IMPORTANT

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

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

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

EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED

精 優 藥 業 控 股 有 限 公 司 *

(incorporated in Bermuda with limited liability)

(Stock code: 00858)

SUPPLEMENTAL AGREEMENT IN RELATION TO ACQUISITION OF MINORITY INTEREST IN SMART ASCENT CONNECTED AND MAJOR TRANSACTION AND NOTICE OF SPECIAL GENERAL MEETING

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

Quam CAPITAL 華富嘉洛企業融資

A letter from the Board is set out on pages 6 to 41 of this circular. A letter from the Independent Board Committee is set out on page 42 of this circular. A letter from Quam containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 43 to 80 of this circular.

Notice of the SGM to be held at Harbour View Room I, 3rd Floor, The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Thursday, 4 July 2013 at 3:00 p.m. is set out on pages S-1 to S-3 of this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM or any adjournment thereof if you so wish.

* *For identification purpose only*

18 June 2013

CONTENTS

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

"Acquisition"	the proposed acquisition of the Sale Shares by Extrawell BVI from the Vendor
"Acquisition Agreement"	the Principal Acquisition Agreement as supplemented and amended by the Supplemental Agreement
"Announcement"	the announcement dated 27 February 2013 issued by the Company in relation to the Acquisition, the Acquisition Agreement and the transactions contemplated thereby
"associates"	have the same meanings ascribed thereto under the Listing Rules
"Board"	board of Directors
"Bonds"	the zero coupon convertible bonds due on the 20th anniversary of the Completion Date for an aggregate principal amount of HK$641,300,000 to be issued by the Company to the Vendor and/or (at the direction of the Vendor) Dr. Mao for settlement of part of the Consideration of the Sale Shares, to be created under the Instrument for the time being outstanding (as defined therein) or, as the context may require, any number of them
"Business Day"	means any day (excluding a Saturday) on which banks in Hong Kong are open for business throughout their normal business hours
"Call Option"	call option granted by the Vendor to Dr. Mao pursuant to which Dr. Mao shall have the right, within 12 months after the date of receipt by the Vendor of his interests in the Bonds, to acquire from the Vendor the Bonds up to the principal amount of HK$256,520,000 held by the Vendor at an aggregate exercise price of HK$272,000,000 (or a pro rata amount thereof if the Call Option is partially exercised)
"Call Option Agreement"	the subscription agreement entered into between Dr. Mao and the Vendor on 28 February 2013 in connection with the Call Option
"Castores Magi"	Castores Magi Asia Limited, Registered Professional Surveyors, an independent professional valuer
"Company"	Extrawell Pharmaceutical Holdings Limited, a company incorporated in Bermuda with limited liability and whose shares having a par value of HK$0.01 each are listed on the Main Board of the Stock Exchange

"Completion"	completion of the Acquisition in accordance with the Acquisition Agreement
"Completion Date"	date of the Completion
"Consideration"	an aggregate consideration of HK$660,000,000 payable by Extrawell BVI to the Vendor pursuant to the payment terms as set out in the Acquisition Agreement
"Consideration Shares"	300 million new Shares to be allotted and issued, credited as fully paid, to the Vendor as consideration and which shall rank *pari passu* in all respects among themselves and with the then existing Shares in issue as initially set out in the Principal Acquisition Agreement
"Conversion Shares"	up to one billion new ordinary shares having a par value of HK$0.01 each in the share capital of the Company, which may be issued upon exercise by the bondholder(s) of the conversion rights attached to the Bonds
"Cooperation Agreement"	the cooperation agreement dated 19 October 2006 and entered into among Welly Surplus, Fosse Bio and Sea Ascent for, among others, the acquisition of a piece of industrial land in Jiangsu Province, the PRC and the construction of the Plant thereon for the production of the Medicine. Please refer to the section "7. Risks in connection with the Acquisition — Funding requirement" in the letter from the Board as contained in this circular for further details
"Director(s)"	director(s) of the Company
"Dr. Mao"	Dr. Mao Yumin, an executive Director of the Company
"Extrawell BVI"	Extrawell (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"Fosse Bio"	Fosse Bio-Engineering Development Ltd., a company incorporated in Hong Kong with limited liability, 51% interests of which are owned by Smart Ascent
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Latest Practicable Date"	13 June 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the committee of the Board established for the purpose of advising the Independent Shareholders on the Acquisition, the Acquisition Agreement and the transactions contemplated thereby, the members of which include all the independent non-executive Directors, namely Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jin Song
"Independent Shareholders"	Shareholders, other than the Vendor, Dr. Mao and their respective associates and any other connected persons who have material interests in the Acquisition, the Acquisition Agreement and the transactions contemplated under the Acquisition Agreement
"Instrument"	the instrument to be executed by the Company by way of a deed poll constituting the Bonds, together with the schedules thereto (as from time to time altered in accordance with the instrument) and any other document executed in accordance with the instrument (as from time to time so altered) and expressed to be supplemental to the instrument
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Medicine"	oral insulin enteric-coated soft capsules (口服胰島素腸溶膠丸), one of the oral insulin products developed by the Group through Fosse Bio in collaboration with Tsinghua University, Beijing
"Plant"	the pharmaceutical production plant to be constructed for the production of the Medicine pursuant to the Cooperation Agreement
"PRC"	People's Republic of China
"Principal Acquisition Agreement"	the conditional sale and purchase agreement entered into between Extrawell BVI and the Vendor on 27 July 2007 in connection with the Acquisition
"Principal Sub-sale Agreement"	the conditional sale and purchase agreement entered into between Dr. Mao and the Vendor on 6 September 2011 in connection with the sale and purchase of either 150 million of the Consideration Shares or 24.5% interest in the share capital of Smart Ascent
"Quam"	Quam Capital Limited, a licensed corporation under the SFO to carry on type 6 (advising on corporate finance) of the regulated activities, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition

