordinary shares of HK\$1.00 each in the issued share capital of Smart Ascent
<b>“SFO”</b>	Securities and Futures Ordinance, Cap 571 of the Laws of Hong Kong

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## DEFINITIONS

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<b>“SGM”</b>	the special general meeting of the Company to be held at Salon 5, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 20 September 2007 at 4:00 p.m. 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)
<b>“Share(s)”</b>	ordinary share(s) of HK\$0.01 each in the share capital of the Company
<b>“Smart Ascent”</b>	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
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Vendor”</b>	Mr. Ong Cheng Heang, the vendor to the Acquisition and one of the existing shareholders of Smart Ascent
<b>“Welly Surplus”</b>	Welly Surplus Development Limited, a company incorporated in Hong Kong with limited liability and is owned as to 51% by Smart Ascent
<b>“%”</b>	per cent.

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LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Dr. Mao Yu Min  
Mr. Ho Chin Hou  
Mr. Ho Yu Ling  
Mr. Li Qiang  
Dr. Xie Yi

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Independent non-executive Directors:*

Mr. Fang Lin Hu  
Mr. Xue Jing Lun  
Ms. Jin Song

*Head office and principal place  
of business in Hong Kong:*

Suite 4701-4, 47th Floor  
Tower One, Times Square  
1 Matheson Street  
Causeway Bay, Hong Kong

22 August 2007

**ACQUISITION OF MINORITY INTEREST IN SMART ASCENT  
CONNECTED AND DISCLOSEABLE TRANSACTION  
AND  
NOTICE OF SPECIAL GENERAL MEETING**

*To the Shareholders*

Dear Sir or Madam

**1. INTRODUCTION**

By the Announcement of the Company dated 1 August 2007, it was announced that the Purchaser, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Vendor for the acquisition of 49% interest in the share capital of Smart Ascent, an indirect non-wholly owned subsidiary of the Company incorporated in Hong Kong which is the holding company for the Group's oral insulin operations.

The purpose of this circular is to provide you with information in relation to the Acquisition, the Acquisition Agreement and the transactions contemplated thereby, the advice of the Independent Board Committee and the letter of advice from Hantec to the Independent Board Committee and the Independent Shareholders.

\* For identification purpose only

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## LETTER FROM THE BOARD

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### 2. 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 he 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 the 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 the Announcement;

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## LETTER FROM THE BOARD

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- (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 the Announcement;
- (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; and
- (v) a premium of approximately 40.82% over the closing price of HK\$1.82 per share as quoted on the Stock Exchange on the Latest Practicable Date.

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 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’s length negotiations between the Group and the Vendor with reference to the value of Smart Ascent and its subsidiaries as at 30 June 2007, as appraised by Castores Magi Asia Limited, an independent professional valuer. Such appraised value, as finally appraised by Castores Magi Asia Limited on the basis as set out in the valuation report dated 22 August 2007 (the text of which is set out in appendix I to this circular) amounted to HK\$2,188,951,000. Castores Magi Asia Limited has used discounted cash flow method in

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## LETTER FROM THE BOARD

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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 up to and including the date of the Acquisition Agreement.

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;
- (ii) 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, that is, 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, do not constitute a condition precedent to the sale and purchase of the Sales Shares.

## LETTER FROM THE BOARD

### 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.

### 3. EFFECT ON SHAREHOLDING STRUCTURE

The shareholding structure of the Company (i) as at the Latest Practicable Date; 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 Latest Practicable Date		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 2)
<b>Connected persons' interests</b>						
JNJ Investments Ltd.						
(Note 3)	450,000,000	19.65	450,000,000	17.56	450,000,000	17.37
Fudan Pharmaceutical Limited						
(Note 3)	30,000,000	1.31	30,000,000	1.17	30,000,000	1.16
Well Success Limited (Note 4)	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	<u>2,290,000,000</u>	<u>100.00</u>	<u>2,563,000,000</u>	<u>100.00</u>	<u>2,590,000,000</u>	<u>100.00</u>

#### Notes:

- This percentage is calculated on the basis of 2,290,000,000 Shares in issue as at the Latest Practicable Date, 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.
- This percentage is calculated on the basis of 2,290,000,000 Shares in issue as at the Latest Practicable Date, taking into account 300,000,000 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 is 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.

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## LETTER FROM THE BOARD

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

As illustrated above, the issue and allotment of the Consideration Shares as contemplated by the Acquisition will not result in a change of control of the Company.

As at the Latest Practicable Date, 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 Latest Practicable Date, there was no outstanding share option under the share option scheme adopted by the Company.

#### **4. INFORMATION OF 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 Latest Practicable Date.

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 its interests in 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 the 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 the year ended 31 March 2006, the consolidated net loss before and after taxation and extraordinary items of Smart Ascent amounted to approximately HK\$258,300 and HK\$258,300 respectively, while for the year ended 31 March 2007, the consolidated net loss before and after taxation and extraordinary items of Smart Ascent amounted to approximately HK\$215,500 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.

#### **5. 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 interests 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 development and commercialisation of oral insulin products in collaboration with Tsinghua

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## LETTER FROM THE BOARD

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University, Beijing, and engaged in the development 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 agreements 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.

### **6. FINANCIAL IMPACT OF THE ACQUISITION**

Upon Completion, Smart Ascent will become a wholly-owned subsidiary of Extrawell BVI, which is in turn wholly-owned by the Company. Smart Ascent will continue to be accounted for as subsidiary of the Company and its financial results (including earnings, assets and liabilities) will continue to be consolidated into and reflected in the financial statements of the Group after Completion.

The Directors expect that the Acquisition will have the following financial impacts on the Group:

#### **Earnings**

For the financial year ended 31 March 2007, the Group recorded audited net profit from ordinary activities attributable to the equity holders of the Company of approximately HK\$9,336,000. Based on the unaudited consolidated management accounts of Smart Ascent which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, for the year ended 31 March 2007, the consolidated net loss before and after taxation and extraordinary items of Smart Ascent amounted to approximately HK\$215,500.

Smart Ascent will become an indirect wholly-owned subsidiary of the Company after the Completion. The Directors consider that the acquisition of the remaining interest in Smart Ascent pursuant to the Acquisition Agreement can strengthen the Group's management position in Smart Ascent and enable the Group to consolidate a full control over Smart Ascent. Accordingly, the Group is able to consolidate 100% of the financial results of Smart Ascent upon Completion.

#### **Assets and liabilities**

Based on the unaudited consolidated management accounts of Smart Ascent which have been prepared in accordance with the Hong Kong Financial Reporting Standards, the consolidated net asset value of Smart Ascent was approximately HK\$77,197,000 as at 31 March 2007.

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## LETTER FROM THE BOARD

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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 its interests in Fosse Bio and Welly Surplus, both being 51% non wholly-owned subsidiaries of Smart Ascent. Fosse Bio is principally engaged in the development and commercialisation 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 agreements with an independent third party for the acquisition and construction of a new manufacturing plant in the PRC for the manufacturing of the Medicine. Based on the valuation report set out in appendix I to this circular and issued by Castores Magi Asia Limited, the value of Smart Ascent and its subsidiaries amounted to HK\$2,188,951,000 as at 30 June 2007.

The aggregated consideration of the 49% equity interest in Smart Ascent is HK\$768.9 million. The Directors considered that the Acquisition will have positive effect on the assets and liabilities of the Group.

### **7. 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. As at the Latest Practicable Date, the Vendor did not hold, directly or indirectly, any shares in the Company, nor was he related to any director, chief executive or controlling shareholder of the Company and its subsidiaries.

