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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)**

### **THE RATIFICATION ACTIONS FOR THE ACQUISITION OF 51% INTEREST IN SMART ASCENT IN 2004**

#### **CONNECTED AND DISCLOSEABLE TRANSACTION**

##### **RATIFICATION ACTIONS FOR THE 2004 ACQUISITION**

Reference is made to the 2004 Announcement and the 2004 Circular issued by the Company on the 2004 Acquisition. Under the 2004 Acquisition, the Group entered into the 2004 Agreement with the Vendors whereby the Group agreed to acquire and the Vendors agreed to sell 51% of the entire issued share capital of Smart Ascent. The 2004 Acquisition was completed on 17 August 2004.

It was stated in the 2004 Announcement and the 2004 Circular that the 2004 Acquisition constituted a discloseable transaction of the Company pursuant to the Listing Rules and, apart from Mr. Ong being an independent non-executive Director prior to his resignation from the office on 2 August 2001, each of the Vendors and their respective associates was independent from and not connected with any of the Directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. As disclosed in the Company's clarification announcement dated 17 September 2007, it came to the attention of the Board that Mr. Ong is the son-in-law of Mr. Ho and Ms. Wu is the daughter-in-law of Mr. Ho. Under Rule 14A.11 of the Listing Rules, the definition of "connected person" includes a son-in-law and a daughter-in-law of a Director whose association with the Director is such that, in the opinion of the Stock Exchange, the transaction should have been subject to the connected transaction requirements under the Listing Rules. 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 as aforesaid, the 2004 Acquisition 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, the SGM will be convened to seek the ratification and approval of the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby by the Independent Shareholders.

## **IMPLICATIONS UNDER THE LISTING RULES**

As the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the 2004 Acquisition are more than 5% but less than 25%, the 2004 Acquisition constituted a discloseable transaction of the Company under Rule 14.06 of the Listing Rules. Besides, as Mr. Ong is the son-in-law of Mr. Ho and Ms. Wu is the daughter-in-law of Mr. Ho and, pursuant to Rule 14A.11 of the Listing Rules, the Stock Exchange is of its views that, taking into account the association of Mr. Ho with the Vendors as aforesaid, the 2004 Acquisition 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, the SGM will be convened to seek the ratification and approval of the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby by the Independent Shareholders.

The Vendors and Mr. Ho (who resigned on 12 March 2009, being less than 12 months from the date of the SGM, and hence a connected person of the Company within the meaning of the Listing Rules), who are or considered to be materially interested in the 2004 Acquisition, and their respective associates are therefore required to abstain from voting on the resolution proposed to be passed at the SGM for ratifying and approving the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby. To the best knowledge of the Directors after making reasonable enquiries, as at the date of this announcement, none of the Vendors, Mr. Ho and their respective associates held any Shares.

While Mr. YL Ho, one of the former executive Directors, had been charged with five charges in connection with certain alleged misrepresentations and concealment of Mr. Ho's relationship with the Vendors by deceit, there was no allegation under the charges, and the Directors are not aware of any other circumstances, that may indicate that Mr. YL Ho and/or any of his associates is materially interested in the 2004 Acquisition. Nevertheless, Mr. YL Ho has indicated to the Board that he and his associates will abstain from voting on the resolution proposed to be passed at the SGM for ratifying and approving the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby. To the best knowledge of the Directors after making reasonable enquiries, as at the date of this announcement, Mr. YL Ho was interested in 52,000,000 Shares, representing approximately 2.27% of the entire issued share capital of the Company, through a company wholly owned by him named Well Success Limited.

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 2004 Acquisition, 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 as a whole, and to advise the Independent Shareholders as to how to vote. Shareholders' and prospective investors' attention is drawn to the advice of the Independent Board Committee and the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders in respect of the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby set out in the Ratification Circular.

The Independent Board Committee, having taken into account the advice of Somerley, considers that the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby to be fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Independent Board Committee therefore has recommended the Independent Shareholders to vote in favour of the ordinary resolution to ratify and approve the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby at the SGM.

## **GENERAL**

A circular containing, among other information, (i) a letter from the Board containing further information in relation to the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby; (ii) a letter from the Independent Board Committee with its advice in connection with the aforesaid; (iii) a letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders; (iv) a valuation report on the Smart Ascent Group from Castores Magi Asia Limited; (v) an accountants' report of the Smart Ascent Group for each of the three years ended 31 March 2008 and the five months ended 31 August 2007 and 2008 prepared by RSM Nelson Wheeler, Certified Public Accountants; (vi) a market report on insulin products; and (vii) a notice convening the SGM, has been despatched to the Shareholders on the date of this announcement.

## **SUSPENSION OF TRADING**

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 and will continue to be suspended until further notice. The resumption of trading in the Shares is subject to a number of conditions as summarised in the section "Conditions for resumption of trading" in the Company's announcement dated 2 April 2009.

## **BACKGROUND**

Reference is made to the 2004 Announcement and the 2004 Circular issued by the Company on the 2004 Acquisition. Under the 2004 Acquisition, the Group entered into the 2004 Agreement with the Vendors whereby the Group agreed to acquire and the Vendors agreed to sell 51% of the entire issued share capital of Smart Ascent. The 2004 Acquisition was completed on 17 August 2004.

It was stated in the 2004 Announcement and the 2004 Circular that the 2004 Acquisition constituted a discloseable transaction of the Company pursuant to the Listing Rules and, apart from Mr. Ong being an independent non-executive Director prior to his resignation from the office on 2 August 2001, each of the Vendors and their respective associates was independent from and not connected with any of the Directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. As disclosed in the Company's clarification announcement dated 17 September 2007, it came to the attention of the Board that Mr. Ong is the son-in-law of Mr. Ho and Ms. Wu is the daughter-in-law of Mr. Ho. Under Rule 14A.11 of the Listing Rules, the definition of "connected person" includes a son-in-law and a daughter-in-law of a Director whose association with the Director is such that, in the opinion of the Stock Exchange, the transaction should have been subject to the connected transaction requirements under the Listing Rules. 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 as aforesaid, the 2004 Acquisition 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, the SGM will be convened to seek the ratification and approval of the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby by the Independent Shareholders.

Reference is also made to the 2007 Announcement and the 2007 Circular on the 2007 Acquisition. Under the 2007 Acquisition, the Group entered into the 2007 Agreement whereby Mr. Ong has conditionally agreed to sell and the Group has agreed to acquire the remaining 49% interests in Smart Ascent.

A circular containing, among other information, (i) a letter from the Board containing further information in relation to the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby; (ii) a letter from the Independent Board Committee with its advice in connection with the aforesaid; (iii) a letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders; (iv) a valuation report on the Smart Ascent Group from Castores Magi Asia Limited; (v) an accountants' report of the Smart Ascent Group for each of the three years ended 31 March 2008 and the five months ended 31 August 2007 and 2008 prepared by RSM Nelson Wheeler, Certified Public Accountants; (vi) a market report on insulin products; and (vii) a notice convening the SGM, has been despatched to the Shareholders on the date of this announcement.

This announcement contains further information in relation to the 2004 Acquisition, the 2004 Agreement and the related transactions contemplated thereby.

## THE 2004 AGREEMENT DATED 3 MARCH 2004

### Parties

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

Vendors: Mr. Ong and Ms. Wu.