"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	the aggregate of 4,900 ordinary shares of HK$1.00 each in the issued share capital of Smart Ascent
"Sea Ascent"	Sea Ascent Investment Limited, being the counterparty under the Cooperation Agreement and the SP Agreement
"SFDA"	State Food and Drug Administration of the PRC
"SFO"	Securities and Futures Ordinance, Cap 571 of the Laws of Hong Kong
"SGM"	the special general meeting of the Company to be held at Harbour View Room I, 3rd Floor, The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Thursday, 4 July 2013 at 3:00 p.m. for the purpose of approving the Acquisition, the Acquisition Agreement and the transactions contemplated thereby
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	shareholder(s) of the Company
"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 and 49% by the Vendor
"Smart Ascent Group"	Smart Ascent and its subsidiaries
"SP Agreement"	the conditional sale and purchase agreement dated 19 October 2006 and entered into between Welly Surplus and Sea Ascent for the acquisition of the entire equity interest in, and shareholder's loan to, Joy Kingdom Industrial Limited which, pursuant to the Cooperation Agreement, shall establish a company in the PRC for the construction of the Plant. Please refer to the section "7. Risks in connection with the Acquisition — Funding requirement" in the letter from the Board as contained in this circular for further details
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Sub-sale Agreement"	the Principal Sub-sale Agreement as supplemented by a supplemental agreement dated 23 February 2013 and entered into between Dr. Mao and the Vendor to amend certain terms and conditions of the Principal Sub-sale Agreement

"Supplemental Agreement"	Supplemental Agreement dated 23 February 2013 and entered into between Extrawell BVI and the Vendor to amend certain terms and conditions of the Principal Acquisition Agreement
"United Gene"	United Gene High-Tech Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda whose shares are listed on the Main Board of the Stock Exchange (stock code: 399)
"UG SP Agreement"	the sale and purchase agreement entered into between Dr. Mao, JNJ Investments Ltd. and United Gene on 27 April 2013 in connection with the proposed acquisition of Shares and Bonds by United Gene as referred to in the section headed "Other Information" in the letter from the Board as contained in this circular
"Vendor"	Mr. Ong Cheng Heang, the vendor to the Acquisition and one of the existing shareholders of Smart Ascent
"Welly Surplus"	Welly Surplus Development Limited, a company incorporated in Hong Kong with limited liability, 51% of which is owned by Smart Ascent
"%"	per cent.

For the purpose of this circular, unless otherwise stated, conversion of RMB into HK$ is based on the approximate exchange rate of RMB1 to HK$1.235. The exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been or may be exchanged at this or any other rates at all.

EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED
精優藥業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 00858)

Executive Directors:
Dr. Mao Yumin
Dr. Xie Yi
Dr. Lou Yi
Ms. Wong Sau Kuen

Independent non-executive Directors:
Mr. Fang Lin Hu
Mr. Xue Jing Lun
Ms. Jin Song

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Room 3409–10, 34/F
China Resources Building
26 Harbour Road, Wanchai
Hong Kong

18 June 2013

SUPPLEMENTAL AGREEMENT IN RELATION TO ACQUISITION OF MINORITY INTEREST IN SMART ASCENT CONNECTED AND MAJOR TRANSACTION AND NOTICE OF SPECIAL GENERAL MEETING

To the Shareholders

Dear Sir or Madam,

1. INTRODUCTION

Reference is made to the announcement issued by the Company dated 1 August 2007 and the circular of the Company dated 22 August 2007 in relation to the acquisition of 49% interest in the share capital of Smart Ascent at the aggregate consideration of HK$768,900,000, which would be payable by the Group to the Vendor by the Company allotting and issuing, credited as fully paid, the 300 million Consideration Shares to the Vendor at the issue price of HK$2.563 per Consideration Share. Under the Principal Acquisition Agreement, Completion shall be conditional upon, among others, the conditions set out in the Principal Acquisition Agreement being satisfied on or before 12:00 noon on 31 October 2007 or such later date as the Group may agree.

* *For identification purpose only*

Since the expiry of the longstop date, the Directors have been monitoring the progress of the clinical trial of the Medicine to decide whether it was in the interest of the Group and the Shareholders to proceed with the Acquisition before re-negotiating with the Vendor on the Acquisition. As part A of the Phase III clinical trial protocol ("**Protocol**") filed with the SFDA had been completed with satisfactory results in February 2013, the Board considered it the appropriate time to initiate further negotiations with the Vendor and to consider the feasibility for the Group to proceed with the Acquisition. Accordingly, two of the Directors, namely Dr. Lou Yi and Ms. Wong Sau Kuen, entered into further negotiations with the Vendor on the terms and conditions of the Supplemental Agreement, particularly on the Consideration. Please refer to the section headed "The Acquisition Agreement — Consideration" in this letter for further details. After arm's length negotiations, the Board (with Dr. Mao and Dr. Xie Yi abstained from voting) decided to proceed with the Acquisition and on 23 February 2013, Extrawell BVI, entered into the Supplemental Agreement to amend certain terms and conditions of the Principal Acquisition Agreement and to extend the longstop date for the satisfaction of the conditions precedent to Completion.