### **8. SGM**

The Company will convene the SGM at Salon 5, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 20 September 2007 at 4:00 p.m. to consider and, if thought fit, approve the Acquisition, the Acquisition Agreement and the transactions contemplated thereby. A notice of the SGM is set out on pages 44 to 45 of this circular.

Pursuant to Rule 13.39(4) of the Listing Rules, the vote of the Independent Shareholders taken at the SGM to approve the Acquisition, the Acquisition Agreement and the transactions contemplated thereby will be taken by poll, the results of which will be announced after the SGM.

A notice convening the SGM is set out on pages 44 to 45 of this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch

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## LETTER FROM THE BOARD

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share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM or any adjournment thereof if you so wish.

### 9. PROCEDURES TO DEMAND A POLL AT THE GENERAL MEETING

Pursuant to bye-law 73 of the bye-laws of the Company, a resolution put to the vote at any general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the Chairman of such meeting; or
- (b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (d) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

### 10. RECOMMENDATION

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jin Song, has been established 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 as a whole, and to advise the Independent Shareholders as to how to vote. Your attention is drawn to the advice of the Independent Board Committee set out in its letter on page 15 of this circular. Your attention is also drawn to the letter of advice from Hantec to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the Acquisition Agreement (including the terms of the Consideration) and the transactions contemplated thereby set out on page 16 to page 27 of this circular.

The Independent Board Committee, having taken into account the advice of Hantec, considers that the Acquisition, the Acquisition Agreement (including the terms of the Consideration) and the transactions contemplated thereby are fair and reasonable and in the

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## LETTER FROM THE BOARD

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interests of the Company and the Shareholders as a whole. The Independent Board Committee therefore recommends the Independent Shareholders to vote in favour of the ordinary resolution to approve the Acquisition, the Acquisition Agreement and the transactions contemplated thereby at the SGM.

### 11. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
For and on behalf of the Board  
**Extrawell Pharmaceutical Holdings Limited**  
**Mao Yu Min**  
*Chairman*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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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)**

22 August 2007

*To the Independent Shareholders*

Dear Sir or Madam,

**ACQUISITION OF MINORITY INTEREST IN SMART ASCENT  
CONNECTED AND DISCLOSEABLE TRANSACTION**

We refer to the circular issued by the Company to its shareholders and dated 22 August 2007 (“**Circular**”) of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed by the Board to consider the Acquisition, the Acquisition Agreement (including the terms of the Consideration) and the transactions contemplated thereby as to whether, in our opinion, they are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Hantec has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from Hantec as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Hantec as set out in its letter of advice, we consider that the Acquisition, the Acquisition Agreement (including the terms of the Consideration) and the transactions contemplated thereby are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the Acquisition, the Acquisition Agreement and the transactions contemplated thereby at the SGM.

Yours faithfully,

For and on behalf of

**Independent Board Committee**

**Mr. Fang Lin Hu Mr. Xue Jing Lun Ms. Jin Song**

*Independent non-executive Directors*

\* *For identification purpose only*

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## LETTER FROM HANTEC

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*The following is the full text of a letter of advice from Hantec to the Independent Board Committee and the Independent Shareholders for the purpose of inclusion in this circular:*



**Hantec Capital Limited**  
45th Floor, COSCO Tower  
183 Queen's Road Central  
Hong Kong

22 August 2007

*To the Independent Board Committee and the Independent Shareholders  
of Extrawell Pharmaceutical Holdings Limited*

Dear Sir and Madam,

### **ACQUISITION OF MINORITY INTEREST IN SMART ASCENT CONNECTED AND DISCLOSEABLE TRANSACTION**

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Acquisition, the Acquisition Agreement and the transactions contemplated herewith, details of which are contained in the Letter from the Board (the “**Letter from the Board**”) contained in the circular (the “**Circular**”) of the Company to the Shareholders dated 22 August 2007, of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

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 non-wholly owned subsidiary of the Company, which is the holding company for the Group's oral insulin operations. 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 as set out in the Letter from the Board. 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. Upon Completion, Smart Ascent will become an indirect wholly-owned subsidiary of the Company. The Company will seek the specific mandate from the Independent Shareholders at the SGM for the allotment and issue of the Consideration Shares.

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.

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## LETTER FROM HANTEC

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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(s) proposed to be passed at the SGM for approving the Acquisition and any matters relating thereto. As at the Latest Practicable Date, the Vendor did not hold, directly or indirectly, any shares in the Company, nor was he related to any director, chief executive or controlling shareholder of the Company and its subsidiaries.

The Independent Board Committee comprising three independent non-executive Directors, Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jin Song, has been established to advise the Independent Shareholders in relation to the Acquisition, the Acquisition Agreement and the transactions contemplated thereby. As confirmed by the Directors, each of the members of the Independent Board Committee does not have any interest in the Acquisition.

### **BASIS OF OUR ADVICE**

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We consider that we have taken reasonable steps as required under Rule 13.80 of the Listing Rules in obtaining all necessary information from the Company to reach an informed view, to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group.

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## LETTER FROM HANTEC

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### PRINCIPAL FACTORS TAKEN INTO ACCOUNT

The principal factors and reasons that we have taken into consideration in assessing the Acquisition and the Acquisition Agreement and the terms thereof are set out as follows:

#### 1. Background

##### (i) *Information of 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 Latest Practicable Date.

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 the 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.

##### (ii) *Information on the Group*

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 commercialization of oral insulin products.

#### 2. Reasons for the Acquisition

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 non-wholly owned subsidiary of the Company as at the Latest Practicable Date which is the holding company for the Group's oral insulin operations.

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 Fossi Bio and Welly Surplus. Fosse Bio is principally engaged in the

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## LETTER FROM HANTEC

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development and commercialisation of oral insulin products in collaboration with Tsinghua University, Beijing, and is engaged in the development 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 agreements 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 also consider that the acquisition of the remaining interest in Smart Ascent pursuant to the Acquisition Agreement can strengthen the Group's management position in Smart Ascent and enable the Group to consolidate a full control over Smart Ascent.

In view of that (i) Smart Ascent and its subsidiaries are principally engaged in the development and commercialization of oral insulin products which is in line with the Group's pharmaceutical business; (ii) as disclosed in the valuation report set out in Appendix I to the Circular, the Medicine developed by Smart Ascent's subsidiary, Fosse Bio and Tsinghua University have entered into Phase I and II clinical trials under the State Food and Drug Administration of the PRC ("SFDA") and the relevant technologies have been applied for the registration of patent; and (iii) the Group is expected to be benefited to tap the business opportunities arising from the launch of the Medicine and other oral insulin products in the future, we concur with the Directors that the entering into of the Acquisition Agreement is in the interest of the Group as a whole, and the Acquisition provides an opportunity for the Group to increase its investment in the Smart Ascent and is in line with the Group's business strategy of future development.

### **3. Consideration for the Acquisition**

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 he 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 SFDA 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 SFDA.

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## LETTER FROM HANTEC

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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.

### *Basis of the Consideration*

The Consideration, including the issue price per Consideration Share was determined after arm’s length negotiations between the Group and the Vendor with reference to the value of 100% equity interest in the Smart Ascent and its subsidiaries as at 30 June 2007, as appraised by Castores Magi Asia Limited (“**Castores Magi**”), an independent professional valuer. Such Appraised value, as finally appraised by Castores Magi Asia Limited on the basis as set out in the valuation report dated 22 August 2007 (the text of which is set out in appendix I to the Circular) amounted to HK\$2,188,951,000. Castores Magi has used discounted cash flow method in evaluating the business carried out by Smart Ascent and its subsidiaries as at 30 June 2007. The Consideration of HK\$768.9 million represented a discount of approximately 28.3% to the fair market value of 49% equity interest of Smart Ascent as valued by Castores Magi.

