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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)

CONNECTED TRANSACTION PROVISION OF FINANCIAL ASSISTANCE TO A CONNECTED PERSON

The Directors announce that on 25 May 2011, Smart Ascent, a 51%-owned indirect subsidiary of the Company as lender and Fordnew as borrower entered into the Loan Agreement pursuant to which Smart Ascent has conditionally agreed to grant an unsecured, non-interest bearing loan in the aggregate amount of up to HK\$30 million to Fordnew for its onward lending to Fosse Bio, a 51%-owned subsidiary of Smart Ascent, for payment of expenses relating to clinical trial of the Medicine.

As Fordnew is a substantial shareholder of a subsidiary of the Company by virtue of its 29% interest in the issued share capital of Fosse Bio, the grant of the Loan by Smart Ascent to Fordnew under the Loan Agreement constitutes a connected transaction for the Company. Given that the Loan shall be advanced to Fordnew on an unsecured, non-interest bearing basis, the grant of the Loan is neither made in the ordinary and usual course of business of the Group nor on normal (or better to the Group) commercial terms within the meaning of the Listing Rules, and therefore shall be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A circular containing, amongst other things, further details of the proposed grant of the Loan, the Loan Agreement and the transactions contemplated thereunder, the recommendation from the Independent Board Committee, the advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the proposed grant of the Loan, the Loan Agreement and the transactions contemplated thereunder of the Company and a notice for convening the SGM, will be despatched to the shareholders of the Company as soon as practicable in compliance with the Listing Rules.

BACKGROUND

Reference is made to the Company's circular (the "**2009 Circular**") dated 21 May 2009 regarding the ratification actions for the Group's acquisition of 51% interest in Smart Ascent in 2004.

As disclosed in the 2009 Circular, Smart Ascent acquired its 51% interests in the issued share capital of Fosse Bio from one of its existing shareholders, Fordnew, pursuant to the Deed. Fosse Bio has entered into THU Collaboration Arrangement with Tsinghua University, Beijing, the PRC for the research and development of the use of oral insulin and related technologies. Under the Deed and the shareholders' agreement of Fosse Bio, for the purpose of clinical trial of the Medicine and upon request of Fordnew, Smart Ascent shall provide non-interest bearing loan to Fosse Bio in proportion to its shareholding in Fosse Bio and/or to provide non-interest bearing loan to the other shareholders of Fosse Bio for onward lending to Fosse Bio for payment of expenses relating to clinical trial. Accordingly, on 25 May 2011, Smart Ascent and Fordnew entered into the Loan Agreement pursuant to which Smart Ascent has conditionally agreed to provide the Loan to Fordnew for onward lending to Fosse Bio on the terms and conditions as set out below.

THE LOAN AGREEMENT

Date: 25 May 2011

Lender: Smart Ascent

Borrower: Fordnew

TERMS OF THE LOAN AGREEMENT

Availability of the Loan At any time during the period of three years commencing from the first business day after the fulfillment of the condition precedent as referred to below (or such other date as the parties may agree in writing), or such longer period as may be agreed between the parties in writing and subject to compliance with the relevant requirements under the Listing Rules, upon the request of Fordnew, Smart Ascent shall make available to Fordnew an unsecured, non-interest bearing Loan in an aggregate sum of up to HK\$30 million.

Purpose of the Loan The amount of the Loan to be drawn down by Fordnew shall be paid by Smart Ascent (on behalf of Fordnew) to Fosse Bio or Fosse Bio's designated payee directly as non-interest bearing shareholders' loan by Fordnew to Fosse Bio for the following purposes of (a) payment of expenses incurred in and relating to the clinical trial or clinical study for the Medicine as approved by the board of directors of Fosse Bio; or (b) meeting Fosse Bio's funding requirements as determined by the board of directors of Fosse Bio.

Repayment and set-off
arrangements

The principal amount of the Loan shall be repayable in full by Fordnew on or before the earlier of (a) the date falling three years after the date of notification of rejection of the application for new medicine for the Medicine by the SFDA; or (b) in the event that Fosse Bio resolves to abandon the research and development project in respect of the Medicine, the date falling three years after the date of passing of the relevant resolution of the shareholders of Fosse Bio abandoning the project; or (c) the date falling eight years after the first drawdown of all or any part of the Loan, or such later date as may be agreed in writing and subject to compliance with the relevant requirements of the Listing Rules.