Mr. Ong was an independent non-executive Director prior to his resignation on 2 August 2001. He is also the son-in-law of Mr. Ho, a former executive Director who had been a Director at the time of the 2004 Agreement, and who had resigned as Director with effect from 12 March 2009. Ms. Wu is the daughter-in-law of Mr. Ho.

### Assets acquired under the 2004 Acquisition

5,100 shares of HK\$1 each in the share capital of Smart Ascent, as to 5,000 shares by Ms. Wu and 100 shares by Mr. Ong, representing in aggregate 51% of the issued share capital of Smart Ascent.

### Principal terms of the 2004 Agreement

#### (a) *Consideration*

Under the 2004 Agreement, the consideration (“**2004 Acquisition Consideration**”) payable by the Company to the Vendors for the 2004 Acquisition was HK\$73 million, as to HK\$71,568,628 to Ms. Wu and HK\$1,431,372 to Mr. Ong. The 2004 Acquisition was further adjusted to HK\$72,817,130, as to HK\$71,389,344 to Ms. Wu and HK\$1,427,786 to Mr. Ong, due to the adjustment thereto in the manner as set out in the paragraph (c) below and, after making such adjustment, the 2004 Acquisition Consideration had been paid in the following manner:

- (i) on or prior to the signing of the 2004 Agreement on 3 March 2004, a sum of HK\$20 million had been paid by or on behalf of Extrawell BVI to the Vendors in the following manner, which had been applied to satisfy payment of a pro tanto amount of the 2004 Acquisition Consideration upon completion of the 2004 Acquisition:
  - (aa) an aggregate of HK\$5 million has been paid by Extrawell BVI to Ms. Wu (as receiving agent for the Vendors) in cash on or prior to the date of the 2004 Agreement as the earnest money pursuant to the memorandum of understanding entered into between Extrawell BVI and the Vendors on 7 January 2004; and
  - (bb) Extrawell BVI paid a sum of HK\$15 million as the balance of the Deposit upon signing of the 2004 Agreement;
- (ii) on or before completion of the 2004 Acquisition on 17 August 2004, an aggregate sum of HK\$16.5 million, being the balance of half of the 2004 Acquisition Consideration, had been paid by Extrawell BVI to the Vendors in cash; and

(iii) upon evidence being supplied to Extrawell BVI to Extrawell BVI's reasonable satisfaction that Fosse Bio has entered into agreement(s) with hospitals and/or medical institutions to carry out the Phase II of the clinical trial of the Medicine, Extrawell BVI should within 10 Business Days from the date of Extrawell BVI's receipt of the said evidence pay or procure payment to the Vendors an aggregate sum of HK\$36,317,130 being the remaining balance of the 2004 Acquisition Consideration as adjusted in the manner as set out in paragraph (c) below, as to HK\$35,605,030 paid to Ms. Wu or her nominee and as to HK\$712,100 to Mr. Ong or his nominee. Such balance was settled by the Group during the year ended 31 March 2005.

The 2004 Acquisition Consideration had been financed by the Group out of its own internal resources.

The 2004 Acquisition Consideration had been determined between the Group and the Vendors after arm's length negotiations with reference to the then valuation of Fosse Bio as at 31 January 2004 of about HK\$279,800,000 as appraised by Castores Magi Asia Limited, an independent professional valuer.

Pursuant to the latest valuation report dated 21 May 2009 prepared by Castores Magi Asia Limited in respect of the market value of Smart Ascent Group as at 28 February 2009, the appraised market value of Smart Ascent Group as at 28 February 2009 amounted to HK\$1,547,241,000.

#### *Valuation methodology and assumptions*

In preparing the valuation report dated 21 May 2009, Castores Magi Asia Limited has used discounted cash flow method in evaluating the Smart Ascent Group. Castores Magi Asia Limited has appraised the equity of the Smart Ascent Group on the basis of "Market Value" on the premise of going concern. The going concern premise assumes that the Smart Ascent Group is normally viewed as continuing in operation in the foreseeable future with neither the intention nor necessity of liquidation or of curtailing materially the scale of its operation basis. Implicit in this definition is the fact that the willing buyer would not pay more to acquire the Smart Ascent Group appraised than he could reasonably expect to earn in the future from an investment in the Smart Ascent Group.

The factors considered by Castores Magi Asia Limited in its appraisal made in the valuation included, but were not limited to, the following factors:

- the history of the Smart Ascent Group;
- the economic and industry outlooks affecting the Smart Ascent Group's business;
- the size and growth prospects of the oral insulin market in the PRC;
- the past and projected future results of the Smart Ascent Group and the bases and assumptions for such results;

- the net assets and financial position of the Smart Ascent Group;
- the market-derived investment returns of entities in similar line of business;
- the stage of development, timing of introduction and marketing methods for the oral insulin project; and
- the risks facing by the Smart Ascent Group in implementing the oral insulin project.

Castores Magi Asia Limited has also made a number of reasonable assumptions in the course of its appraisal, which are set out as follows:

- the Smart Ascent Group will operate its business on continuous basis to the best of its ability and will allocate sufficient resources for the planned expansion;
- Fosse Bio will have no obstacle to obtain production approval of oral insulin from the SFDA after completion of the further stage of clinical trial, which is expected to take approximately 2 years;
- the financial forecasts of the Smart Ascent Group are achievable;
- there will be no material changes from political, legal, economic or financial aspects in the jurisdictions in which the Smart Ascent 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 Smart Ascent 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 tax rates, interest rates and foreign currency exchange rates in the jurisdictions or states in which the Smart Ascent 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 Smart Ascent Group will not make any decision, which is harmful to the revenue generation ability of the Smart Ascent Group's business;
- the Smart Ascent Group will allocate sufficient resources to keep abreast of its future expansion; and
- the assumptions on which the financial forecasts of the Smart Ascent Group will be achievable. The principal assumptions are:
  - the estimated diabetic population of the PRC in 2011 will be 58 million and is expected to grow at 0.5 million per annum to 2015;

- operating expenses, including staff costs, administrative and marketing expenses, property related expenses, are estimated by Smart Ascent's management with reference to the scale of operations; and
- necessary capital expenditure will be funded out of internal cash flows, plus external funding if required, and has been included in the projections as a cash outflow.

The Board has reviewed the principal assumptions upon which the valuation of the Smart Ascent Group as of 28 February 2009 under the valuation report is based and has confirmed that the valuation has been made after due and careful enquiry.

A letter from the Board and a letter from the Company's reporting accountants, RSM Nelson Wheeler, are included in the appendix to this announcement for the purpose of Rule 14.60A and 14.62 of the Listing Rules.

(b) *Conditions precedent and completion of the 2004 Acquisition*

Completion of the 2004 Acquisition had been conditional upon, among other conditions, the following conditions:

- (i) a legal opinion to be issued by PRC lawyers acceptable to Extrawell BVI, which should cover (but not limited to) the legality and validity of the THU Collaboration Arrangement, in such form and substance to the satisfaction of Extrawell BVI having been obtained;
- (ii) none of the warranties as set out in the 2004 Agreement having been breached in any material respect (or, if capable of being remedied, has not been remedied) or misleading or untrue in any material respect;
- (iii) if required, all approvals, consents, authorizations and licenses in relation to the transactions contemplated under the 2004 Agreement having been obtained from the relevant governmental authorities or other third parties;
- (iv) evidence being supplied to Extrawell BVI to Extrawell BVI's reasonable satisfaction that Fosse Bio has completed the report for the completion of phase I of the clinical trial of the Medicine as referred to in the SFDA's approval for clinical trial of medicine no. 2003L02797 (國家食品藥品監督管理局藥物臨床批件批件號 2003L02797) and is entitled to proceed with the phase II of the clinical trial of the same; and
- (v) if required, the approval by the independent Shareholders of the 2004 Agreement and the transactions contemplated thereby 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.