### *Valuation*

In order to assess the fairness and reasonableness of the valuation carried out by the Castores Magi, we have reviewed the valuation report and discussed with Castores Magi as to the methodology and the principal bases and assumptions adopted in the valuation report. We consider the methodology and the principal bases and assumptions adopted in the valuation report have been made with due care and objectivity on a reasonable basis as summarized below:

We understand that Castores Magi has considered three different valuation approaches, namely market approach, cost approach and income approach. The market approach is basically a comparison method which estimates fair market value from analyzing sales and financial data and ratios of comparable public and, whenever possible, private companies. The cost approach seeks to estimate the market value of a company by quantifying the amount of money that would be required to replace the manufacturing capabilities of the firm. In other words, this approach assumes that the company’s value is indicated by the cost of reproducing or replacing its manufacturing assets less an allowance for physical deterioration and obsolescence. The income approach focuses on the income-producing capability of a company, which is based on the underlying theory that the value of the company can be measured by the present worth of the net economic benefit to be received. In the opinion of Castores Magi, the income approach is the most appropriate approach in

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## LETTER FROM HANTEC

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valuing Smart Ascent and its subsidiaries since a rational buyer normally will purchase a company only if the present value of the expected economic benefits is at least equal to the purchase price. Likewise, a rational seller normally will not sell if the present value of the expected economic benefits is more than the selling price. Thus, a sale generally will occur only at an amount equal to the economic benefits of ownership. Based on the income approach, Castores Magi has used the discounted cash flow method (“**DCF Method**”), which estimates the market value of the equity of Smart Ascent and its subsidiaries by discounting the future cash flows to its present value.

Having discussed with Castores Magi, we concur with Castores Magi’s view that the income approach is the most appropriate approach in valuing the Smart Ascent and its subsidiaries since (i) to the best of our understanding and as advised by Castores Magi, we are not aware of any public sale and purchase of similar business transactions that completed in Hong Kong which is comparable to the Acquisition and therefore the market approach is not appropriate; and (ii) Smart Ascent and its subsidiaries are not a manufacturing company, therefore quantifying the amount of money required for replacing the manufacturing capabilities of the firm is not feasible. Based on the above, in particular to the fact that the income approach is the most commonly used valuation method in valuing similar transactions, we consider the valuation methodology used by Castores Magi in arriving its valuation of the Smart Ascent and its subsidiaries as acceptable and appropriate.

In choosing the income approach as the most appropriate method, Castores Magi has used the DCF Method which estimates the fair market value of the equity of Smart Ascent by discounting the future cash flows to its present value. In using the DCF Method, Castores adopted the free cash flows to equity technique which values the enterprise by estimating the market value of the ownership interests (equity) of the enterprise. Given that Smart Ascent and its subsidiaries did not generate any profits nor distribute any dividend in the past, we consider that it is appropriate to use the DCF Method and free cash flows to equity technique to estimate the market value of Smart Ascent and its subsidiaries.

In assessing the fair market value of Smart Ascent and its subsidiaries by way of DCF Method, a discount rate has to be determined in discounting the future free cash flow of Smart Ascent and its subsidiaries into present value. Castores Magi derived the discount rate of Smart Ascent and its subsidiaries by using the capital asset pricing model (“**CAPM**”), which derives the required return rate of return of an asset by adding the risk-free rate to the risk premium of the assets. The risk-free rate used by Castores Magi was the return of the long bond in the US. The risk premium was determined with reference to the broad market portfolio return and the non-diversifiable risk. Castores Magi used the Standard Industrial Classification (“**SIC**”) small composite compound annual equity return of five years under SIC Code 2834 (comprises 107 companies which primarily engaged in manufacturing, fabricating, or processing drugs in pharmaceutical preparations for human use) as the broad market portfolio return in the CAPM computations. The non-diversifiable risk is represented by the beta of the asset and Castores Magi determined the beta of the asset by deriving a representative industry beta based on a selected group of companies under SIC Code 2834. In addition, Castores Magi has added the country risk for the PRC in which Smart Ascent and its subsidiaries operate to derive the required rate in the CAPM computations. We understand from Castores Magi that the discount rate adopted in the valuation of the Smart

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## LETTER FROM HANTEC

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Ascent was determined taking into account of relevant factors including (i) the low liquidity of the assets being acquired and (ii) the associated business risk in relation to the single product development of Smart Ascent and its subsidiaries; and (iii) the country risk premium as discussed above. We are of the view that the discount rate used by Castores Magi in arriving at the valuation of the 100% interest in the Smart Ascent and its subsidiaries is fair and reasonable.

Based on the above and having discussed with Castores Magi and its subsidiaries regarding, among other things, (i) the scope of work and assumptions of the valuation; and (ii) the valuation basis and methodologies, in particular the discount rate adopted under the discount cash flow method, nothing material has come to our attention that would lead us to believe that the valuation report from Castores Magi was not prepared on a reasonable basis nor reflect estimates and assumptions which have been arrived at after due and careful consideration. Therefore we consider that the basis, assumptions and methodologies adopted by Castores Magi for the valuation are appropriate. However, Shareholders are advised to note that the conclusions of fair market value of Smart Ascent and its subsidiaries were based on generally accepted valuation procedures and practices that rely exclusively on the use of numerous assumptions and the consideration of uncertainties, not all of which can be easily quantified or ascertained. Failure of any such assumptions would significantly affect the valuation.

The Consideration of HK\$768.9 million effectively represents the market value of the Company's 49% interest in the Smart Ascent to be acquired with a discount of approximately 28.3% to the valuation under the Acquisition Agreement which, on a 100% basis, amounted to HK\$2,188,951,000 as valued by Castores Magi according to the valuation report. Having considered (i) the Acquisition is in line with the Group's business strategy of future development; (ii) the Acquisition can strengthen the Group's management position in Smart Ascent and enable the Group to consolidate a full control over Smart Ascent; and (iii) the Consideration represents a discount of approximately 28.3% to the estimated fair market value of 49% equity interest in Smart Ascent, we consider the Consideration is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### *Consideration Shares*

#### (i) Issue price of the Consideration Shares

As the consideration for the Acquisition will be settled by the issue and allotment of the Consideration Shares, we further assess the fairness and reasonableness of the issue price of HK\$2.563 per Consideration Share (the "**Issue Price**"). The Issue Price 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 the 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 the Announcement;

