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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)**

### **CLARIFICATION ANNOUNCEMENT**

At the request of the Stock Exchange, a special general meeting of the Company will be convened to seek the ratification and approval of the 2004 Transaction, the 2004 Agreement and the transactions contemplated thereby by the Independent Shareholders. Upon obtaining the approval and ratification of the Independent Shareholders of the 2004 Transaction, the Company will convene another special general meeting of the Company for the approval of the 2007 Transaction.

A circular containing, among other things, (1) further information on the 2004 Transaction and the 2004 Agreement; (2) the recommendation of the Independent Board Committee to the Independent Shareholders; (3) the advice from the Independent Financial Advisers to the Independent Board Committee and the Independent Shareholders; and (4) a notice of the special general meeting will be despatched to the Shareholders as soon as practicable.

Subject to the approval by the Independent Shareholders of the 2004 Transaction, a supplemental circular containing, among others, the voting results of the 2004 Transaction at the special general meeting of the Company to be convened, and a notice of another special general meeting of the Company for the approval of 2007 Transaction, the 2007 Agreement and the transactions contemplated thereby by the Independent Shareholders will be despatched to the Shareholders in due course.

Following the Incident, the Board has formed the Independent Board to investigate the Incident, the 2004 Transaction and the 2007 Transaction. The Board has also formed the Working Committee to assist the Independent Board to conduct such factual findings in relation to the Incident, the 2004 Transaction and the 2007 Transaction as the Independent Board may consider appropriate.

The Board also refers to the press release appearing on the website of ICAC on 22 September 2007 and a number of other recent newspapers articles regarding the arrest of Mr. Ho by ICAC and the charge against him with the alleged fraud to induce the Company to enter into the 2004 Transaction by, among others, the alleged false representation that the Vendors were not connected persons of the Company and the alleged concealment or failure to disclose of his relationship with the Vendors.

The Board is of the view that the charge against Mr. Ho does not have any material adverse impact on the operation or financial position of the Group. **Nevertheless, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.**

At the request of the Stock Exchange, trading in the Shares on the Stock Exchange was suspended with effect from 10:12 a.m. on 20 September 2007. Trading in the Shares will remain suspended pending, among others, the completion of an investigation by the Independent Board to provide assurance to the Stock Exchange and the investing public on the effectiveness of the Group's internal control, including its financial, operational and compliance controls and risk management functions in line with good corporate governance practices and that circumstances no longer exist to suggest that there may be significant deficiencies in the internal control system of the Group which will pose a risk to investors.

## **INTRODUCTION**

Reference is made to an announcement (“**September 17 Announcement**”) of the Company dated 17 September 2007 clarifying the relationship between Mr. Ho, an executive Director and Mr. Ong (one of the vendors under the 2004 Transaction and the vendor under the 2007 Transaction) and Ms. Wu (one of the vendors under the 2004 Transaction), and an announcement of the Company dated 20 September 2007 issued by the Company pursuant to Rule 13.39(5) of the Listing Rules announcing the voting results of the special general meeting held by the Company on 20 September 2007 approving the 2007 Transaction.

## **THE 2004 TRANSACTION**

In its letter of 20 September 2007 to the Company, the Stock Exchange indicated its views that, taking into account the association of Mr. Ho with the Vendors (being the son-in-law and daughter-in-law of Mr. Ho), the 2004 Transaction should have been subject to the relevant reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. At the request of the Stock Exchange, a special general meeting of the Company will be convened to seek the ratification and approval of the 2004 Transaction, the 2004 Agreement and the transactions contemplated thereby by the Independent Shareholders.

The Company will establish the Independent Board Committee to advise the Independent Shareholders on the 2004 Transaction, the 2004 Agreement and the transactions contemplated thereby are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the shareholders of the Company as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser.

A circular containing, among other things, (1) further information on the 2004 Transaction and the 2004 Agreement; (2) the recommendation of the Independent Board Committee to the Independent Shareholders; (3) the advice from the Independent Financial Advisers to the Independent Board Committee and the Independent Shareholders; and (4) a notice of the special general meeting will be despatched to the Shareholders as soon as practicable.