Completion of the 2004 Acquisition took place on 17 August 2004.

(c) *Treatment of the outstanding amount due to the Vendors*

Prior to the signing of the 2004 Agreement, Smart Ascent had owed to the Vendors in an aggregate sum of approximately HK\$12.7 million representing the Vendors' advances made to and expenses incurred for Smart Ascent and Fosse Bio for the purpose of their operations and for financing the research and development and related activities in connection with the THU Collaboration Arrangement, and such sum remained outstanding at the time of the 2004 Agreement. Under the 2004 Agreement, the Vendors and Extrawell BVI had agreed that such amount would continue to be repayable by Smart Ascent to the Vendors but, had the net asset value of Smart Ascent been less than zero as at the completion of the 2004 Acquisition, the Vendors had agreed and undertaken to pay to Extrawell BVI an amount equals to that which would make Smart Ascent's unconsolidated net asset value to become zero, and the 2004 Acquisition Consideration would be adjusted accordingly. In such event and without prejudice to Extrawell BVI's right to seek recourse against the Vendors, Extrawell BVI was entitled to set off the amount to be adjusted against such outstanding advances from the Vendors. Accordingly, the 2004 Acquisition Consideration had been adjusted from HK\$73 million to HK\$72,817,130. As at the date of this announcement, there was no amount due from Smart Ascent to the Vendors.

(d) *Treatment of the outstanding amount owed by Smart Ascent*

Smart Ascent acquired its 51% interests in the issued share capital of Fosse Bio from one of its existing shareholders, Fordnew Industrial Limited ("**Fordnew**") at a consideration of HK\$39.78 million in November 2003 and, pursuant to a deed of transfer entered into between Fordnew and Smart Ascent in February 2004, such consideration would be payable by Smart Ascent to Fordnew in four instalments, the first two instalments for an aggregate sum of HK\$8 million had been paid by Smart Ascent prior to the date of the 2004 Agreement, whereas the balance of the consideration for the sum of HK\$31.78 million, being the Outstanding Purchase Price, shall be payable by Smart Ascent to Fordnew in the following manner:

- (i) as to HK\$12 million, within 14 days from the service of Fordnew's notice of the issuance of certificate of phase III clinical trial of the Medicine issued by the SFDA and the production of the original certificate for inspection by Smart Ascent; and
- (ii) as to the balance of HK\$19.78 million, within 14 days from the service of Fordnew's notice of the issuance of certificate of new medicine (新藥證書) for the Medicine issued by the SFDA and the production of the original certificate for inspection by Smart Ascent.

Under the 2004 Agreement, the Vendors had jointly and severally undertaken to the Group that they will be responsible to pay in full the Outstanding Amount (being the Outstanding Purchase Price and all costs (including legal costs), expenses or other liabilities which any of Smart Ascent or Extrawell BVI may incur (if any) in connection with the payment of the Outstanding Purchase Price) for and on behalf of Smart Ascent if and when it becomes due and payable by Smart Ascent

pursuant to the said deed of transfer. As security for the Vendors' payment obligations in respect thereof, Mr. Ong had, since the completion of the 2004 Acquisition, pledged his 49% interests in the issued share capital of Smart Ascent to Extrawell BVI.

(e) *Application for patent registration*

The Vendors had unconditionally and irrevocably undertaken to Extrawell BVI that the Vendors together with Extrawell BVI will use all reasonable endeavours to procure Fosse Bio to apply for and/or complete the registration of patent in respect of the Medicine (including the Invention). The patent registration in respect of the Invention had been completed under the registration numbers of ZL 01 1 15327.X (in respect of the PRC patent registration) and US 7,018,980 B2 (in respect of the United States patent registration).

(f) *Other warranties and undertakings*

Under the 2004 Agreement, the Vendors had also given comprehensive warranties, representations and undertakings to Extrawell BVI in relation to, among other matters, the state of affairs of Smart Ascent, Fosse Bio, the THU Collaboration Arrangement, the intellectual property rights in respect of the Relevant Technologies and/or the Medicine, the more important of which included:

- (i) all intellectual property rights appertaining to the Relevant Technologies developed or to be developed as specified in the THU Collaboration Arrangement, including the right of patent, should belong to Fosse Bio and Tsinghua University, Beijing jointly, and Fosse Bio should be entitled to commercialise such of the Relevant Technologies as specified therein and to manufacture in the PRC and sell the Oral Insulin Products derived therefrom in accordance with the provisions of the THU Collaboration Arrangement on an exclusive basis;
- (ii) Fosse Bio had fully performed its obligations under the THU Collaboration Arrangement, including but not limited to its obligations to make payment thereunder or in connection therewith and to make application for the clinical trials of the Oral Insulin Products in conjunction with Tsinghua University, Beijing;
- (iii) Fosse Bio had obtained the requisite approvals from the competent authorities in the PRC (being SFDA) for conducting phases I and II of the clinical trials of the Medicine, and there had been no fact or matter known to either or both of the Vendors or which would or is likely to give rise to any revocation, cancellation or alternation of the terms and conditions of the said approvals;
- (iv) neither of Smart Ascent and Fosse Bio had received any notice or was otherwise aware of any infringement of or conflict with asserted rights of others with respect to any rights in respect of the Medicine, or of any facts which would render any such rights invalid or inadequate to protect the interests of Smart Ascent (or, as the case may be, Fosse Bio) and which were materially adverse to its business;

- (v) neither of Smart Ascent and Fosse Bio had (otherwise than in the ordinary and normal course of business and to its staff and officers whose province it is to know and its professional advisers) disclosed, or permitted to be disclosed, or undertaken or arranged to disclose, to any person other than Extrawell BVI any of its know-how, trade secrets, confidential information, price lists or lists of customers or suppliers;
- (vi) all information stated in the reports in respect of the results of the clinical trials of the Medicine, which were prepared by the hospitals designated by SFDA for conducting clinical trials for phases I and II of the clinical trials of the Medicine, as provided to Extrawell BVI, the auditors of the Company, the valuer of the Company or other authorised agents of Extrawell BVI had been accurate and comprehensive in all material respects;
- (vii) within 12 months from the date of completion of the 2004 Acquisition and for so long as such Vendor remains as a director and/or shareholder of Smart Ascent and/or Fosse Bio, whichever is the later, he/she will not, either alone or jointly with or as manager or agent for any person, firm or company directly or indirectly and whether or not for gain, be engaged or interested in or concerned with any business which is in any respect in competition with or similar to any business of Smart Ascent and/or Fosse Bio; and
- (viii) the Vendors will not at any time use either on his/her own account or for others or partly for himself/herself and partly for others the trade secrets or other confidential information of Smart Ascent and/or Fosse Bio (including but not limited to knowledge of and know-how relating to or in connection with Smart Ascent and/or Fosse Bio, any of their business and/or the Relevant Technologies and/or the Medicine).