Reference is also made to the announcement of the Company dated 7 September 2011 regarding the Principal Sub-sale Agreement dated 6 September 2011 entered into between the Vendor and Dr. Mao in relation to the acquisition of the 24.5% interest in the share capital of Smart Ascent from the Vendor if the acquisition was not proceeded with by the Group, or 150,000,000 Consideration Shares to be allotted and issued to the Vendor upon completion of the Principal Acquisition Agreement, if the Group chose to proceed with and complete the acquisition in accordance with the terms of the Principal Acquisition Agreement, at an initial consideration of HK$155,000,000. As confirmed by Dr. Mao, under the Sub-sale Agreement, such consideration was subject to downward adjustments based on the progress of the clinical trial of the Medicine. As the phase III clinical trial of the Medicine had not been completed and the report thereof had not been submitted to the SFDA for approval within seven months after the date of the Principal Sub-sale Agreement, and Fosse Bio had not obtained the certificate of new medicine issued by the SFDA within 12 months after the date of the Principal Sub-sale Agreement, the consideration had been adjusted to HK$20,000,000, which had been fully paid by Dr. Mao in accordance with the terms of the Principal Sub-sale Agreement. At the time when the Principal Sub-sale Agreement was entered into between the Vendor and Dr. Mao, the Board had not decided on whether and when to proceed with the Acquisition. Dr. Mao (being a party to the Principal Sub-sale Agreement) and Dr. Xie Yi (by virtue of his shareholding interests in JNJ Investments Limited and Fudan Pharmaceutical Limited, being associates of Dr. Mao), became materially interested in the Acquisition after the entering into of the Principal Sub-sale Agreement by Dr. Mao, and therefore have ceased to participate in any negotiations with the Vendor in relation to, and have abstained from voting in Board meetings in relation to, the Acquisition since then.

As announced by the Board in the announcements of the Company dated 23 February 2013 and 27 February 2013, given the variation of certain terms of the Acquisition, the Board has been informed by the Vendor and Dr. Mao that a supplemental agreement has been entered into between the Vendor and Dr. Mao on 23 February 2013 to supplement the Principal Sub-sale Agreement, pursuant to which Dr. Mao has conditionally agreed to acquire from the Vendor, and the Vendor has conditionally agreed to sell to Dr. Mao (1) (where the Acquisition Agreement shall be completed in accordance with its terms) the Bonds for the principal amount of HK$320,650,000 to be allotted and issued to the Vendor upon Completion, and the Vendor shall pay or procure to pay to Dr. Mao a sum of HK$9,350,000, being 50% of the cash consideration payable by Extrawell BVI to the Vendor under the Acquisition Agreement; or (2) (where the Acquisition Agreement shall lapse or otherwise be terminated in accordance with its terms) 24.5% interest in the share capital of Smart Ascent. As confirmed by Dr. Mao, completion of the Sub-sale Agreement is conditional upon, among others, the Acquisition Agreement having been completed or (where earlier) having lapsed or been terminated in accordance with its terms. The transactions under these agreements were personal transactions between the Vendor and Dr. Mao. As confirmed by Dr. Mao, since it had been agreed under the Principal Sub-sale Agreement in September 2011 that the Vendor would sell and transfer either 24.5% interest in the share capital of Smart Ascent or 150,000,000 Consideration Shares (being 50% of the consideration payable by the Group under the Principal Acquisition Agreement) to Dr. Mao, given that the Group and the Vendor have subsequently agreed to amend the Consideration payable by the Group under the Principal Acquisition Agreement so that cash consideration and Bonds (in lieu of Consideration Shares) shall be payable by the Group, the supplemental agreement was entered into between the Vendor and Dr. Mao accordingly to reflect such change. Save for the settlement arrangements in respect of the Consideration under the Acquisition Agreement which reflected the Vendor's direction for facilitating the completion of the Sub-sale Agreement, the Group had not been involved in the negotiation of the Principal Sub-sale Agreement and/or its supplemental agreement.

Reference is also made to the announcement issued by the Company dated 1 March 2013 in relation to the Call Option granted by the Vendor to Dr. Mao pursuant to which Dr. Mao shall have the right, within 12 months after the date of receipt by the Vendor of his interests in the Bonds, to acquire from the Vendor the Bonds up to the principal amount of HK$256,520,000 held by the Vendor at an aggregate exercise price of HK$272,000,000 (or a pro rata amount thereof if the Call Option is partially exercised). Under the Call Option Agreement, in addition to the exercise price, Dr. Mao shall pay to the Vendor a premium for an aggregate amount of RMB14,900,000, which was payable as to RMB8,000,000 as deposit (the "**Deposit**") within three business days after the signing of the Call Option Agreement, and the balance of RMB6,900,000 shall be payable within three business days upon notice by the Vendor of his receipt of his interests in the Bonds. The Deposit shall be refundable to Dr. Mao within three business days after the termination of the Acquisition Agreement.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save for being a substantial shareholder of Smart Ascent, the Vendor has no relationship of any other sort with Dr. Mao.