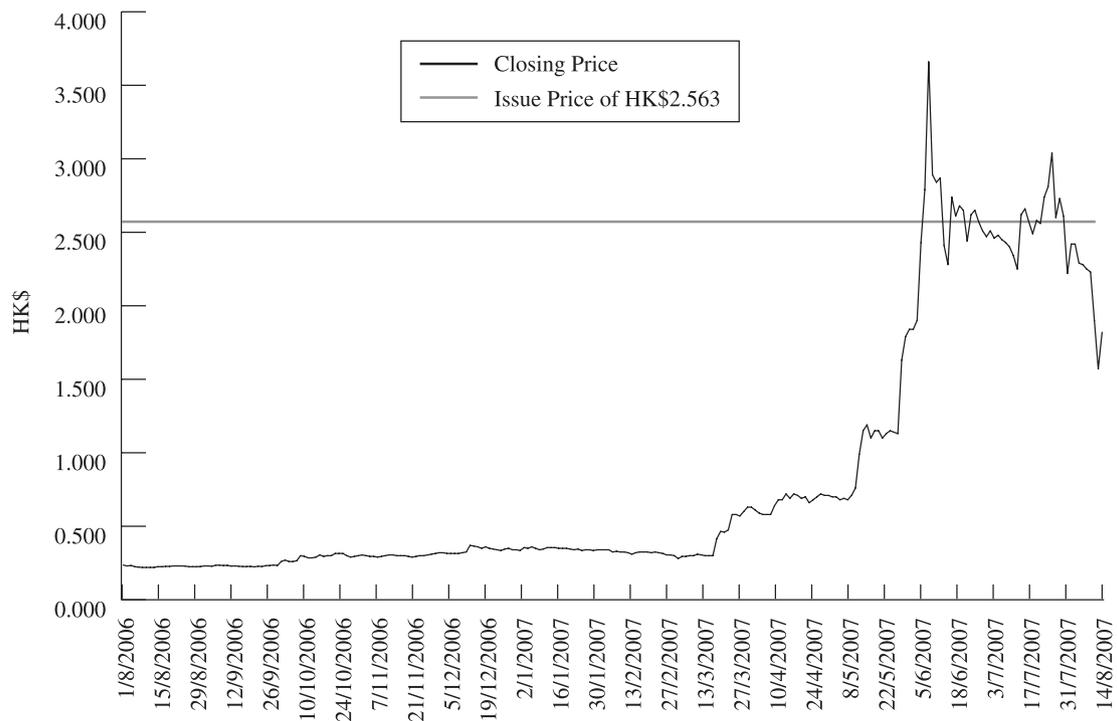
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## LETTER FROM HANTEC

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- (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 the Announcement;
- (iv) the average closing price of HK\$2.563 per Share as quoted on the Stock Exchange for the last 30 trading days of the Shares up to and including the date of the Announcement;
- (v) 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; and
- (vi) a premium of approximately 40.82% over the closing price of HK\$1.820 per share as quoted on the Stock Exchange on the Latest Practicable Date.

The chart below shows the daily closing prices of the Shares as quoted on the Stock Exchange during the last 12 months from 1 August 2006 up to and including the Latest Practicable Date (the “**Review Period**”):



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## LETTER FROM HANTEC

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During the Review Period, the lowest closing price was HK\$0.22 per Share recorded from 6 August 2006 to 11 August 2006 and the highest closing price was HK\$3.66 per Share recorded on 11 June 2007, with an average closing price of HK\$0.828 per Share. From the chart above, during the period from 1 August 2006 to 19 March 2007, the closing price of the Shares remained stable with an average closing price of HK\$0.329. Since then, the share price started to increase and climbed up substantially to the highest closing price of HK\$3.66 per Share on 11 June 2007. We noted from the various announcements of the Company during the period from 19 March 2007 to 20 June 2007 that the Board was not aware of any reasons for such increases in share price during the said period. After 11 June 2007, the share price of the Company then fluctuated seriously and closed at HK\$3.04 per Share on 27 July 2007 (being the last trading day of the Shares immediately before the date of the Announcement).

We noted that the Issue Price represents a premium of approximately 1,065.0% over the lowest closing price per Share and a discount of approximately 30.0% to the highest closing price per Share during the Review Period. We further noted that the Issue Price represents (i) a price towards the upper end of the range which the Shares have trade during the Review Period; (ii) 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 the Announcement; (iii) 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; and (iv) a premium of approximately 209.5% over the average closing price per Share during the Review Period. Based on the above and considering that, the closing price of the Shares had substantially increased without any reasons aware by the Directors since March 2007 to a level much higher than the net asset value per share of the Company and the price of the Shares were fluctuated in the last 10 days immediately before the date of the Announcement, we consider that recent closing price of the Shares immediately before the date of the Announcement may not reflect the true value of the Shares, and we are of the view that the Issue Price of HK\$2.563 per Share, which represent the 30 days average closing price of the Shares up to and including the date of the Announcement, is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

## LETTER FROM HANTEC

(ii) Effect on shareholding structure

The shareholding structure of the Company (i) as at the Latest Practicable Date; 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 Latest Practicable Date		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 2)
<b>Connected persons' interests</b>						
JNJ Investments Ltd. (Note 3)	450,000,000	19.65	450,000,000	17.56	450,000,000	17.37
Fudan Pharmaceutical Limited (Note 3)	30,000,000	1.31	30,000,000	1.17	30,000,000	1.16
Well Success Limited (Note 4)	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	<u>1,758,000,000</u>	<u>76.77</u>	<u>1,758,000,000</u>	<u>68.59</u>	<u>1,758,000,000</u>	<u>67.88</u>
Total	<u>2,290,000,000</u>	<u>100.00</u>	<u>2,563,000,000</u>	<u>100.00</u>	<u>2,590,000,000</u>	<u>100.00</u>

Notes:

- This percentage is calculated on the basis of 2,290,000,000 Shares in issue as at the Latest Practicable Date, 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.
- This percentage is calculated on the basis of 2,290,000,000 Shares in issue as at the Latest Practicable Date, taking into account 300,000,000 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 is 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.

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

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## LETTER FROM HANTEC

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As illustrated above, the issue and allotment of the Consideration Shares as contemplated by the Acquisition will not result in a change of control of the Company. The shareholding of public Shareholders will be diluted slightly from approximately 76.77% to (i) approximately 68.59% upon the issue and allotment of the Consideration Shares upon Completion, and (ii) approximately 67.88% upon the issue and allotment of the Consideration Shares on the Final Allotment Date, represent a decrease of public shareholding of approximately 8.18% and 8.89% respectively. Taking into account the reasons for and benefits of the Acquisition as referred to above together with the positive financial results and potential of the Smart Ascent to be discussed below, in particular, (i) the Issue Price represents a substantial premium over the net assets value per Share of the Company; (ii) the issue of the Consideration Shares will enlarge and strengthen capital base of the Company, we consider the decrease in the shareholding of the public Shareholders upon the issue and allotment of the Consideration Shares to be acceptable and is in the interest of the Independent Shareholders.

#### **4. Financial impact**

##### *Profit and loss*

For the financial year ended 31 March 2007, the Group recorded audited net profit from ordinary activities attributable to the equity holders of the Company of approximately HK\$9,336,000. Based on the unaudited consolidated management accounts of Smart Ascent which have been prepared in accordance with the Hong Kong Financial Reporting Standards for the year ended 31 March 2007, the consolidated net loss before and after taxation and extraordinary items of Smart Ascent amounted to approximately HK\$215,500.

Upon Completion, Smart Ascent will become a wholly-owned subsidiary of Extrawell BVI, which is in turn an indirect wholly-owned by the Company. Smart Ascent will continue to be accounted for as subsidiary of the Company and its financial results (including earnings, assets and liabilities) will continue to be consolidated into and reflected in the financial statements of the Group after Completion. The Directors consider that the acquisition of the remaining interest in Smart Ascent enable the Group to consolidate a full control over Smart Ascent. With the market potential of the Medicine newly developed by Smart Ascent's subsidiary, which has have entered into Phase I and II clinical trials under the SFDA and the relevant technologies have been applied for the registration of patent, the Directors expect that the use of oral insulin will become an alternative of injection insulin therapy in the treatment of diabetes and, after the successful launch of the Medicine, Smart Ascent will contribute the Group a positive result in the coming years. The Acquisition is in turn would allow the Group to obtain 100% ownership of Smart Ascent, thereby strengthening the Group's control and ability to re-engineer the operations and financial arrangements of Smart Ascent which would assist to improve the turnover and in turn improve the income base of Smart Ascent.

As advised by the Directors, the Consideration of HK\$768.9 million exceed the consolidated net asset value and minority interest of Smart Ascent attributable to the Group under the Acquisition at approximately HK\$19.1 million by HK\$749.8 million and such difference represents the positive goodwill arising from the Acquisition. As advised by the

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## LETTER FROM HANTEC

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Directors, the goodwill arising from the Acquisition to be recognized will be determined at the time of Completion and such goodwill will be subject to annual assessment of impairment in accordance with the accounting policies of the Group and there will be no immediate profit and loss effect immediately upon Completion.