### **Reasons for and benefits of the 2004 Acquisition**

Prior to the entering into of the 2004 Acquisition, the Group had been principally engaged in the marketing and distribution of pharmaceutical products, health care and nutritional products, and medical appliances and equipment to customers in the PRC, and the development, manufacture and distribution of pharmaceutical products in the PRC. The 2004 Acquisition had been regarded as an investment opportunity for the Group to diversify its product base and to thereby enhance its profitability. As Fosse Bio will be entitled to commercialise the Relevant Technologies and to manufacture and sell the Oral Insulin Products, in particular the Medicine, on an exclusive basis once the necessary clinical trials have been completed and the requisite new medicine certificate in respect of the Medicine has been obtained, and as oral insulin will be a new method for treatment of diabetes, the Directors are of the view that the 2004 Acquisition enabled the Group to capture the business opportunities arising from the launch of the oral insulin in the worldwide market in the future. Accordingly, the Directors, including the independent non-executive Directors having taken into account the advice of Somerley, consider that the 2004 Acquisition to be in the interest of the Company and its shareholders as a whole despite the past loss-making performance of Smart Ascent and/or Fosse Bio.

The Directors, including the independent non-executive Directors having taken into account the advice of Somerley, consider that the terms of the 2004 Agreement are fair and reasonable and in the interest of the Company and its shareholders as a whole.

### **Risks in connection with the 2004 Acquisition**

Set out below are some risks which the Board considers relevant to the 2004 Acquisition.

#### *Final approval for production and distribution of Medicine not yet obtained*

As discussed in the section headed “Information on Smart Ascent” below, on 30 April 2008, the SFDA granted approval to Fosse Bio and Tsinghua University, Beijing to undertake further clinical trial of the Medicine. In the said approval, the SFDA had imposed more stringent requirements in respect of the next phase clinical trial compared to the phase II clinical trial. As at the date of this announcement, the Group is liaising with hospitals and conducting other preparatory work for the clinical trial. The Company expects the clinical trial to commence in late June 2009. From the Group’s experience, it is expected that the further clinical trial will be completed and the report thereof will be prepared for approval by the SFDA by March 2010. However, such further clinical trial is subject to evaluation and queries by SFDA and it is possible that the SFDA may not approve the manufacturing and distribution of the Medicine.

There is a risk that Fosse Bio may not be able to obtain all licences, certificates and permits from the relevant regulatory authorities in the PRC required for formal production and distribution of the Medicine.

Should Fosse Bio fail to obtain the necessary approvals from the relevant authorities, it may not be able to commence the production and distribution of the Medicine in the PRC, which could have material and adverse impact on the business and financial results of Fosse Bio, and in turn the Group’s business and financial results. The Group may also have to write-off or suffer impairment on the carrying values of the technological know-how in relation to the Relevant Technologies, which amounted to approximately HK\$284.3 million as at 31 March 2008.

#### *Funding requirement*

The Company estimates that Fosse Bio will further incur approximately HK\$16 million of research and development expenses in relation to the next phase clinical trial, and an addition amount of approximately HK\$6 million for pre-marketing efforts before the commencement of commercial production and distribution of the Medicine. Should the actual development and pre-marketing expenses turn out to be much higher than the above amounts and that the Group is unable to inject sufficient funding to support further development of the Medicine due to working capital needs from its existing operations, the oral insulin project may not be able to complete and commercialise successfully.

### *Manufacturing and distribution*

As at the date of this announcement, the manufacturing plant for the Medicine is still under construction. Other than a small scale production of the Medicine for clinical trials, the Group has not yet commenced production of the Medicine. Should the manufacturing techniques prove to be faulty or a major processing reengineering has to be performed before mass scale production, a significant delay to the timing of the launch of the Medicine would be likely.

The Group expects to appoint two distributors in each of 30 major cities in the PRC for distribution of the Medicine during the initial stage. In case such appointment of distributors cannot be completed on time, or disagreement on terms of appointment arise, or the sales channels prove to be too weak to promote sales of the Medicine, the target market share of the Medicine may not be reached.

### *Market acceptance and competition*

It is assumed in the financial projections of Smart Ascent that Fosse Bio would gain an increasing market share during the forecast period from October 2010 to March 2015. However, there can be no assurance that the Medicine can gain sufficient market acceptances in the PRC diabetic market to achieve the projected revenue. The level of market penetration, sales and pricing can only be broad estimates at this stage. In case it cannot be demonstrated in the next phase clinical trial that the Medicine has any sustained improvement over existing treatments, Fosse Bio may not be able to gain sufficient market acceptances to support the estimated revenue.

In assessing the acceptance of the new Medicine to be launched to the market, diabetic patients may compare the pricing of the Medicine with other medical products. If the pricing assumption made by the Group proves too optimistic, target diabetics may continue to use their existing drugs instead of the Medicine.

The effectiveness of the Medicine may be over-estimated and its side-effects may emerge when the Medicine is widely used. There are precedent cases of seemingly promising new drugs which failed to become established. Exubera, an inhalable insulin introduced by Pfizer Incorporated which was available in the United States from 2006 to 2007 and considered a new method of insulin intake, was withdrawn from the market after it failed to gain acceptances among diabetic patients.

If the Medicine is approved and introduced to the market successfully, there appears to be a large potential market of diabetes patients in the PRC. Nevertheless, rival products could emerge and, as noted above, the sales price is yet to be tested in the market. Competition from existing insulin products in the PRC market may also create uncertainty as to the projected revenue of Fosse Bio. Although the Company considered that the Medicine is likely to be the first oral insulin to be distributed in the PRC upon successful commercialisation, potential customers might still consider different factors when choosing among different diabetic drugs available in the market, which include pricing, branding and reputation, availability, convenience of use and certain other factors. Besides, the

possibility of oral insulin with similar technologies or insulin with other delivery methods being developed, or existing oral anti-diabetic drugs (“OADs”) available in the PRC market being sold more aggressively by competitors, may also impact the financial results of Fosse Bio.

#### *Expiry of patent of the Relevant Technologies*

The patent issued by the PRC authorities for the Relevant Technologies will expire in April 2021, after which the Medicine could become “generic”, and there is no assurance that other market competitors may manufacture and sell the Medicine on their own. Intensifying competition in the market may have negative impact on the pricing and the profit margin of the Medicine and may thereby have adverse effect on the profitability of the Group.

#### *Product concentration*

The financial projections of the oral insulin project prepared by the Company are based solely on the sales of the Medicine, which account for 100% of the revenue to be generated by Fosse Bio. In the event that the Medicine is not successfully commercialised in the PRC market, or the sales price/sales volumes of the Medicine do not reach the projected amounts, the Smart Ascent Group’s total sales would be materially and adversely affected.

#### *Fluctuations in cost of sales*

According to the financial projections, the cost of the main component (insulin powder) and other components of the Medicine, account for a majority of the total cost of sales. The price of insulin powder and other cost components are subject to a number of factors such as supply and demand and the economic environment in the PRC at the time. The gross margin of Fosse Bio may be adversely affected if the purchase price of insulin powder or other components rise significantly.

#### *Product liability*

Fosse Bio could face material claims arising from any alleged harmful effect of the Medicine. There is no assurance that any product liability claim brought against the Group in respect of the Medicine would not have an adverse effect on Fosse Bio’s business operations and financial results and position, and accordingly the Group’s business operations and financial results and position.