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

2. THE ACQUISITION AGREEMENT

Date

The Principal Acquisition Agreement dated 27 July 2007 (as supplemented and amended by the Supplemental Agreement dated 23 February 2013)

Parties

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

Vendor: Mr. Ong Cheng Heang.

Assets to be acquired

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

Consideration

The Consideration shall be HK$660,000,000 and shall be payable upon Completion and to be satisfied in the following manner:

(i) as to HK$641,300,000, by the Company issuing the Bonds in the following manner:

(a) as to the principal amount of HK$320,650,000, to the Vendor; and

(b) as to the principal amount of HK$320,650,000, to Dr. Mao (at the direction of the Vendor in accordance with the supplemental agreement to the Principal Sub-sale Agreement, or in such other allottees or denominations of the Bonds as the Vendor may direct by giving a notice in writing to Extrawell BVI at least ten Business Days prior to the Completion Date); and

(ii) as to the balance of the Consideration for the amount of HK$18,700,000, to be paid in cash in the following manner:

(a) as to HK$9,350,000 to the Vendor; and

(b) as to HK$9,350,000 to Dr. Mao (at the direction of the Vendor in accordance with the supplemental agreement to the Principal Sub-sale Agreement, or to such other payee(s) as the Vendor may direct by giving a notice in writing to Extrawell BVI at least ten Business Days prior to the Completion Date). So far as the Directors understand, half of the balance of the cash Consideration shall be payable to Dr. Mao as it was the agreement between Dr. Mao and the Vendor under the Sub-sale Agreement that, should the Group choose to proceed with the Acquisition, Dr. Mao should be entitled to 50% of the sales proceeds given that the Vendor had sub-sold half of his interests in Smart Ascent to Dr. Mao under the Sub-sale Agreement.

The Consideration was arrived at after arm's length negotiation among the parties to the Acquisition Agreement after taking into account the original consideration of HK$768,900,000 under the Principal Acquisition Agreement, which was then determined after arm's length negotiations between the Group and the Vendor with reference to the value of the Smart Ascent Group as at 30 June 2007 as appraised by Castores Magi on its valuation report dated 22 August 2007. Moreover, the Company bargained with the Vendor for further discount on the consideration for the benefit of the Company on an arm's length basis and also considered the consolidated net asset value of Smart Ascent as at 31 March 2012 of approximately HK$258,518,000 (approximately HK$281,500,000 of which represents the intangible assets of technological know-how in relation to the Medicine), the industry prospects and the growing diabetic drug market in which Smart Ascent operates in, and the progress of the clinical trial of the Medicine in the course of its negotiation of the terms of the Supplemental Agreement with the Vendor. Please refer to the section headed "Reasons for and benefits of the Acquisition" in this letter for further details. For prudence sake, the Group had also noted the values of the intangible assets of the Smart Ascent Group (comprising the technological know-how in relation to the Medicine) as previously appraised by Castores Magi for the Group's impairment review for its annual audit purpose. Nevertheless, the Group had not taken into account the valuation report prepared by Castores Magi as set out in appendix IV to the circular at the time of negotiation.

In addition, given the fact that the issue price for the Consideration Shares under the Principal Acquisition Agreement was HK$2.563, which represents a very significant premium over the current market price of the Shares and was no longer acceptable by the Vendor, the Directors therefore re-negotiated with the Vendor and reached a consensus on the Consideration comprising the Bonds and cash consideration and a different settlement method which is acceptable by the Vendor on one hand, and will be in the interest of the Company and its Shareholders on the other hand by minimising the cash consideration and the potential dilution effect on the shareholding interest of the existing Shareholders. The Consideration was the lowest consideration accepted by the Vendor in respect of the Acquisition.

Given that the original consideration of HK$768,900,000 was determined with reference to the value of the Smart Ascent Group as appraised by Castores Magi on its valuation report dated 22 August 2007 (which was the appraised value of the Smart Ascent Group available to the Board at the time of negotiation with the Vendor on the terms of the Supplemental Agreement), and taking into account the value of the Smart Ascent Group as at 28 February 2013 as appraised by Castores Magi in its valuation report as set out in appendix IV to this circular, the growing diabetic population in the PRC justifying the underlying value of the business of the Smart Ascent Group, the progress of the clinical trial of the Medicine and the lowest price of HK$660,000,000 as being acceptable by the Vendor, the Board considers that the Consideration and the settlement method are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Board notes the consideration payable by Dr. Mao for the acquisition of the 24.5% interest in the share capital of Smart Ascent from the Vendor under the Sub-sale Agreement, the consideration adjustment provisions thereunder and the fact that the consideration payable and paid by Dr. Mao under the Sub-sale Agreement represents a substantial discount to the Consideration. The Board considers such discount to be attributable to the differences between the Acquisition and the acquisition under the Sub-sale Agreement, given that: (1) the consideration payable by Dr. Mao under the Sub-sale Agreement was agreed among the parties thereto under the Principal Sub-sale Agreement in September 2011 with uncertainty as to whether the Group would proceed with the Acquisition and the results of the clinical trial of the Medicine, while the Group decided to proceed with the Acquisition in February 2013 after completion of part A of the Protocol with satisfactory results; (2) if the Acquisition was not proceeded with by the Group, the interest to be acquired by Dr. Mao would represent a minority, non-controlling interest of Smart Ascent, while Smart Ascent will be wholly owned and absolutely controlled by Extrawell BVI after completion of the Acquisition; and (3) an aggregate sum of HK$20,000,000 had been paid by Dr. Mao to the Vendor as consideration under the Sub-sale Agreement, regardless of the progress and results of the clinical trial of the Medicine and/or whether the Group will proceed with the Acquisition.