Notwithstanding the foregoing:

- (i) Fordnew may at its liberty to repay the Loan in whole or in part at any time before the above due date.
- (ii) as disclosed in the 2009 Circular, under the Deed, the consideration for the acquisition of 51% interests in the share capital of Fosse Bio by Smart Ascent would be payable by Smart Ascent to Fordnew in four instalments, the first two instalments of which for the aggregate sum of HK\$8 million had been paid, whereas the balance of the consideration for an aggregate sum of HK\$31.78 million shall be payable (a) as to HK\$12 million, within 14 days from the date of 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 (b) as to the balance of HK\$19.78 million (the "**4th Instalment Payment**"), within 14 days from the service of Fordnew's notice of the issuance of the certificate of new medicine (新藥證書) for the Medicine issued by SFDA and the production of the original certificate for inspection by Smart Ascent.

Under the Loan Agreement, if any amount of the Loan remains outstanding at the time when the 4th Instalment Payment becomes payable by Smart Ascent to Fordnew, such outstanding amount of the Loan shall be settled by way of set-off against the 4th Instalment Payment and any balance of the outstanding amount of the Loan after such set-off shall be due and repayable by Fordnew within 6 months after the said due date for the 4th Instalment Payment.

(iii) the Loan Agreement contains various customary events of default, such as failure to pay or breach of any covenants, terms, representations or warranties in the Loan Agreement by Fordnew, or the insolvency or other material adverse change in the condition of Fordnew. Upon the occurrence of any such event of default and if Fordnew fails to remedy the default at the request of Smart Ascent within 30 days thereof, Smart Ascent shall have the right to declare the Loan to be forthwith due and payable.

Conditions precedent

The Loan Agreement is conditional upon the approval by the shareholders of the Company (with such shareholders as required under the Listing Rules abstaining from voting on the relevant resolution(s)) of the Loan 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 waiver from compliance with any of such rules being obtained from the Stock Exchange.

REASONS FOR THE LOAN AGREEMENT

In accordance with the Deed, Smart Ascent is required to advance non-interest bearing loans to Fordnew for onward lending to Fosse Bio for the payment of clinical trial or clinical study expenses. As at the date of this announcement, Fosse Bio is in the course of preparing for the further clinical trial of the Medicine, and has been incurring research and development expenses in relation thereto.

The Directors believe that it is beneficial to the Group to inject sufficient funding to Fosse Bio to support the development of the Medicine. The Directors estimate that, as at the date of this announcement, as part of the Fosse Bio's capital commitments for the development of the Medicine, the engagement of clinical trial expertise for the management of the clinical trial and related clinical study, and the incidental cost in relation thereof, amount to approximately of RMB 19.5 million, and the Directors expect that additional expenses will need to be incurred by Fosse Bio in this regard. To expedite the progress, the Group, through Smart Ascent, has been and will continue to support the project by way of non-interest bearing shareholders' loan out of its internal resources. Nonetheless, to comply with the requirements under the Deed and the shareholders' agreement of Fosse Bio and in order for the shareholders of Fosse Bio to share the risks associated with their joint investments in the development of the Medicine, including the risks as set out in the 2009 Circular, the Directors consider it appropriate to grant the Loan to Fordnew under the Loan Agreement for the onward lending arrangements so that, should any such risk materializes or Fosse Bio otherwise fails to recoup its investment in the development of the Medicine for whatever reason, the Group will be able to recoup part of its investments from the repayment of the Loan by Fordnew. The amount of the Loan made available to Fordnew under the Loan Agreement, being HK\$30 million, represents the Directors' estimate of the maximum amount of loans as may be required to be advanced by Fordnew to Fosse Bio during the three-year term of the Loan Agreement to support the development of the Medicine.

The Directors (excluding the independent non-executive Directors whose views would be subject to the opinion of the independent financial adviser to be appointed in connection with the Loan Agreement) are of the view that the provision of the Loan, which is to be used to finance the clinical trial or clinical study expenses of the research and development project in respect of the Medicine, will expedite its progress and is in the interests of the Company and its shareholders as a whole.