### *Net asset value*

According to the annual report of the Company for the year ended 31 March 2007, the audited net asset value of the Group was approximately HK\$516.5 million as at 31 March 2007, representing a net asset value per Share of approximately HK\$0.226 (calculated based on 2,290,000,000 Shares in issue during the year). Based on the Issue Price of HK\$2.563 per share, the Consideration Shares with an aggregate value of HK\$768.9 million shall be issued. As the Issue Price is higher than the audited net asset value per share of the Group as at 31 March 2007, the net asset value per share of the Group is expected to increase as a result of the Completion.

### *Gearing ratio and working capital*

According to the annual report of the Company for the year ended 31 March 2007, the Group's gearing ratio as at 31 March 2007 was 0.06 (calculated based on the Group's total debts of about HK\$35.9 million comprising bank borrowings of about HK\$3.5 million and amount of due to a minority shareholder of about HK\$32.4 million over the Group's total assets of about HK\$594.0 million). Upon Completion, the total assets of the Group is expected to be increase as result of the consolidation of the assets from Smart Ascent. Considering that the Consideration shall be satisfied by allotting and issuing the Consideration Shares to the Vendors, which will not have material impact to the total debts of the Group, the gearing ratio of the Group is expected to increase as a result of the increase of total assets after the Completion. In addition, as the Consideration will be satisfied by issuance of Consideration Shares, no material adverse impact will be made on the Group's working capital for settlement of the Consideration.

## RECOMMENDATION

Having taken into account the principal factors and reasons referred to the above, we are of the opinion that the Acquisition, the Acquisition Agreement (including the terms of the Consideration) and the transactions contemplated thereby are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We consider that the terms of the Acquisition are determined on normal commercial terms, and in the ordinary and usual course of business. We therefore recommend the Independent Shareholders and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the Acquisition, the Acquisition Agreement and the transactions contemplated thereby.

Yours faithfully,  
For and on behalf of  
**Hantec Capital Limited**  
**Robert Siu**  
*Director*

**A. VALUATION REPORT**

The text of the valuation report received from Castores Magi Asia Limited, an independent valuer, in connection with its valuation on the business carried out by Smart Ascent and its subsidiaries for the purpose of incorporation in this circular.

嘉漫亞洲有限公司  
CASTORES MAGI ASIA LIMITED  
BUSINESS AND INTANGIBLE ASSET APPRAISAL  
INVESTMENT PROJECT ADVISORY SERVICES

CASTORES  
  
MAGI

Unit B on 23rd Floor  
China Insurance Group Building  
141 Des Voeux Road Central  
Hong Kong

22 August 2007

The Directors  
Extrawell Pharmaceutical Holdings Limited  
Suite 4701-4,  
47th Floor,  
Tower One,  
Times Square,  
1 Matheson Street,  
Causeway Bay,  
Hong Kong.

Dear Sirs,

In accordance with your instructions, we have made an appraisal of the Market Value of a 100% equity interest of Smart Ascent Limited (hereinafter known as the “Company”) and its subsidiaries (hereinafter known as the “Group”), as at 30 June 2007 (hereinafter known as “the Relevant Date”).

The purpose of this appraisal is to formulate and express an independent opinion on the Market Value of a 100% equity interest of the Group as at the Relevant Date on the premise of continued use. The term “Market Value” as used herein is defined as “the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”. We understand that the use of our work product will not supplant other due diligence which you should conduct in reaching business decisions for the Company. Our work is designed solely for acquisition purposes. There are no other purposes are intended or should be inferred.

**Introduction**

The Company was incorporated in Hong Kong with limited liability and is a 51% indirectly-owned subsidiary of Extrawell Pharmaceutical Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited. As at the Relevant Date, Smart Ascent Limited possesses 51% equity interest of Fosse Bio-Engineering Development Limited (hereinafter known as “Fosse Bio”) and 51% equity interest of Welly Surplus Development Limited (hereinafter collectively known as the “Welly Group”). The Group principally engages in the development and commercialisation of Oral Insulin Enteric-Coated Soft Capsule (hereinafter known as “Oral Insulin”).

Fosse Bio has collaborations with Tsinghua University for the research and development of the use of oral insulin, and shall have the exclusive right to commercialize the technologies relating to the use of Oral Insulin, manufacture and sell it on exclusive basis. On the other hand, Welly Group will be responsible for the distribution of Oral Insulin.

Diabetes is disease in which the body does not produce or properly use insulin, which causes high levels of glucose in the blood. There are two types of Diabetes: Type 1 diabetes — human body suffering insulin deficiency (little or no insulin); Type 2 diabetes — human body suffering insulin resistance (cells cannot use the insulin well). Insulin has been commercially available for the treatment of diabetes but normally in the injection forms since introduction.

Fosse Bio has collaborations with Tsinghua University for the research and development of the use of oral insulin since October 1998. Oral Insulin, an innovative oral insulin, developed by Fosse Bio and Tsinghua University, have entered into Phase I and II clinical trials under the State Food and Drug Administration of the People’s Republic of China (hereinafter known as “SFDA”) and the relevant technologies have been applied for the registration of patent, however, as at the Relevant Date, the registration procedures have not been completed.

The potential benefits of oral insulin therapy comparing with the traditional injection methods are pain-free, needle-free and it is a noninvasive drug delivery. The directors of the Group expected that the use of oral insulin will become an alternative of injection insulin therapy in the treatment of diabetes.

**Basis of Valuation and Assumptions**

We have appraised the equity of the Group on the basis of “Market Value” on the premise of continued use basis. The continued use premise assumes that the asset will be used for the purpose for which the asset was conceived or is currently used. Implicit in this definition is the fact that the willing buyer would not pay more to acquire the asset appraised than he could reasonably expect to earn in the future from an investment in the asset.

The valuation of the Group requires consideration of all pertinent factors affecting the operations of the business and its ability to generate future investment returns. The factors considered in the appraisal including, but were not limited to, the following factors:

- the company history of the Group;

- the economic and industry outlooks affecting the Group's business;
- the past and projected future results of the Group;
- the market-derived investment returns of entities in similar line of business; and
- the risks facing by the Group.

In view of the ever-changing business environment in which the Group is operating, we have made a number of reasonable assumptions in the course of our appraisal, which are set out as follows:

- the Group will operate its business on continuous basis;
- Fosse Bio will have no obstacle to obtain production approval of Oral Insulin from the SFDA;
- the financial forecasts of the Group are achievable;
- there will be no material changes from political, legal, economic or financial aspects in the jurisdictions in which the Group currently runs or intends to run its business which will materially affect its operation;
- there will be no substantial market fluctuation in the industry in the jurisdictions or states in which the Group currently runs or intends to run its business, which will materially affect its operations and the revenues attributed to shareholders;
- there will be no substantial fluctuation in current interest rates and foreign currency exchange rates in the jurisdictions or states in which the Group currently runs or intends to run its business, which will materially affect its operations and the revenues attributed to shareholders;
- the management of the Group will not make any decision, which is harmful to the revenue generation ability of the Group's business; and
- the Group will allocate sufficient resources to keep abreast of its future expansion.

In the process of valuing the equity of the Group, we considered the classical appraisal approaches to value, namely the Market Approach, Cost Approach and Income Approach. The Market Approach is basically a comparison method which estimates fair market value from analyzing sales and financial data and ratios of comparable public and, whenever possible, private companies. To the best of our understanding, there are no public sale and purchase of similar business transactions that completed in Hong Kong and the PRC. Under such circumstances, we have not relied on the Market Approach in our estimate of the Market Value of the Group due to insufficient supporting data.