Despite the Medicine is still at the stage of research and development and Smart Ascent has not generated any revenue up to the Latest Practicable Date, the Board considers that the substantial premium of the Consideration over the consolidated net asset value and the consolidated intangible asset value of Smart Ascent would be justified in view of the market potential for an innovative drug such as the Medicine and the existing and growing diabetic population in the PRC which would create enormous demand for the Medicine. The successful launch of the Medicine in the future would bring new impetus to the development and long-term growth of the Group as well as returns to the Shareholders as a whole.

Bonds

HK$641,300,000 of the Consideration shall be satisfied by the issue of the Bonds by the Company to the Vendor and/or its directed allottee(s) in the manner as mentioned above. The principal terms and conditions of the Bonds to be issued by the Company are as follows:

Issuer

The Company.

Principal amount

An aggregate principal amount of HK$641,300,000.

Form and denomination

The Bonds shall be issued in registered form and in the denomination of HK$32,065,000 each.

Interest

The Bonds shall accrue no interest.

Maturity

The Bonds will be matured on the 20th anniversary of the issue date (the "**Maturity Date**").

Early redemption

Neither the Company nor the bondholder has any right of early redemption of the Bonds before the Maturity Date, except that the Bonds shall be immediately due and repayable by a bondholder giving notice to the Company upon occurrence of any event of defaults as set out below.

Events of default

Any bondholder may give notice to the Company that the Bonds are immediately due and repayable if:

(1) *Default:* a default is made by the Company in the performance or observance of any covenant, condition or provision contained in the Instrument or in the Bonds and on its part to be performed or observed and such default continues for the period of 14 days next following the service by any bondholder on the Company of notice specifying brief details of such default and requiring such default to be remedied; or

(2) *Dissolution of the Company and disposals:* a resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved or the Company disposes of all or substantially all of its assets, otherwise, in any such case, than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation, the terms of which shall have previously been approved in writing by an ordinary resolution of bondholders; or

(3) *Encumbrances:* an encumbrancer takes possession or a receiver or similar officer is appointed of the whole or a material part of the assets or undertaking of the Company; or

(4) *Distress etc.:* a distress, execution or seizure before judgment is levied or enforced upon or sued out against a material part of the assets or undertaking or property of the Company and is not discharged within seven days thereof; or

(5) *Trading suspension and delisting:* if the Shares are suspended by the Stock Exchange for a period of 90 consecutive trading days (other than any temporary suspension of trading of Shares as a result of clearance of announcements or circulars in connection with any activities or transactions falling under Chapter 13, 14 or 14A of the Listing Rules) or listing of the Shares on the Stock Exchange are being revoked or withdrawn; or

(6) *Insolvency:* the Company or any of its major subsidiaries becomes insolvent or is unable to pay its debts as they mature or applies for or consents to the appointment of any administrator, liquidator or receiver of the whole or any material part of its undertaking, property, assets or revenues or enters into a general assignment or compromise with or for the benefit of its creditors; or

(7) *Winding-up:* an order is made or an effective resolution passed for winding-up of the Company or any of its major subsidiaries; or

(8) *Cross-default:* any other debentures, bonds, notes or other instruments of indebtedness or any other loan indebtedness (the "**Indebtedness**") of the Company and its major subsidiaries or any securities convertible into or exchangeable for shares (the "**Equity-Linked Securities**") of the Company and its major subsidiaries become prematurely repayable following a default in respect of the terms thereof which shall not have been remedied, or the Company or any of its major subsidiaries defaults in the repayment of

the Indebtedness or Equity-Linked Securities at the maturity thereof or at the expiration of any applicable grace period thereof, or any guarantee of or indemnity in respect of any Indebtedness or Equity-Linked Securities of others given by the Company or any of its major subsidiaries shall not be honoured when due and called upon, which is materially prejudicial to the interests of the bondholders.

Conversion

A bondholder shall have the right at any time and from time to time during the period commencing from the date of issue of the Bonds up to 4:00 p.m. (Hong Kong time) on the seventh Business Day prior to the Maturity Date to convert the whole or part of the principal amount of the Bonds in amounts of not less than a whole multiple of HK$32,065,000 on such conversion, save that if at any time the outstanding principal amount of the Bonds held by a bondholder is less than HK$32,065,000 or if a bondholder intends to exercise the conversion rights attached to the entire principal amount of all the Bonds held by him, the bondholder may convert the whole (but not part only) of such outstanding principal amount of the Bonds; provided that the conversion right attached to the Bonds may not be exercised to the extent that following such exercise, (a) the Company will be in breach of the minimum public float requirement stipulated under Rule 8.08 of the Listing Rules (the "**Public Float Requirement**"); or (b) a bondholder and its parties acting in concert, taken together, will directly or indirectly control or be interested in 30% or more of the entire issued Shares (or such lower percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer).