INFORMATION ON THE GROUP AND FORDNEW

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

Smart Ascent is an investment holding company owned as to 51% by Extrawell (BVI) Limited, a wholly owned subsidiary of the Company. As at the date of this announcement, Smart Ascent owns 51% of the issued share capital of Fosse Bio. Fosse Bio is principally engaged in the research and development of the Medicine.

Fordnew is a private company incorporated in Hong Kong with limited liability. Fordnew owns 29% of the issued share capital of Fosse Bio.

IMPLICATIONS UNDER THE LISTING RULES

As Fordnew is a substantial shareholder of a subsidiary of the Company by virtue of its 29% interest in the issued share capital of Fosse Bio, the grant of the Loan by Smart Ascent to Fordnew under the Loan Agreement constitutes a connected transaction for the Company. Given that the Loan shall be advanced to Fordnew on an unsecured, non-interest bearing basis, the grant of the Loan is neither made in the ordinary and usual course of business of the Group nor on normal (or better to the Group) commercial terms within the meaning of the Listing Rules, and therefore shall be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Fordnew and its associates, and any connected persons of the Company who are materially interested in the grant of the Loan, the Loan Agreement and the transactions contemplated thereunder, are therefore required to abstain from voting on the resolution proposed to be passed at the SGM for approving the Loan Agreement and any matters relating thereto. Any vote exercised by the Independent Shareholders at the SGM shall be taken by poll. So far as the Directors are aware, Fordnew does not have interests in any shares of the Company as at the date of this announcement.

The Independent Board Committee has been established to consider the Loan Agreement and to advise the Independent Shareholders in relation to the terms of grant of the Loan, the Loan Agreement and the transactions contemplated thereunder and on how to vote. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders regarding the Loan Agreement.

SGM

The SGM will be convened at which a resolution will be proposed to seek the approval of the Independent Shareholders for the grant of the Loan, the Loan Agreement and the transactions contemplated thereunder.

GENERAL INFORMATION

A circular containing, amongst other things, further details of the proposed grant of the Loan, the Loan Agreement and the transactions contemplated thereunder, the recommendation from the Independent Board Committee, the advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the proposed grant of the Loan, the Loan Agreement and the transactions contemplated thereunder of the Company and a notice for convening the SGM, will be despatched to the shareholders of the Company as soon as practicable in compliance with the Listing Rules.

DEFINITIONS

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

“associates”	has the meaning ascribed to it 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
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Deed”	the deed of transfer dated 21 February 2004 entered into between Fordnew and Smart Ascent pursuant to which Smart Ascent acquired from Fordnew 51% of the issued share capital of Fosse Bio
“Directors”	the directors of the Company
“Fosse Bio”	Fosse Bio-Engineering Development Ltd., a company incorporated in Hong Kong with limited liability, 51% and 29% interests of which are owned by Smart Ascent and Fordnew, respectively
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Board Committee”	the committee of the Board, comprising all independent non-executive Directors, namely Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jing Song, established for the purpose of advising the Independent Shareholders on the grant of the Loan, the Loan Agreement and the transactions contemplated thereunder
“Independent Shareholders”	shareholders of the Company, other than Fordnew and its associates and any connected persons who have material interests in the grant of the Loan, the Loan Agreement and the transactions contemplated thereunder
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the unsecured, non-interest bearing loan for the aggregate principal amount of up to HK\$30 million to be advanced by Smart Ascent to Fordnew subject to and in accordance with the terms and conditions of the Loan Agreement
“Loan Agreement”	the loan agreement dated 25 May 2011 and entered into between Smart Ascent as lender and Fordnew as borrower for the grant of the Loan
“Medicine”	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
“PRC”	the People’s Republic of China, excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region and Taiwan
“SGM”	the special general meeting proposed to be convened by the Company for the purpose of approving the grant of the Loan, the Loan Agreement and the transactions contemplated thereunder
“SFDA”	State Food and Drug Administration of the PRC
“Smart Ascent”	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) Limited and 49% by Mr. Ong
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“THU Collaboration Arrangement”	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

“%” per cent.
“HK\$” Hong Kong dollars, the lawful currency of Hong Kong
“RMB” Renminbi, the lawful currency of the PRC

By order of the Board
Extrawell Pharmaceutical Holdings Limited
Xie Yi
Director

Hong Kong, 25 May 2011

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*