The Cost Approach seeks to estimate the Market Value of a company by quantifying the amount of money that would be required to replace the manufacturing capabilities of the firm. In other words, this approach assumes that the company's value is indicated by the cost of reproducing or replacing its manufacturing assets less an allowance for physical deterioration and obsolescence. We considered this approach is not an appropriate valuation for valuing the Group given that the Group is not a manufacturing company.

The Income Approach focuses on the income-producing capability of a company. This approach's underlying theory is that the value of the company can be measured by the present worth of the net economic benefit to be received. In our opinion, this approach is the most appropriate in valuing the Group since a rational buyer normally will purchase a company only if the present value of the expected economic benefits is at least equal to the purchase price. Likewise, a rational seller normally will not sell if the present value of the expected economic benefits is more than the selling price. Thus, a sale generally will occur only at an amount equal to the economic benefits of ownership. Based on this valuation principle, we use the Income Approach to estimate the future economic benefits of the Group and discount these benefits to its present value using a discount rate that is appropriate for the expected risks associated with realizing those benefits.

### **Valuation Methodology**

In choosing the Income Approach as the most appropriate method, we have used the Discounted Cash Flow (hereinafter known as "DCF") Method, which estimates the Market Value of the equity of the Group by discounting the future cash flows to its present value. This would necessitate the subtraction, from the net income, the capital expenditures and changes in working capital and the addition of depreciation in the computation of cash flow. DCF analysis reflects investment criteria and requires the appraiser to make empirical and subjective assumptions.

In using the DCF Method, we adopted the Free Cash Flows to Equity (hereinafter known as "FCFE") Technique. The FCFE Technique values the enterprise by estimating the Market Value of the ownership interests (equity) of the enterprise. This technique requires that the Group's interest expenses, if any, be excluded from the free cash flows and the resulting cash flow to be discounted at the relevant rate of return required by equity. This technique then equates the value of the ownership interests as the value of the enterprise.

We derived the discount rate of the Group by using the Capital Asset Pricing Model (hereinafter known as "CAPM"). The CAPM derives the required rate of return of an asset by adding the risk-free rate to the risk premium of the asset. The CAPM is built on the premise that the variance in returns is the appropriate measure of risk but only that portion of the variance of the returns of an asset that is not reduced by diversification has to be compensated, therefore the appropriate return required of an asset is determined by the volatility of the asset's returns relative to the returns that can be achieved by a broad market portfolio. This measured non-diversifiable risk is represented by the beta of the asset and the risk premium of the asset is its beta multiplied to the risk premium of a broad market portfolio.

In identifying the guideline companies in the relevant industries, we have referred to Standard Industrial Classification (hereinafter known as “SIC”) Code. The SIC is the statistical classification standard underlying all establishment-based Federal economic statistics classified by industry. The SIC is used to promote the comparability of establishment data describing various facets of the U.S. economy. The classification covers the entire field of economic activities and defines industries in accordance with the composition and structure of the economy.

In the course of our valuation, we used the SIC small composite compound annual equity return of 5 years (SIC Code 2834) from Morningstar Inc. as the broad market portfolio return in our CAPM computations. The category of SIC Code 2834 comprises 107 companies which primarily engaged in manufacturing, fabricating, or processing drugs in pharmaceutical preparations for human use.

It is our opinion that the SIC small composite compound annual equity return of 5 years represents the most reliable objective market rate of return to be used in valuing the Group’s equity, since it captures investors’ expectations, prevailing market conditions and the accompanying risks associated with them.

In addition to the compound annual equity return, to derive the required cost of equity in our valuation, we have added the country risk for the PRC in which the Group operates. Majority of the guideline companies mentioned above are based and listed in the U.S., which has a more developed and liquid capital market than the PRC, thus it has the necessity to add the relevant country risk premiums to the compound annual equity return.

This study is fully cognizant of the fact that there are other relevant companies that are privately held, or are not listed in the stock exchange, or are not headquartered in the U.S.

In valuing the equity of the Group, we determined an unlevered Ordinary Least Squares (OLS) beta for the Group by deriving a representative industry beta based on a select group of companies under SIC Code 2834. Some of these companies are operating the business of similar nature and have been selected as our guideline companies which include Bentley Pharmaceuticals, Inc. (BNT, AMEX) and Generex Biotechnology Corporation (GNBT, Nasdaq), principally engage in the research and development of drug delivery technologies and pharmaceutical products. An unlevered beta is the beta a company would have if it had no debt. It removes a company’s financial decision from the beta calculation and reflects the Group’s business risks. The OLS betas are estimated by the traditional method of running a simple regression in which excess monthly returns on a company or composite is the dependent variable and the excess return on the market is the independent variable.

The equity risk premium of the Group was reached by multiplying the unlevered OLS beta to the difference between the SIC small composite compound annual equity return of 5 years and the risk free rate.

By definition, the ownership interests in closely held companies are typically not readily marketable, and by definition not as liquid and as easily converted to cash compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. Numerous studies

have been made showing that the Lack of Marketability (hereinafter known as “LOM”) discount for a closely held stocks compared with a publicly traded counterpart averages between 10% and 50%, and many different researchers have obtained these averages over a wide span of years. We have opted to apply a LOM discount to the Group.

### **General Comments**

For the purpose of this appraisal and in arriving at our opinion of value; we have relied to a very considerable extent on the information, statements, opinion and representations provided to us by the Group. We were furnished with the basic information of Oral Insulin and the relevant technologies, a collaboration agreement between the Group and Tsinghua University, the Group’s consolidated management accounts, a feasibility study report, projection of revenue and expense for a period as from 1 July 2007 to 31 March 2008 and projection for each of the five years ending 31 March 2013 and relevant publicly available information. These data have been utilized without further verification as correctly representing the results and future prospects of the operation and the financial condition of the Group.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

We are unable to accept any responsibilities for the operation and financial information that have not been supplied to us by the Group. We have had no reason to doubt the authenticity and accuracy of the information provided or the reasonableness of the opinions expressed by the Group and the directors of the Group, which have been provided to us. We also sought and received confirmation that no material factors have been omitted from the information provided.

In the course of our valuation, we relied on the Group’s financial projections during the 5 years and 9 months’ forecast period. We have tested this estimate against relevant data pertaining to the various economies and the replication industry, and find it is fair and reasonable.

In arriving at our opinion, we have assumed that the Group has adopted necessary security measures and has considered several contingency plans to protect and maintain the reliability of its business.

We have assumed that the appraised equity of the Group is freely disposable and transferable for its existing or alternative uses in the open market disregarding any tax payable to the government upon disposal.

We have made no investigation of the legal title or any liabilities attached to the Group. All legal documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any) to the Group. We have not verified the original documents furnished to us, any responsibility for our misinterpretation of the legal documents, therefore, cannot be accepted. Besides, we are not in a position to advise and comment on the title and encumbrances to the Group.

No allowance has been made in our valuation for any charges or amounts owing neither on the Group nor for any expenses or taxation, which may be incurred in effecting a sale. It is assumed that the Group will be rendered free from encumbrances, restrictions and outgoings of any onerous nature, which could affect its value.

Unless otherwise stated, the base currency of this report is Hong Kong Dollars.

**Opinion of Value**

Based on the analysis, reasoning and data outlined as above, and on the appraisal method employed, it is our opinion that as at the Relevant Date, the Market Value of 100% equity interest of the Group is reasonably stated by the amount of **HK\$2,188,951,000 (HONG KONG DOLLARS TWO BILLION ONE HUNDRED EIGHTY-EIGHT MILLION NINE HUNDRED AND FIFTY-ONE THOUSAND ONLY)**.