Initial conversion price (the "Conversion Price")

The Conversion Price per Share shall initially be HK$0.6413, subject to adjustment. Events triggering adjustment of the Conversion Price are summarised below:

(i) alteration of the nominal amount of the Shares by reason of any consolidation, sub-division or reclassification;

(ii) issue (other than in lieu of a cash dividend) by the Company of any Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or, if any, capital redemption reserve fund);

(iii) capital distribution made by the Company to bondholders (in their capacity as such) of Shares (whether on a reduction of capital or otherwise), or grant by the Company to bondholders of rights to acquire for cash assets of the Company or any of its subsidiaries; and

(iv) offer by the Company to holders of Shares new Shares for subscription by way of rights, or grant by the Company to holders of Shares any options, warrants or other rights to subscribe for or purchase any Shares.

The Conversion Price of HK$0.6413 per Share represents:

(i) a discount of approximately 1.34% to the closing price of HK$0.65 per Share as quoted on the Stock Exchange on 5 February 2013, being the last trading day prior to the date of the Supplemental Agreement;

(ii) a discount of approximately 2.83% to the average of the closing prices of approximately HK$0.66 per Share as quoted on the Stock Exchange for the last five trading days up to and including 5 February 2013, being the last trading day prior to the date of the Supplemental Agreement;

(iii) a discount of approximately 4.28% to the average of the closing prices of approximately HK$0.67 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 5 February 2013, being the last trading day prior to the date of the Supplemental Agreement;

(iv) a discount of approximately 8.39% to the closing price of approximately HK$0.70 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and

(v) a premium of approximately 152% over the net asset value per Share of HK$0.254 based on the unaudited consolidated financial statements of the Group as at 30 September 2012 and the number of Shares in issue as at the date of the Announcement.

The Conversion Price was determined by the Vendor and the Group on an arm's length basis with reference to the current market price of the Shares.

Conversion Shares

The authorised share capital of the Company is HK$200,000,000 divided into 20,000,000,000 shares of HK$0.01 each, of which 2,290,000,000 Shares were in issue as of the Latest Practicable Date. Assuming there is an immediate exercise in full of the conversion rights attaching to the Bonds in the aggregate principal amount of HK$641,300,000 at the Conversion Price by the bondholders, the Company will issue an aggregate of 1,000,000,000 new Shares, representing (i) approximately 43.67% of the existing issued share capital of the Company; and (ii) approximately 30.40% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

The Conversion Shares will be allotted and issued pursuant to the specific mandate to be sought at the SGM.

Ranking

The Conversion Shares will in all respects rank *pari passu* with the Shares in issue on the relevant conversion date as if the Shares issued on conversion or subscription had been issued on such date.

Status of the Bonds

The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Company under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

Transferability

The Bonds shall be transferable to any person provided that where the Bonds are intended to be transferable to a connected person (as defined in the Listing Rules) of the Company (other than the associates of the bondholder) such transfer shall comply with the requirements under the Listing Rules and/or requirements imposed by the Stock Exchange (if any) and shall be subject to approval by the Directors.

Application for listing

No application has been or will be made for the listing of the Bonds on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares on the main board of the Stock Exchange.

Conditions precedent to Completion

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

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

(ii) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Conversion Shares on the main board of the Stock Exchange;

(iii) the Independent Shareholders' approving the Acquisition 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; and

(iv) the Board approving and authorising the transactions contemplated under the Acquisition Agreement.

The Group may at any time waive in writing condition (i) above, though the Group has no present intention to waive such condition. If any of the conditions set out above has not been satisfied (or, as the case may be, waived by the Group) on or before 12:00 noon on 31 August 2013 or such later date and time as the parties may mutually agree, the Acquisition Agreement shall cease and determine (save for the provisions in respect of confidentiality thereunder) and none of the parties shall have any obligations and liabilities hereunder save for any antecedent breaches of the terms of the Acquisition Agreement.

Completion and treatment of outstanding amounts owed by Smart Ascent

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

Shareholder's loan owed by Smart Ascent

As at the date of the Supplemental Agreement, an unsecured, non-interest bearing shareholder's loan of approximately HK$15,000,000 was owed by Smart Ascent to the Vendor. As one of the Completion obligations of Extrawell BVI, Extrawell BVI will procure Smart Ascent to satisfy and settle all the then outstanding shareholder's loan owed by Smart Ascent to the Vendor as at the Completion Date by repaying to the Vendor for the sum equal to (i) the total amount of the outstanding Vendor's shareholder's loan as at the Completion Date, less (ii) HK$2,000,000. The parties acknowledged and agreed that such HK$2,000,000 shall be deemed contribution to the development of Smart Ascent by the Vendor with reference to the historical operating expenses of the Smart Ascent Group and shall be waived by the Vendor upon Completion.

Outstanding purchase price 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$39,780,000 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$8,000,000 had already been paid by Smart Ascent, and the balance of the consideration for the sum of HK$31,780,000 shall be payable by Smart Ascent to Fordnew in the following manner:

(i) as to HK$12,000,000, 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$19,780,000, 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.