## **THE 2007 TRANSACTION**

In its letter of 20 September 2007 to the Company, the Stock Exchange indicated its views that Shareholders should have been given sufficient information on the 2004 Transaction (including the view of the Stock Exchange in respect of the 2004 Transaction as mentioned above) to enable them to make a properly informed assessment of the relationship between the 2007 Transaction and the 2004 Transaction. At the request of the Stock Exchange, subject to the 2004 Transaction having been approved and ratified by the Independent Shareholders, a special general meeting of the Company will be convened for the Independent Shareholders to re-consider and, if thought fit, to approve the 2007 Transaction. The Stock Exchange will also defer the grant of listing approval in respect of the Consideration Shares until all of the above matters concerning the 2004 Transaction are addressed by the Company to the satisfaction of the Stock Exchange and the 2007 Transaction has been re-approved by the Independent Shareholders.

The Board concurs with the view of the Stock Exchange and, upon obtaining the approval and ratification of the Independent Shareholders of the 2004 Transaction, the Company will despatch a supplemental circular containing, among others, information regarding the relationship between the Vendors and Mr. Ho as disclosed in the September 17 Announcement, the voting results of the 2004 Transaction at the special general meeting of the Company to be convened, and a notice of a special general meeting of the Company for the approval of 2007 Transaction, the 2007 Agreement and the transactions contemplated thereby by the Independent Shareholders.

## **The Independent Board and the Working Committee**

Upon the occurrence of the Incident, the following actions have been taken by the Company:

- (i) The Independent Board comprising the three independent non-executive Directors has been formed with the following terms of reference:
  - (a) to investigate the Incident, the 2004 Transaction and the 2007 Transaction;
  - (b) to review other transactions entered into by the Group as it may consider appropriate;
  - (c) to review and inquire into the accounts, records and affairs of the Group for the purpose of enabling the Group to conduct the investigations referred to in paragraphs (a) and (b) above;
  - (d) to review the internal control of the Group with respect to the financial, operation, compliance control and risk management functions; and

- (e) to make recommendations to the Group with regard to any action that should be taken after completion of the internal control review,
- (ii) In addition, the Working Committee comprising three executive Directors, namely, Dr. Mao Yu Min, Mr. Ho Yu Ling and Dr. Xie Yi has been formed to assist the Independent Board to conduct such factual findings in relation to the Incident, the 2004 Transaction and the 2007 Transaction as the Independent Board may consider appropriate. Given that Mr. Ho Yu Ling was not charged with any offence, it is considered appropriate to appoint him as a member of the Working Committee to assist on the factual findings relating to the 2004 Transaction and 2007 Transaction; and
- (iii) the Independent Board will appoint an independent international accounting firm (the “**Accounting Firm**”) to conduct an internal control review with respect to the financial, operation, compliance control and risk management functions and to assist the Independent Board to identify any weaknesses and deficiencies in the internal control of the Group. The Accounting Firm will also review the 2004 Transaction and the 2007 Transaction and to assist the Independent Board to identify a list of non-operational transactions outside the normal course of business of the Group for the Independent Board to determine whether any transaction should be further reviewed. During the review of the 2004 Transaction and the 2007 Transaction, the Accounting Firm will give special attention to any documents relating to the Incident made available to it, and any findings will be brought to the attention of the Independent Board.

As at the date of this announcement, the review referred to in paragraph (iii) to be carried out by the Accounting Firm was about to commence, and the investigation of the Independent Board on the Incident, the 2004 Transaction and the 2007 Transaction is ongoing.

## **CLARIFICATION OF INFORMATION CONTAINED IN VARIOUS ARTICLES**

The Board also refers to the press release (the “**ICAC Press Release**”) appearing on the website of ICAC on 22 September 2007 and the newspapers articles (the “**Other Press Articles**”) appearing on the South China Morning Post, The Sun, Hong Kong Economic Times, Ming Pao Daily News, Hong Kong Commercial Daily, Sing Tao Daily, Apple Daily and Macao Daily News on 22 September 2007 and 23 September 2007 regarding the arrest of Mr. Ho by ICAC and the charge against him.

### **Charge against Mr. Ho**

Mr. Ho has confirmed to the Board that he has been charged and the charge alleged that (a) between 1 January and 30 September 2004, Mr. Ho, by deceit, falsely represented that his daughter-in-law and son-in-law were not connected persons of the Company; and (b) Mr. Ho, with intent to defraud, induced the Company to acquire 51% of the shares of Smart Ascent at the price of HK\$73 million which resulted in benefit to Mr. Ho, his daughter-in-law and son-in-law. As at the date of this announcement, Mr. Ho has not been tried nor was he convicted of any offence.