The conclusion of value is based on generally accepted appraisal procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgment in arriving at the appraisal, you are urged to consider carefully the nature of such assumptions, which are disclosed in this report and should exercise caution when interpreting this report.

We hereby certify that we have neither present nor prospective interest in the Group nor your company or the value reported.

Yours faithfully,

For and on behalf of

**Castores Magi Asia Limited**

**Deret Au Chi Chung**

*Member of China Institute of Real Estate Appraisers and Agents*

*China Registered Real Estate Appraiser*

*Registered Business Valuer*

*B.Sc. MRICS MHKIS RPS MCI Arb AHKIArb*

*Director*

**B. LETTER FROM THE AUDITORS ON THE ACCOUNTING POLICIES AND  
CALCULATION FOR THE VALUATION**

The text of the report received from the auditors, HLB Hodgson Impey Cheng in connection with the valuation of the business carried out by Smart Ascent and its subsidiaries for the purpose of incorporation in this circular.



Chartered Accountants  
Certified Public Accountants

31/F, Gloucester Tower  
The Landmark  
11 Pedder Street  
Hong Kong

22 August 2007

The Directors  
Extrawell Pharmaceutical Holdings Limited  
Suite 4701-4, 47th Floor  
Tower One, Times Square  
1 Matheson Street  
Causeway Bay  
HONG KONG

Dear Sirs

**REPORT OF FACTUAL FINDINGS**

We have performed the procedures agreed with you and enumerated below with respect to the appraisal valuation of Smart Ascent Limited (“Smart Ascent”) and its subsidiaries (hereinafter collectively referred as to the “Smart Ascent Group”) as at 30 June 2007 (“Valuation Report”), prepared by Castores Magi Asia Limited in connection with the proposed acquisition of minority interest in Smart Ascent. The Smart Ascent Group holds the exclusive right of the commercialisation of the oral insulin products.

Our engagement was undertaken in accordance with the Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The procedures were performed solely to assist the directors of the Company to comply with Rule 14.62 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Our procedures are summarised as follows:

1. We obtained the supporting worksheets of the Valuation Report provided by the Company which comprises a valuation of the business carried out by Smart Ascent Group under various assumptions adopted in the preparation of the Valuation Report.

2. We checked the mathematical accuracy of the calculation of the value of the business carried out by the Smart Ascent Group contained in the supporting worksheets of the Valuation Report and reviewed those accounting policies adopted in the preparation of the profit forecast by the directors of the Company which was in turn used for the preparation of supporting worksheets of the Valuation Report, where appropriate.
3. We made inquiry of Castores Magi Asia Limited whether the accounting policies of the Company have been adopted in the preparation of the Valuation Report.

We report our findings below:

- a. With respect to item 1, we obtained the supporting worksheets of the Valuation Report provided by the Company which comprises a valuation of the business carried out by Smart Ascent Group under various assumptions adopted in the preparation of the Valuation Report.
- b. With respect to item 2, we found that the calculation of the value of the business carried out by Smart Ascent Group contained in the supporting worksheets of the Valuation Report is mathematically accurate. For those accounting policies adopted in the preparation of the profit forecast by the directors of the Company which was in turn used for the preparation of supporting worksheets of the Valuation Report, we found that they are consistent with the Group's accounting policies, where appropriate.
- c. We were informed by Castores Magi Asia Limited that as the valuation is a discounted cash flow method, no accounting policies of the Company have been adopted in the preparation of the supporting worksheets of the Valuation Report.

Because the above procedures do not constitute an assurance engagement made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, we do not express any such assurance on the Valuation Report.

Had we performed additional procedures or had we performed an assurance engagement of the Valuation Report in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, other matters might have come to our attention that would have been reported to you. Our report is solely for the purpose set forth in the second paragraph of this report and for your information and is not to be filed with, or referred to (either in whole or in part) or otherwise quoted, circulated or used for any other purpose or to be distributed to any other parties without our prior written consent. This report relates only to the matters specified above and does not extend to any financial statements of the Company, taken as a whole.

Yours faithfully  
**HLB Hodgson Impey Cheng**  
*Chartered Accountants*  
*Certified Public Accountants*  
Hong Kong

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE

- (a) As at the Latest Practicable Date, the interests and short positions of each Director and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of company	Capacity	Number and class of securities	Approximate percentage of interests held
Dr. Mao Yu Min	The Company	Interest of controlled corporation ( <i>Note 2</i> )	480,000,000 Shares (L)	20.96%
Dr. Xie Yi	The Company	Interest of controlled corporation ( <i>Note 2</i> )	480,000,000 Shares (L)	20.96%
Mr. Ho Yu Ling	The Company	Interest of controlled corporation ( <i>Note 3</i> )	52,000,000 Shares (L)	2.27%
	Extrawell Enterprises Limited (“EEL”)	Interest of controlled corporation ( <i>Note 4</i> )	100,000 non-voting deferred shares of HK\$10 each in EEL (L)	99.99%
Mr. Ho Chin Hou	EEL	Interest of controlled corporation ( <i>Note 4</i> )	100,000 non-voting deferred shares of HK\$10 each in EEL (L)	99.99%

Notes:

- (1) The letter “L” represents the Director’s interests in the shares and underlying shares of the Company or its associated corporations.

- (2) *Each of JNJ Investments Ltd. (“JNJ Investments”) and Fudan Pharmaceutical Limited (“FPL”) holds 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) (“United Gene-PRC”) (a company established in the PRC) and as to 0.01% by Shanghai Biowindow Gene Development Co., Ltd. (“Shanghai Biowindow”).*

*The issued share capital of United Gene Group Ltd. is owned as to 33% by United Gene Holdings Limited (“United Gene-BVI”) (a company incorporated in the British Virgin Islands) and as to 33% by Ease Gold Investments Limited. The issued share capital of United Gene-BVI and Ease Gold Investments Limited is wholly owned by Dr. Mao Yu Min and Dr. Xie Yi respectively.*

*The capital of Shanghai Biowindow is 60% owned by United Gene-PRC, 13.575% owned by Dr. Xie Yi and 13.575% owned by Mr. Sheng Xiao Yu, who is the wife of Dr. Mao Yu Min. The equity capital of United Gene-PRC is beneficially owned as to 33.5% by Dr. Mao Yu Min and as to 33.5% (including 8.5% direct interest and 25% indirectly through his shareholding in Ease Gold Investments Limited) by Dr. Xie Yi.*

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

*Each of Dr. Mao Yu Min and Dr. Xie Yi is taken to be interested in all the Shares in which each of JNJ Investments and FPL is interested by virtue of the SFO.*

- (3) *These Shares are owned by Well Success Limited, a company incorporated in the British Virgin Islands, the entire issued capital of which is owned by Mr. Ho Yu Ling. Mr. Ho Yu Ling is taken to be interested in all the Shares in which Well Success Limited is interested by virtue of the SFO.*
- (4) *These 100,000 non-voting deferred shares of HK\$10 each in EEL are owned by Extrawell Holdings Limited, the entire issued share capital of which is owned as to 41.6% by Mr. Ho Yu Ling and as to 55.6% by Mr. Ho Chin Hou. Each of Mr. Ho Yu Ling and Mr. Ho Chin Hou is taken to be interested in all the shares of EEL in which Extrawell Holdings Limited is interested.*
- (b) Save as disclosed in paragraph 2(a) above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interest and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein; or (c) were required pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.
- (c) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 March 2007, the date to which the latest published audited financial statements of the Group were made up.
- (d) As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting as at the date of this circular.