While Smart Ascent is and will after Completion remain primarily liable for payment of the above balance of the consideration, under the sale and purchase agreement dated 3 March 2004 and entered into between Extrawell BVI, Ms. Wu Kiet Ming and the Vendor in respect of the acquisition by Extrawell BVI of the 51% interests in Smart Ascent, Ms. Wu Kiet Ming and the Vendor, being the then shareholders of Smart Ascent, had jointly and severally undertaken to Extrawell BVI that they will be responsible to pay in full the said outstanding purchase price and all costs (including legal costs), expenses or other liabilities which any of Smart Ascent or Extrawell BVI may incur in connection with the payment of such outstanding purchase price for and on behalf of Smart Ascent if and when it becomes due and payable by Smart Ascent (collectively, the "**Outstanding Amount**"), and the Vendor had pledged the Sale Shares to Extrawell BVI as security for their payment obligations as aforesaid.

Albeit Completion, the undertaking of Ms. Wu Kiet Ming and the Vendor shall continue to be in effect and Ms. Wu Kiet Ming and the Vendor shall remain to be jointly and severally liable for the Outstanding Amount when it becomes due and payable by Smart Ascent to Fordnew. Without prejudice to the respective rights and obligations of Extrawell BVI, Ms. Wu Kiet Ming and the Vendor in respect of the Outstanding Amount, the pledge over the Sale Shares will be released and discharged upon Completion and their obligations will become unsecured obligations thereafter.

To secure the Vendor's and Ms. Wu Kiet Ming's payment obligation in respect of the said outstanding purchase price and against the release and discharge of the pledge over the Sale Shares, on 23 May 2013, the Vendor gave an undertaking to the Group that he will pay to the Group a sum representing the then outstanding purchase price upon Completion.

3. EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the issue and allotment of the Conversion Shares upon exercise in full of the conversion rights attached to the Bonds at the Conversion Price and assuming that completion of the UG SP Agreement does not take place, the Call Option is not exercised by Dr. Mao and there being no other change to the shareholding structure of the Company from the Latest Practicable Date; (iii) immediately upon the issue and allotment of the Conversion Shares upon exercise in full of the conversion rights attached to the Bonds at the Conversion Price and assuming that completion of the UG SP Agreement does not take place, the Call Option is exercised in full by Dr. Mao, and there being no other change to the shareholding structure of the Company from the Latest Practicable Date; (iv) immediately upon the transfer of Shares and the Bonds upon completion of the UG SP Agreement but assuming that the conversion rights attached to the Bonds are not exercised at all and there being no other change to the shareholding structure of the Company from the Latest Practicable Date; and (v) immediately upon the transfer of Shares and the Bonds upon completion of the UG SP Agreement and the issue and allotment of the Conversion Shares upon exercise in full of the conversion rights attached to the Bonds at the Conversion Price and assuming that there being no other change to the shareholding structure of the Company from the Latest Practicable Date. Pursuant to the Instrument, a bondholder may not convert the Bonds in a manner that will cause the Company to be in breach of the Public Float Requirement, or if immediately following such exercise, the bondholder and its parties acting in concert, taken together, will directly or indirectly control or be interested in 30% or more of the Shares (or such lower percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer). Shareholders should take note that the analysis under scenarios (ii), (iii), (iv) and (v) is shown for illustration purpose only.

Shareholders	As at the Latest Practicable Date Number of Shares	%	Immediately upon the issue and allotment of Conversion Shares upon exercise of the conversion rights attached to the Bonds in full and assuming that completion of the UG SP Agreement does not take place and the Call Option is not exercised by Dr. Mao Number of Shares	%	Immediately upon the issue and allotment of Conversion Shares upon exercise of the conversion rights attached to the Bonds in full and assuming that completion of the UG SP Agreement does not take place and the Call Option is exercised in full by Dr. Mao Number of Shares	%	Immediately upon the transfer of Shares and the Bonds upon completion of the UG SP Agreement but assuming that the conversion rights attached to the Bonds are not exercised at all Number of Shares	%	Immediately upon the transfer of Shares and the Bonds upon completion of the UG SP Agreement and the issue and allotment of Conversion Shares upon exercise of the conversion rights attached to the Bonds in full Number of Shares	%
Dr. Mao *(Note 1)*	600,000	0.03	500,600,000	15.21	900,600,000	27.37	600,000	0.03	600,000	0.02
JNJ Investments Limited *(Note 2)*	450,000,000	19.65	450,000,000	13.68	450,000,000	13.68	0	0.00	0	0.00
Fudan Pharmaceutical Limited *(Note 2)*	30,000,000	1.31	30,000,000	0.91	30,000,000	0.91	30,000,000	1.31	30,000,000	0.91
Sub-total	**480,600,000**	**20.99**	**980,600,000**	**29.80**	**1,380,600,000**	**41.96**	**30,600,000**	**1.34**	**30,600,000**	**0.93**
The Vendor	0	0.00	500,000,000	15.20	100,000,000	3.04	0	0.00	100,000,000	3.04
United Gene	0	0.00	0	0.00	0	0.00	450,000,000	19.65	1,350,000,000	41.03
Public Shareholders	1,809,400,000	79.01	1,809,400,000	55.00	1,809,400,000	55.00	1,809,400,000	79.01	1,809,400,000	55.00
Total	**2,290,000,000**	**100.00**	**3,290,000,000**	**100.00**	**3,290,000,000**	**100.00**	**2,290,000,000**	**100.00**	**3,290,000,000**	**100.00**