Mr. Ho Yu Ling, an executive Director, was also arrested on 20 September 2007 and he was subsequently released without any charges. The Board noted a number of other allegations contained in the Other Press Articles. As the case is currently under investigation, the Company is not in the

position to comment on the contents of the Other Press Articles other than to point out that the Other Press Articles contain allegations not bore out by the charge against Mr. Ho. The Board would, however, like to clarify that Mr. Ho and Mr. Ho Yu Ling, another executive Director, are not brothers nor are they otherwise related to one another as referred to in some of the Other Press Articles. After making reasonable enquiry, the Independent Board has not been informed of the identities of any other senior management members of the Company who were involved in the investigations by the ICAC.

The Board would also like to clarify that Mr. Ho was not involved in the negotiation of the consideration for the 2004 Transaction. Mr. Ho did not participate in the board meeting convened to approve the 2004 Transaction.

The Board is of the view that the charge against Mr. Ho does not have any material adverse impact on the operations or financial position of the Group. The Board has sought confirmation from both Mr. Ho and Mr. Ho Yu Ling that other than the 2004 Transaction, the Incident is not related to the Company and its subsidiaries. **Nevertheless, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.**

#### **2004, 2005, 2006 and 2007 financial statements**

As disclosed in the relevant annual reports of the Company and the Company's announcements dated 3 March 2004 and 1 August 2007, the receivable (the "**Receivable**") due from Mr. Ong under the 2004 Transaction represents the outstanding purchase price for the sum of HK\$31.78 million payable by Smart Ascent for its acquisition of 51% interests in the issued share capital of Fosse Bio-Engineering Development Ltd. ("**Fosse Bio**") in 2004. Such outstanding purchase price is payable as to HK\$12 million after the issue by the State Food and Drug Administration of the PRC of the approval of phase III clinical study of the oral insulin product (the "**Product**") developed using the technical knowhow (the "**Knowhow**") jointly by Fosse Bio and Tsinghua University, and as to the balance after the issuance of the certificate of new medicine. Under the 2004 Transaction, the repayment obligations of such outstanding purchase price was assumed by Mr. Ong and secured by his interest in the remaining 49% interest in Smart Ascent, and therefore a sum of HK\$31.78 million has been recorded as the Company's other receivables.

For the year ended 31 March 2004, the auditors' report of the Company was qualified as, among others, there was a fundamental uncertainty relating to the recoverability of the deposit of HK\$20 million paid by the Group under the 2004 Transaction.

For the year ended 31 March 2005, the Company's auditors had given a disclaimer opinion in respect of the Company's financial statements by reason, among others, that there was a fundamental uncertainty relating to the carrying values of the Knowhow relating to the Product and the Receivable with the pledged 49% interest in Smart Ascent which depends upon the results and completion of the clinical trials and the obtaining of the certificate of new medicine, the outcome of which was then uncertain.

For the year ended 31 March 2006, the Company's auditors drew attention to the fundamental uncertainty relating to the recoverability of the carrying values of the Knowhow and the Receivable. For the year ended 31 March 2007, the Company's auditors drew attention to the significant uncertainty relating to the recoverability of the carrying values of the Knowhow and the Receivable. The recoverability of the carrying values of the Knowhow and the Receivable depends upon the results of the clinical trials and the successful launching of the Product, the ultimate outcome of the matter cannot be presently determined, and provision for impairment loss that may result should the clinical trials or the launching of the Product be unsuccessful, adjustment has not been made in the financial statements. The auditors' report for the year ended 31 March 2006 was qualified in respect of the limitation of audit scope for the corresponding figures for the year ended 31 March 2005 and the auditors' report for the year ended 31 March 2007 was not qualified. Please refer to the 2004 to 2007 annual reports of the Company for further details.

Based on the valuation of Smart Ascent as at 30 June 2007 carried out by Castores Magi Asia Limited and taken into account the progress of the approval procedures of the oral insulin products so far, the Directors do not consider that it is necessary to make any provision of impairment loss on the carrying values of the Knowhow and the Receivable.