Shareholders and prospective investors of the Company should also refer to the section headed “Risk Factors” in the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders in respect of the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby set out in the Ratification Circular for further information on certain risks in connection with the 2004 Acquisition.

## Financial impact of the 2004 Acquisition

Upon completion of the 2004 Acquisition in August 2004, Smart Ascent became a 51%-owned subsidiary of Extrawell BVI, which is in turn wholly-owned by the Company. Smart Ascent had been accounted for as subsidiary of the Company and its financial results (including earnings, assets and liabilities) had been consolidated into and reflected in the financial statements of the Group since then.

The 2004 Acquisition had the following financial impacts on the Group in respect of its assets and results for each of the three years ended 31 March 2008 as follows:

### (a) *Earnings*

For each of the financial years ended 31 March 2006, 2007 and 2008, the Group's turnover were approximately HK\$178.3 million, HK\$158.8 million and HK\$165.1 million respectively. As the SFDA's final approval required for launching of the Medicine has not been obtained, the Smart Ascent Group had not contributed any turnover during the financial periods concerned.

The Group's consolidated net profit/(loss) for each of the financial years ended 31 March 2006, 2007 and 2008 were approximately HK\$4.2 million, HK\$8.9 million and (HK\$13.3 million) respectively; of which approximately HK\$4.7 million, HK\$9.3 million and (HK\$11.7 million) were attributable to the equity holders of the Company.

The net loss of the Smart Ascent Group included in the Group's results for each of the financial years ended 31 March 2006, 2007 and 2008 were HK\$278,381, HK\$215,481 and HK\$502,322 respectively; of which HK\$136,158, HK\$100,828 and HK\$242,404 were attributable to the equity holders of the Company.

Despite that no turnover has been generated from the Smart Ascent Group and its loss-making history principally attributable to the costs and expenses for the development of the Medicine since the completion of the 2004 Acquisition, the Directors are optimistic that the Smart Ascent Group can become one of the principal contributors to the Group's turnover and profit in the future after the successful launch of the Medicine in the market.

Nevertheless, should the Smart Ascent Group fail to obtain the certificate of new medicine in respect of the Medicine by the relevant PRC authority, there can be significant impact on the results of the Group, as it is expected that such failure can result in the following adjustments to the assets and liabilities of the Group and will, in turn, result in the net impairment loss for such amount representing the then carrying amount for the intangible assets represented by the technological know-how in relation to the production and the exclusive right for the commercialisation of the Medicine:

- (i) an impairment provision for the intangible assets represented by the technological know-how in relation to the production and the exclusive right for the commercialisation of the Medicine, the carrying value of which amounted to approximately HK\$284,260,000 as at 31 March 2008, of which HK\$93,986,460 will be attributable to the equity holders of the Company;

(ii) a write off of the Smart Ascent Group's other receivables representing the amount of the Outstanding Purchase Price assumed by the Vendors under the 2004 Acquisition, which amounted to HK\$31,780,000 as at 31 March 2008; and

(iii) a write off of the Smart Ascent Group's other payables representing the amount of the Outstanding Purchase Price payable by Smart Ascent, which amounted to HK\$31,780,000 as at 31 March 2008.

(b) *Assets and liabilities*

As at 31 March 2006, 2007 and 2008, the audited total assets of the Group were approximately HK\$571.3 million, HK\$610.0 million and HK\$619.6 million respectively, of which HK\$314.1 million, HK\$315.0 million and HK\$315.0 million were attributable to the Smart Ascent Group, representing 55.0%, 51.6% and 50.8% of the Group's total assets as at the said dates, respectively.

As at 31 March 2006, 2007 and 2008, the audited total liabilities of the Group were approximately HK\$70.6 million, HK\$93.5 million and HK\$106.7 million respectively, of which HK\$35.5 million, HK\$36.6 million and HK\$37.1 million were attributable to the Smart Ascent Group, representing 50.3%, 39.1% and 34.7% of the Group's total liabilities as at the said dates, respectively.

Should the Smart Ascent Group fail to obtain the certificate of new medicine in respect of the Medicine by the relevant PRC authority, there can be significant impact on the results of the Group, as it is expected that net assets value of the Group will be reduced by approximately HK\$284.3 million, of which HK\$93,986,460 is attributable to the equity holders of the Company upon making the adjustments as set out in paragraph (a) above. These represent 55.4% of the Group's net assets value as at 31 March 2008.

Save as disclosed above, the Directors do not expect any material impact on its assets and liabilities.

(c) *Cash flow*

The Company estimates that Fosse Bio will further incur approximately HK\$16 million of research and development expenses in relation to the next phase clinical trial, and an addition amount of approximately HK\$6 million for pre-marketing efforts before the commencement of commercial production and distribution of the Medicine. According to the shareholders' agreement of Fosse Bio, upon the request of Fordnew, Smart Ascent shall provide interest-free loan to Fosse Bio in proportion to its shareholding in Fosse Bio and/or provide interest-free loan to the other shareholders of Fosse Bio for onward lending to Fosse-Bio for expenses relating to clinical trial. Given that the bank and cash balance of the Group amounted to approximately HK\$101 million (including pledged deposits of approximately HK\$20 million to secure banking facilities) as at 18 May 2009, being the latest practicable date prior to the publication of this announcement for ascertaining such information, the Board agrees with the view of Somerley that the additional expenditure required for the oral insulin project can be funded by the Group from its internal resources.

## INFORMATION ON SMART ASCENT

Smart Ascent is a private company incorporated in Hong Kong with limited liability, having an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each, all of which have been issued and are fully paid and beneficially owned as to 51% by Extrawell BVI and 49% by the Vendor as at the date of this announcement. Before the completion of the 2004 Acquisition in August 2004, Smart Ascent was owned as to 50% by Mr. Ong and 50% by Ms. Wu. According to the register of members of Smart Ascent, Smart Ascent was incorporated as a shelf company by corporate secretarial services agent in Hong Kong in December 2000 and was activated by two of the Group's former employees and the Group's then employees, Ms. Tang Po Ling and Ms. Chuah Meng Meng who purchased Smart Ascent from the corporate secretarial services agent in January 2001, and the two subscriber shares, being the then entire issued share capital of Smart Ascent, were initially transferred to and registered under the names of Ms. Tang and Ms. Chuah. As explained by the Vendors, since they were not residing in Hong Kong and had limited experience in the incorporation of Hong Kong company, they asked Mr. Ho for assistance who in turn arranged Ms. Tang and Ms. Chuah to purchase and activate Smart Ascent on their behalf for use as the investment vehicle for the project. According to the register of members of Smart Ascent, these shares were subsequently transferred back to the Vendors in March 2002 at nominal consideration, and the Vendors had become the only registered shareholders of Smart Ascent since then until the completion of the 2004 Acquisition. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Ms. Tang and Ms. Chuah do not have, and did not have at the material time, any relationship with the Company and its connected persons other than as former employees of the Group. Upon completion of the 2004 Acquisition in August 2004, Smart Ascent became an indirect non wholly-owned subsidiary of the Company and its financial results had been consolidated into the financial statements of the Group since then. The aggregate original purchase cost of the Vendors of the 51% of the issued share capital of Smart Ascent was approximately HK\$6.6 million, being 51% of their aggregate amount of investment made by them to Smart Ascent since its incorporation and up to the completion of 2004 Acquisition, comprising approximately HK\$4.4 million expenses incurred for financing the research and development and related activities in connection with the THU Collaboration Arrangement, HK\$8 million for payment of the first two instalments of the consideration payable by Smart Ascent to Fordnew for the acquisition of 51% interest in Fosse Bio (as referred to in the paragraph "The 2004 Agreement dated 3 March 2004 — principal terms of the 2004 Agreement — Treatment of the outstanding amount owed by Smart Ascent" above), approximately HK\$10,000 for their payment of the share capital of Smart Ascent, approximately HK\$469,000 for general and other professional expenses incurred by or for Smart Ascent and approximately HK\$187,000 for their legal expenses incurred in respect of the 2004 Acquisition. Addition, the Vendors have undertaken to pay in full the Outstanding Amount.