- (e) As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business apart from the business of the Group, which competed or was likely to compete, either directly or indirectly, with that of the Group.

### 3. SUBSTANTIAL SHAREHOLDERS

- (a) As at the Latest Practicable Date, so far as is known to the Directors, the following persons, other than a director or chief executive of the Company, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Shareholder	Number of Shares (Note 1)	Capacity (Note 2)	Approximate percentage of interests held
Ease Gold Investments Limited	480,000,000 Shares (L)	Interest of controlled corporation	20.96%
United Gene — BVI	480,000,000 Shares (L)	Interest of controlled corporation	20.96%
United Gene Group Ltd.	480,000,000 Shares (L)	Interest of controlled corporation	20.96%
HK Biowindow	480,000,000 Shares (L)	Interest of controlled corporation	20.96%
JNJ Investments	450,000,000 Shares (L)	Beneficial owner	19.65%
Mr. Ong Cheng Heang (Note 3)	300,000,000 Shares (L)	Beneficial owner	13.10%

Notes:

(1) The letter “L” represents the entity’s interests in the Shares.

(2) Each of JNJ Investments and FPL holds 450,000,000 and 30,000,000 Shares respectively.

The entire issued share capital of JNJ Investments is owned by 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-PRC and as to 0.01% by Shanghai Biowindow.

The issued share capital of United Gene Group Ltd. is owned as to 33% by 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.

The capital of Shanghai Biowindow is 60% owned by United Gene-PRC, 13.575% owned by Dr. Xie Yi and 13.575% owned by Mr. Sheng Xiao Yu, who is the wife of Dr. Mao Yu Min. The equity capital of United Gene-PRC is beneficially owned as to 33.5% by Dr. Mao Yu Min and as to 33.5% (including 8.5% direct interest and 25% indirectly through his shareholding in Ease Gold Investments Limited) by Dr. Xie Yi.

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

- (3) Mr. Ong Cheng Heang is interested in the 300,000,000 Shares which are the Consideration Shares to be allotted and issued to him pursuant to the Acquisition Agreement.
- (b) As at the Latest Practicable Date, so far as is known to the Directors, the following persons were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group (other than the Company):

Name of the company	Name of shareholder	Number of shares/amount of registered capital held	Approximate percentage of interests held
Changchun Extrawell Pharmaceutical Co., Ltd.	吉林省天和對外經濟貿易集團有限公司	RMB9,140,000	18%
Grand Success Management Limited	Charmtex Investments Limited	10,000 shares of US\$1 each	10%
Smart Ascent	The Vendor	4,900 shares of HK\$1 each	49%
Fosse Bio	Fordnew Industrial Limited	2,900 shares of HK\$1 each	29%
Welly Surplus	Smart Allied Holdings Limited	29 shares of HK\$1 each	29%
Welly Surplus	Goachieve Holdings Limited	20 shares of HK\$1 each	20%

Save as disclosed in this circular, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, there was no other person who had an interest or short position in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

#### 4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

#### 5. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2007, being the date to which the latest published audited financial statements of the Group were made up.

#### 6. LITIGATION

As at the Latest Practicable Date, none of any member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claims of material importance known to the Directors to be pending or threatened by or against any member of the Group.

#### 7. QUALIFICATIONS AND CONSENTS OF THE EXPERTS

- (a) The following are the qualifications of the experts who have given their reports, opinions or advice which are included in this circular:

<b>Name</b>	<b>Qualification</b>
Hantec	Licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities and is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
Castores Magi Asia Limited	Registered Professional Surveyors

- (b) None of Hantec, HLB Hodgson Impey Cheng and Castores Magi Asia Limited has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) Each of Hantec, HLB Hodgson Impey Cheng and Castores Magi Asia Limited has given and has not withdrawn its written consent to the issue of this circular, with copies of its letter and/or reports and the references to its name included in the forms and contexts in which they are respectively included.

- (d) None of Hantec, HLB Hodgson Impey Cheng and Castores Magi Asia Limited had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 March 2007, the date to which the latest published audited financial statements of the Group were made up.

## **8. MISCELLANEOUS**

- (a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is at Suite 4701-4, 47th Floor, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.
- (c) The company secretary of the Company is Ms. Elsie Wong. Ms. Elsie Wong is member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.
- (d) The qualified accountant of the Company is Mr. Ho Yeong Fan. Mr. Ho is a registered accountant in Malaysia and an associate member of the Institute of Chartered Accountants of England and Wales.
- (e) The branch share registrar and transfer office of the Company is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (f) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

## **9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the head office and principal place of business of the Company in Hong Kong, Suite 4701-4, 47th Floor, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, during normal business hours from the date of this circular up to and including the date of the SGM:

- (a) the Acquisition Agreement;
- (b) the memorandum and bye-laws of the Company;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 15 of this circular;
- (d) the letter from Hantec, the text of which is set out on pages 16 to 27 of this circular;
- (e) the valuation report issued by Castores Magi Asia Limited, the text of which is set out in part (A) of appendix I to this circular;

- (f) the report prepared by HLB Hodgson Impey Cheng in connection with the valuation of business carried out by Smart Asset and its subsidiaries, the text of which is set out in part (B) of appendix I to this circular;
- (g) the letters of consent referred to in the section headed “Qualifications and Consents of Experts” in this appendix; and
- (h) this circular.

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NOTICE OF SGM

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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)**

**NOTICE OF SPECIAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that a special general meeting of Extrawell Pharmaceutical Holdings Limited (the “**Company**”) will be held at Salon 5, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 20 September 2007 at 4:00 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as ordinary resolution of the Company:

**ORDINARY RESOLUTION**

**“THAT**

- (a) the acquisition agreement (the “**Acquisition Agreement**”) dated 27 July 2007 (a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) and entered into between Mr. Ong Cheng Heang as vendor (the “**Vendor**”) and Extrawell (BVI) Limited as purchaser in respect of the sale and purchase of 49% interest in the share capital of Smart Ascent Limited and the transactions contemplated thereby be and are hereby approved, and the directors of the Company be and they are hereby authorised to take such steps as they may consider necessary, appropriate, desirable or expedient to implement or give effect to the terms of the Acquisition Agreement or all transactions contemplated under the Acquisition Agreement; and
- (b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting permission to deal in 300,000,000 ordinary shares of HK\$0.01 each in the share capital of the Company to be issued to the Vendor (“**Consideration Shares**”) under the Acquisition Agreement, the directors of the Company be and they are authorised to allot and issue the Consideration Shares to the Vendor in accordance with the terms of the Acquisition Agreement.”

By order of the Board  
**Extrawell Pharmaceutical Holdings Limited**  
**Mao Yu Min**  
*Chairman*

Hong Kong, 22 August 2007

\* For identification purpose only

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## NOTICE OF SGM

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*Executive directors:*

Dr. Mao Yu Min  
Mr. Ho Chin Hou  
Mr. Ho Yu Ling  
Mr. Li Qiang  
Dr. Xie Yi

*Independent non-executive directors:*

Mr. Fang Lin Hu  
Mr. Xue Jing Lun  
Ms. Jin Song

*Head office and principal place  
of business in Hong Kong:*

Suite 4701-04, 47th Floor  
Tower One, Times Square  
1 Matheson Street  
Causeway Bay  
Hong Kong

*Notes:*

- (1) *A member entitled to attend and vote at the meeting convened by the above notice or any adjournment thereof is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.*
- (2) *A form of proxy for use at the meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's Hong Kong branch registrar, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong no less than 48 hours before the time for holding the meeting or any adjournment thereof.*
- (3) *Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.*
- (4) *In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it was solely entitled thereto. If more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.*