As the Incident is currently under investigation and the allegations in the Incident have not been proven yet, the Company's auditors do not have sufficient information to access as to whether the Incident will have any impact on the financial statements of the Group for the three years ended 31 March 2007 at this stage. The Company will disclose any impact of the Incident on the Group's financial statements by way of announcement where applicable.

## **SUSPENSION OF TRADING**

This announcement is issued pursuant to Rule 13.09 of the Listing Rules. Other than the information disclosed in the announcement, there is no other information to be disclosed by the Company which falls under Rule 13.09 of the Listing Rules or under a specific disclosure obligation under the Listing Rules.

At the request of the Stock Exchange, trading in the Shares on the Stock Exchange was suspended with effect from 10:12 a.m. on 20 September 2007. Trading in the Shares will remain suspended pending, among others, the completion of an investigation by the Independent Board to provide assurance to the Stock Exchange and the investing public on the effectiveness of the Group's internal control, including its financial, operational and compliance controls and risk management functions in line with good corporate governance practices and that circumstances no longer exist to suggest that there may be significant deficiencies in the internal control system of the Group which will pose a risk to investors.

## DEFINITIONS

In this announcement, the following expressions have the following meanings:

“2004 Agreement”	a conditional sale and purchase agreement dated 3 March 2004 entered into between the Vendors as vendors and the Group as purchaser in connection with the sale and purchase of 51% interest in Smart Ascent
“2007 Agreement”	a conditional agreement dated 27 July 2007 entered into between Mr. Ong as vendor and the Group as purchaser in connection with the sale and purchase of the remaining 49% interest in Smart Ascent
“2004 Circular”	the circular issued by the Company on 25 March 2004 relating to the 2004 Transaction
“2004 Transaction”	the acquisition by the Group of 51% interest in Smart Ascent from the Vendors pursuant to the 2004 Agreement, as more particularly referred to in the 2004 Announcement and the 2004 Circular
“2007 Transaction”	the acquisition by the Group of the remaining 49% interest in Smart Ascent from Mr. Ong pursuant to the 2007 Agreement, as more particularly referred to in the 2007 Announcement and the 2007 Circular
“Associates”	have the same meanings ascribed thereto under the Listing Rules
“Board”	board of Directors
“Company”	Extrawell Pharmaceutical Holdings Limited, a company incorporated in Bermuda with limited liability and whose Shares are listed on the main board of the Stock Exchange
“Consideration Shares”	the 300 million new Shares to be allotted and issued, credited as fully paid, to Mr. Ong as consideration under the 2007 Transaction
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“ICAC”	the Independent Commission Against Corruption
“Incident”	the charge against Mr. Ho of alleged fraud in relation to the 2004 Transaction

“Independent Board”	the independent board comprising the three independent non-executive directors of the Company formed for, among other purposes, conducting investigation of the Incident, the 2004 Transaction and the 2007 Transaction
“Independent Board Committee”	the committee of the Board established for the purpose of advising the Independent Shareholders on the 2004 Transaction, the 2004 Agreement and the transactions contemplated thereby, the members of which include all the independent non-executive Directors, namely Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jin Song
“Independent Financial Adviser”	an independent financial adviser to the Independent Board Committee and the Independent Shareholders to be appointed in connection with the 2004 Transaction, the 2004 Agreement and the transactions contemplated thereby
“Independent Shareholders”	Shareholders, other than the Vendors, Mr. Ho and their respective Associates and any connected persons who have material interests in the 2004 Transaction and/or the 2007 Transaction and all other transactions contemplated under the 2004 Agreement and/or the 2007 Agreement
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Ho”	Mr. Ho Chin Hou, an executive director
“Mr. Ong”	Mr. Ong Cheng Heang, one of the Vendors of the 2004 Transaction and the vendor of the 2007 Transaction
“Ms. Wu”	Ms. Wu Kiet Ming, one of the Vendors of the 2004 Transaction
“PRC”	the People’s Republic of China
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Smart Ascent”	Smart Ascent Limited, a company incorporated in Hong Kong with limited liability
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendors”	collectively, Ms. Wu and Mr. Ong

“Working Committee” the working committee formed by the Board comprising three executive Directors to assist the Independent Board to conduct such fact finding regarding the Incident, the 2004 Transaction and the 2007 Transaction as the Independent Board may consider appropriate

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong

“%” per cent.

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

Hong Kong, 31 October 2007

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

*\* For identification purpose only*