Smart Ascent is an investment holding company. According to the register of members of Fosse Bio, Smart Ascent acquired from and became the holder of 51% interest in the issued share capital of Fosse Bio in November 2003, and the Directors are not aware of any written agreement or arrangement entered into between Smart Ascent and Fordnew in respect of such acquisition before then. Fosse Bio is principally engaged in the research and development of the Relevant Technologies pursuant to the

THU Collaboration Arrangement. Since February 2006, it has also become the holding company of Welly Surplus, which is owned as to 51% by Smart Ascent. 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, and will act as the manufacturing arm of the Group for the Medicine. As disclosed in the Company's announcement dated 8 April 2009, under the relevant acquisition agreement, in the event that certain of the conditions to the agreement have not been fulfilled on or before 12:00 noon on 30 November 2007 ("**2006 Acquisition Long Stop Date**") or such later date and time as the parties may mutually agree, the agreement shall forthwith terminate (save in respect of the confidentiality provisions thereof). As the time for completing the acquisition of the manufacturing plant is also dependent on the progress of construction of the plant, completion of the acquisition has not been taken place yet. In light of the expected progress of the application for registration of the Medicine, the parties have agreed to extend the 2006 Acquisition Long Stop Date to 30 June 2010 and that the independent third party shall procure the completion of the construction of the manufacturing plant on or before 30 June 2010 or, if the SFDA issues an approval (with or without conditions) to apply for the New Medicine Certificate for the Medicine, within nine months of the date of the said approval, whichever is earlier. If it is stated by the SFDA that phase III clinical trial in respect of the Medicine is required, the parties shall discuss and revise the construction schedule of the manufacturing plant accordingly.

Fosse Bio has entered into the THU Collaboration Agreement with Tsinghua University, Beijing for the joint research and development of the Relevant Technologies, including but not limited to the use of the Oral Insulin Products. Under the THU Collaboration Arrangement, Fosse Bio will be entitled to commercialise such of the Relevant Technologies as specified therein and to manufacture and sell the products derived therefrom in accordance with the provisions of the THU Collaboration Arrangement on an exclusive basis, and Tsinghua University, Beijing shall be entitled to a royalty representing 1.5% of the sales of such products starting from the commercial production thereof. Mutual consent of Fosse Bio and Tsinghua University, Beijing is required in respect of any sale or transfer of the manufacturing right of any of the products so developed to a third party, in such the sales proceeds thereof shall be shared by them in equal shares.

The Invention is one of the Relevant Technologies under the joint research and development by Fosse Bio and Tsinghua University, Beijing under the THU Collaboration Arrangement, and they are also the joint registered owners of the patent in respect of the Invention. The Medicine, being the product derived from the Invention, completed its phase II of the clinical trials and the clinical trial report had been submitted to SFDA for review and approval. On 30 April 2008, the SFDA granted approval to Fosse Bio and Tsinghua University, Beijing to undertake further clinical trial of the Medicine. For the purpose of the further clinical trial, the Group is still liaising with hospitals and conducting other preparatory work for the clinical trial as at the date of this announcement. From the Group's experience, it is expected that the further clinical trial will be completed and the report thereof will be prepared for approval by the SFDA by March 2010. Under the Administrative Regulations for Registration of Medicine of the PRC (藥品註冊管理辦法), the Medicine can be launched to the market upon completion of the relevant clinical trials and the grant of approval by the relevant PRC authority.

Based on the audited consolidated accounts of Smart Ascent, the consolidated net asset value of Smart Ascent was approximately HK\$277,914,300 as at 31 March 2008.

Based on the audited consolidated accounts of Smart Ascent, 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, while for the year ended 31 March 2008, the consolidated net loss before and after taxation and extraordinary items of Smart Ascent amounted to approximately HK\$502,300 and HK\$502,300 respectively.

As disclosed in the Company's announcements dated 31 October 2007 and 16 January 2008, Mr. Ho and Mr. Ho Yu Ling ("**Mr. YL Ho**"), two of the former executive Directors, had been charged with charges ("**Charges**") in connection with certain alleged misrepresentations and concealment of Mr. Ho's relationship with the Vendors by deceit. The Directors also note that there were articles appearing in newspapers regarding the Charges and other allegations against one or both of them regarding their involvements in the 2004 Acquisition, acquisitions of interests in Smart Ascent and/or Fosse Bio. As these Charges are still under the relevant legal proceedings as at the date of this announcement and there is limited publicly accessible information in relation to the Charges, the Company is not in the position to comment on or clarify these allegations other than the information as disclosed in this announcement. The purpose of this announcement is to set out all material information relating to the Smart Ascent Group and the 2004 Acquisition to the best of the Directors' knowledge, information and belief having made all reasonable enquiries.

## **IMPLICATIONS UNDER THE LISTING RULES**

As the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the 2004 Acquisition are more than 5% but less than 25%, the 2004 Acquisition constituted a discloseable transaction of the Company under Rule 14.06 of the Listing Rules. Besides, as Mr. Ong is the son-in-law of Mr. Ho and Ms. Wu is the daughter-in-law of Mr. Ho and, pursuant to Rule 14A.11 of the Listing Rules, the Stock Exchange is of its views that, taking into account the association of Mr. Ho with the Vendors as aforesaid, the 2004 Acquisition 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, the SGM will be convened to seek the ratification and approval of the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby by the Independent Shareholders.

The Vendors and Mr. Ho (who resigned on 12 March 2009, being less than 12 months from the date of the SGM, and hence a connected person of the Company within the meaning of the Listing Rules), who are or considered to be materially interested in the 2004 Acquisition, and their respective associates are therefore required to abstain from voting on the resolution proposed to be passed at the SGM for ratifying and approving the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby. To the best knowledge of the Directors after making reasonable enquiries, as at the date of this announcement, none of the Vendors, Mr. Ho and their respective associates held any Shares.

While Mr. YL Ho, one of the former executive Directors, had been charged with five charges in connection with certain alleged misrepresentations and concealment of Mr. Ho's relationship with the Vendors by deceit, there was no allegation under these charges, and the Directors are not aware of any other circumstances, that may indicate that Mr. YL Ho and/or any of his associates is materially interested in the 2004 Acquisition. Nevertheless, Mr. YL Ho has indicated to the Board that he and his associates will abstain from voting on the resolution proposed to be passed at the SGM for ratifying and approving the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby. To the best knowledge of the Directors after making reasonable enquiries, as at the date of this announcement, Mr. YL Ho was interested in 52,000,000 Shares, representing approximately 2.27% of the entire issued share capital of the Company, through a company wholly owned by him named Well Success Limited.

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 2004 Acquisition, 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 as a whole, and to advise the Independent Shareholders as to how to vote. Shareholders' and prospective investors' attention is drawn to the advice of the Independent Board Committee and the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders in respect of the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby set out in the Ratification Circular.

The Independent Board Committee, having taken into account the advice of Somerley, considers that the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby to be fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Independent Board Committee therefore has recommended the Independent Shareholders to vote in favour of the ordinary resolutions to ratify and approve the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby at the SGM.

## **EXPERTS AND CONSENTS**

The following are the qualifications of the experts who have given their reports, opinions or advice which are included in this announcement:

<b>Name</b>	<b>Qualification</b>
RSM Nelson Wheeler	Certified Public Accountants
Castores Magi Asia Limited	Registered Professional Surveyors

As at the date of this announcement, none of RSM Nelson Wheeler 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.

To the best of the Directors' knowledge, information and belief, each of RSM Nelson Wheeler and Castores Magi Asia Limited is a third party independent of and not connected with the Company or the connected persons (as defined under the Listing Rules) of the Group.

Each of RSM Nelson Wheeler and Castores Magi Asia Limited has given and has not withdrawn its written consent to the issue of this announcement, 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.

### **STATUS OF THE 2007 ACQUISITION**

It was stated in the 2007 Announcement and the 2007 Circular that the 2007 Acquisition constituted a connected transaction for the Company as Mr. Ong is a substantial shareholder of Smart Ascent by virtue of his interest in Smart Ascent. 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 Acquisition (including the view of the Stock Exchange that the 2004 Acquisition should have constituted a connected transaction and should have been subject to the relevant reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules) to enable them to make a properly informed assessment of the relationship between the 2007 Acquisition and the 2004 Acquisition. At the request of the Stock Exchange and subject to the 2004 Acquisition having been approved and ratified by the Independent Shareholders, the Company is required to convene another special general meeting of the Company for the Independent Shareholders to re-consider and, if thought fit, to re-approve the 2007 Acquisition.

As disclosed in the 2007 Circular, completion of the 2007 Agreement is conditional upon the satisfaction or, as the case may be, waiver of the conditions precedent as stated therein, including but not limited to the Listing Committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the Consideration Shares issuable to Mr. Ong under the 2007 Agreement on the main board of the Stock Exchange, on or before 12:00 noon on 31 October 2007 or such later date (the "**Long Stop Date**") as the Group may agree. As at the date of this announcement, the Group has not yet extended the Long Stop Date. It is the present intention of the Board to proceed with the acquisition of the remaining 49% interests in the share capital of Smart Ascent. The Directors will, however, after the ratification and approval of the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby by the Independent Shareholders at the SGM, re-assess whether it is in the interests of the Group and the Shareholders (taken as a whole) (i) to extend the Long Stop Date and proceed with the acquisition of the remaining 49% interests in the share capital of Smart Ascent on the same terms and conditions (other than the Long Stop Date) as set out in the 2007 Agreement, or (ii) to re-negotiate with Mr. Ong on an arm's length basis on the terms and conditions for such acquisition.

*There is no assurance that the Group will proceed with the acquisition of the remaining 49% interests in the share capital of Smart Ascent and, if proceed with, there is no assurance that such acquisition will be proceeded with on the same terms and conditions as set out in the 2007 Agreement. The Company will make further announcement in respect of the status of such acquisition pursuant to the Listing Rules as and when required. Shareholders and prospective investors should exercise caution when dealing in Shares.*

## **GENERAL**

A circular containing, among other information, (i) a letter from the Board containing further information in relation to the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby; (ii) a letter from the Independent Board Committee with its advice in connection with the aforesaid; (iii) a letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders; (iv) a valuation report on the Smart Ascent Group from Castores Magi Asia Limited; (v) an accountants' report of the Smart Ascent Group for each of the three years ended 31 March 2008 and the five months ended 31 August 2007 and 2008 prepared by RSM Nelson Wheeler, Certified Public Accountants; (vi) a market report on insulin products; and (vii) a notice convening the SGM, has been despatched to the Shareholders on the date of this announcement.

## **SUSPENSION OF TRADING**

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 and will continue to be suspended until further notice. The resumption of trading in the Shares is subject to a number of conditions as summarised in the section "Conditions for resumption of trading" in the Company's announcement dated 2 April 2009.

## **DEFINITIONS**

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

- "2004 Acquisition"** the acquisition by Extrawell BVI of the Sale 51% Interest from the Vendors pursuant to the 2004 Agreement
- "2007 Acquisition"** the acquisition by Extrawell BVI of the Sale 49% Interest from Mr. Ong pursuant to the 2007 Agreement, as more particularly referred to in the 2007 Circular and as supplemented by the Ratification Circular
- "2004 Agreement"** a conditional sale and purchase agreement dated 3 March 2004 entered into between the Vendors as vendors and Extrawell BVI as purchaser in connection with the sale and purchase of the Sale 51% Interest
- "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 Sale 49% Interest

<b>“2004 Announcement”</b>	the announcement dated 3 March 2004 issued by the Company in relation to the 2004 Acquisition
<b>“2007 Announcement”</b>	the announcement dated 1 August 2007 issued by the Company in relation to the 2007 Acquisition
<b>“2004 Circular”</b>	the circular issued by the Company on 25 March 2004 containing information on the 2004 Acquisition
<b>“2007 Circular”</b>	the circular issued by the Company on 22 August 2007 containing information on the 2007 Acquisition
<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 are listed on the main board of the Stock Exchange
<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
<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>“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 2004 Acquisition, 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

<b>“Independent Shareholders”</b>	Shareholders, other than the Vendors, Mr. Ho and their respective Associates and any connected persons who have material interests in the 2004 Acquisition and all other transactions contemplated under the 2004 Agreement
<b>“Invention”</b>	an invention “一種製備口服胰島素油相製劑的方法” (a method of production of oil-phase preparation of oral insulin), which is a patent registered under the joint name of Fosse Bio and Tsinghua University, Beijing under the registration numbers of ZL 01 1 15327.X (in respect of the PRC patent registration) and US 7,018,980 B2 (in respect of the United States patent registration)
<b>“Listing Rules”</b>	Rules Governing the Listing of Securities on the Stock Exchange
<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 Fosse Bio in collaboration with Tsinghua University, Beijing
<b>“Mr. Ho”</b>	Mr. Ho Chin Hou, a former executive Director who had been a Director at the time of the 2004 Agreement, and who had resigned as a Director with effect from 12 March 2009
<b>“Mr. Ong”</b>	Mr. Ong Cheng Heang, one of the Vendors of the 2004 Acquisition and the vendor of the 2007 Acquisition, and the son-in-law of Mr. Ho
<b>“Ms. Wu”</b>	Ms. Wu Kiet Ming, one of the Vendors of the 2004 Acquisition, and the daughter-in-law of Mr. Ho
<b>“Oral Insulin Products”</b>	such oral insulin products as engaged by Fosse Bio to be developed by Tsinghua University, Beijing under the THU Collaboration Arrangement
<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 (if any) 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 Smart Ascent if and when it becomes due and payable by Smart Ascent pursuant to the deed of transfer entered into by Smart Ascent for its acquisition of 51% interest in the share capital of Fosse Bio
<b>“Outstanding Purchase Price”</b>	an aggregate amount of HK\$31.78 million, being part of the consideration payable by Smart Ascent for its acquisition of 51% interests in the issued share capital of Fosse Bio in November 2003, which remained outstanding as at the date of this announcement
<b>“PRC”</b>	the People’s Republic of China

<b>“Ratification Circular”</b>	the circular issued by the Company on 21 May 2009 containing, among other information, (i) a letter from the Board containing further information in relation to the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby; (ii) a letter from the Independent Board Committee with its advice in connection with the aforesaid; (iii) a letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders; (iv) a valuation report on the Smart Ascent Group from Castores Magi Asia Limited; (v) an accountants’ report of the Smart Ascent Group for each of the three years ended 31 March 2008 and the five months ended 31 August 2007 and 2008 prepared by RSM Nelson Wheeler, Certified Public Accountants; (vi) a market report on insulin products; and (vii) a notice convening the SGM, has been dispatched to the Shareholders on the date of this announcement.
<b>“Relevant Technologies”</b>	the technologies (including the right of patent) developed or to be developed by Tsinghua University, Beijing under the THU Collaboration Arrangement
<b>“Sale Shares”</b>	the aggregate of 5,100 ordinary shares of HK\$1.00 each in the issued share capital of Smart Ascent
<b>“SFDA”</b>	State Food and Drug Administration of the PRC
<b>“SFO”</b>	Securities and Futures Ordinance, Cap 571 of the Laws of Hong Kong
<b>“SGM”</b>	the special general meeting of the Company to be held at Harbour View Room III & IV, 3rd Floor, The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Monday, 8 June 2009 at 11:00 a.m. for the purpose of approving the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby
<b>“Share(s)”</b>	ordinary share(s) of HK\$0.01 each in the share capital of the Company
<b>“Shareholder(s)”</b>	holder(s) of Share(s)
<b>“Smart Ascent”</b>	Smart Ascent Limited, a company incorporated in Hong Kong with limited liability, the entire issued share capital of which is owned as to 51% by Extrawell BVI and 49% by Mr. Ong
<b>“Smart Ascent Group”</b>	Smart Ascent and its subsidiaries

<b>“Somerley”</b>	Somerley Limited, a corporation licensed to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the 2004 Acquisition, the 2004 Agreement and the transactions contemplated thereby
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“THU Collaboration Arrangement”</b>	the agreements dated 14 October 1998, 9 November 1998 and 15 October 1998 entered into between, among others, Fosse Bio and Tsinghua University, Beijing, the PRC regarding, among other matters, research and development of the use of Oral Insulin Products
<b>“Vendors”</b>	collectively, Ms. Wu and Mr. Ong
<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.

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

Hong Kong, 21 May 2009

*As at the date of this announcement, the executive directors are Dr. Mao Yu Min, Dr. Xie Yi, Dr. Lou Yi and Ms. Wong Sau Kuen and the independent non-executive directors are Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jin Song.*

\* *For identification purpose only*

## LETTERS IN RELATION TO VALUATION OF SMART ASCENT GROUP

### A. Letter from the Board

21 May 2009

The Stock Exchange of Hong Kong Limited  
12th Floor, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

Dear Sirs,

#### **THE RATIFICATION ACTIONS FOR THE ACQUISITION OF 51% INTEREST IN SMART ASCENT IN 2004**

We refer to the valuation (the “**Valuation**”) of Smart Ascent Limited and its subsidiaries (the “**Smart Ascent Group**”) performed by Castores Magi Asia Limited (the “**Valuer**”) in respect of the appraisal of the fair value of the Smart Ascent Group as at the reference date of 28 February 2009 in connection with the announcement of Extrawell Pharmaceutical Holdings Limited (the “**Company**”) dated 21 May 2009 (the “**Announcement**”).

We have reviewed the principal assumptions upon which the Valuation under the valuation report of the Valuer is based and confirm that the Valuation has been made after due and careful enquiry.

Yours faithfully,  
For and on behalf of the board of directors of  
**EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED**  
**Mao Yu Min**  
*Chairman*

## B. Letter from the Reporting Accountants

### RSM Nelson Wheeler

中瑞岳華(香港)會計師事務所  
Certified Public Accountants

29th Floor  
Caroline Centre  
Lee Gardens Two  
28 Yun Ping Road  
Hong Kong

21 May 2009

The Board of Directors  
Extrawell Pharmaceutical Holdings Limited

Dear Sirs,

We have examined the principal accounting policies adopted in and the arithmetical accuracy of the calculations of the discounted cash flow forecast (the “**Forecast**”) underlying the valuation (the “**Valuation**”) of Smart Ascent Limited and its subsidiaries (the “**Smart Ascent Group**”) performed by Castores Magi Asia Limited (the “**Valuer**”) in respect of the appraisal of the fair value of the Smart Ascent Group as at the reference date of 28 February 2009 in connection with the announcement of Extrawell Pharmaceutical Holdings Limited (the “**Company**”) dated 21 May 2009 (the “**Announcement**”).

#### **Respective responsibilities of directors and RSM Nelson Wheeler**

The directors of the Company are responsible for the preparation of the Forecast and the reasonableness and validity of the assumptions based on which the Forecast is prepared (the “**Assumptions**”).

It is our responsibility to form an opinion based on our reasonable assurance engagement, so far as the accounting policies and the arithmetical accuracy of the calculations are concerned, on whether the Forecast has been properly compiled, in all material respects, in accordance with the Assumptions and on a basis consistent with the accounting policies normally adopted by the Company as set out in the audited consolidated financial statements of the Company for the year ended 31 March 2008 and to report our opinion solely to you, as a body, solely for the purpose in connection with the Announcement and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

The Assumptions include hypothetical assumptions about future events and management actions that may or may not necessarily be expected to occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Accordingly we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express opinion whatsoever thereon.

## **Basis of opinion**

We conducted our reasonable assurance engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” with reference to the procedures under Auditing Guideline 3.341 “Accountants’ Report on Profit Forecasts” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). Our work was performed solely to assist the directors of the Company to evaluate, so far as the accounting policies and the arithmetical accuracy of the calculations are concerned, whether the Forecast has been properly compiled, in all material respects, in accordance with the Assumptions and on a basis consistent with the accounting policies normally adopted by the Company as set out in the audited consolidated financial statements of the Company for the year ended 31 March 2008.

We planned and performed our reasonable assurance engagement so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give our opinion. Our reasonable assurance engagement included:

- a. obtaining an understanding of the principal accounting policies adopted in the preparation of the Forecast through inquiry of persons responsible for financial and accounting matters;
- b. comparing the principal accounting policies adopted in the preparation of the Forecast with those adopted in the preparation of the audited consolidated financial statements of the Company for the year ended 31 March 2008; and
- c. checking the arithmetical calculations relating to the amounts presented in the Forecast.

We believe that our reasonable assurance engagement provides a reasonable basis for our opinion.

Our reasonable assurance engagement does not constitute an audit or a review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA. Accordingly, we do not express an audit or a review opinion on the Forecast.

## **Opinion**

In our opinion, based on the foregoing, so far as the accounting policies and the arithmetical accuracy of the calculations are concerned, the Forecast has been properly compiled, in all material respects, in accordance with the Assumptions and on a basis consistent with the accounting policies normally adopted by the Company as set out in the audited consolidated financial statements of the Company for the year ended 31 March 2008.

Yours faithfully,  
**RSM Nelson Wheeler**  
*Certified Public Accountants*  
Hong Kong