Notes:

1. Dr. Mao is an executive Director.

2. The entire issued share capital of each of JNJ Investments Limited and Fudan Pharmaceutical Limited is owned by Biowindow Gene Development (Hong Kong) Limited, and the entire issued share capital of Biowindow Gene Development (Hong Kong) Limited is owned by United Gene Group Limited. The issued share capital of United Gene Group Limited is owned as to 33% by United Gene Holdings Limited and as to 33% by Ease Gold Investments Limited. The issued share capital of each of United Gene Holdings Limited and Ease Gold Investments Limited is wholly owned by Dr. Mao and Dr. Xie Yi respectively.

As at the Latest Practicable Date, the Company did not have any controlling Shareholder (as defined under the Listing Rules). As illustrated above, given that the Bonds may not be exercised if, immediately following such exercise, the bondholder and its parties acting in concert, taken together, will directly or indirectly control or be interested in 30% or more of the Shares or such lower percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer, it is expected that the issue and allotment of the Conversion Shares pursuant to the exercise of the Bonds will not result in a change of control of the Company.

As at the Latest Practicable Date, neither the Vendor nor any of his associates has any interest in the issued share capital of the Company. The Vendor has no relationship with the other three Shareholders, namely, Dr. Mao, JNJ Investments Limited and Fudan Pharmaceutical Limited. As at the Latest Practicable Date, there was no outstanding share option granted under the share option scheme adopted by the Company.

4. 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 Latest Practicable Date. The aggregate original purchase cost of the Vendor of the 49% interest of the share capital in Smart Ascent on 23 March 2002 was approximately HK$21,300,000, comprising approximately HK$6,300,000 being the aggregate amount of investment made by the Vendor to the 49% interest of the share capital in Smart Ascent since its incorporation and approximately HK$15,000,000 being the unsecured, non-interest bearing shareholder's loan owed by Smart Ascent to the Vendor.

Smart Ascent is principally engaged in investment holding and is the holding company for the Group's oral insulin operations. The material assets of Smart Ascent are Fosse Bio and Welly Surplus, both being 51% non wholly-owned subsidiaries of Smart Ascent. Fosse Bio is principally engaged in development and commercialisation of oral insulin products. Welly Surplus is currently inactive but, subject to the completion of the SP Agreement, will indirectly hold the Plant to be constructed for the production of the Medicine in the PRC pursuant to the Cooperation Agreement, and act as the manufacturing and distribution arm of the Group in the development of the Medicine.

As disclosed in the Company's circular dated 21 May 2009, the Company had estimated that the further clinical trial of the Medicine would be completed and the report thereof would be prepared for approval by the SFDA by March 2010. Nevertheless, after taking advices from the researchers and clinical experts during its course of planning of the double-blinded clinical trial of the Medicine, the Group looked for a suitable clinical research organisation to act as the project administrator for organising the clinical trial. In addition, in order to achieve convincing results for SFDA's assessment, the Group was advised by the project administrator to design the Protocol before conducting the clinical trial. The Protocol had been designed into two parts and related to double-blinded and placebo-controlled clinical trials, which was more complicated and time-consuming as compared to the previous completed clinical trials but was considered to be a solid foundation for SFDA's assessment. As the Medicine, being a new drug, is used for double-blinded and placebo-controlled tests, and the control group patients under part A of the Protocol would only be given oral insulin placebos, there had been more restrictive criteria and process for selection of patients, and the participating hospitals selected by the project administrator were also more cautious in conducting part A of the Protocol by formulating and adopting more sophisticated administrative procedures and medication guides. Given the above, more time had been taken by the Group for completing the first part of the further clinical trial.

Through the experiences gained by the Group from part A of the Protocol which has been completed and has indicated the Medicine's positive effects, and given that the patients in the control group under part B of the Protocol will not be given only the placebos, it is expected that the project team would be in a better position to manage the work and estimate the timing of part B clinical trial under the Protocol. It is currently estimated that the extended clinical trial based on part B of the Protocol will commence in or around July 2013 and, and report on the results of the clinical trial is expected to be submitted for assessment by SFDA in or around January 2015.

The Smart Ascent Group primarily aims to manufacture, market and distribute the Medicine through distributors who then resell the Medicine on a nationwide basis. The key distribution target is hospitals (including clinics) and drug stores, and through their distribution network it can be extended to pharmacies and other retail outlets for easier access and purchase by patients with doctor's prescription.

Under the current business plan, two distributors will be appointed in each of the 30 major cities of the PRC including provinces and coastal cities. Reputable distributors possessing certification of "Good Supply Practices for Pharmaceutical Products" (i.e. GSP) for distributing pharmaceutical products including prescription and pharmaceuticals are potential candidates for consideration. Selection will be based on a variety of criteria including their credit record, customer portfolio and distribution network. Distributors play an important role in the distribution of the Medicine. By leveraging their networks and operating expertise to purchase, store, resell and transport the pharmaceutical products, the Medicine can achieve a quick geographic coverage in the PRC market and enhance its competitiveness in gaining market share.

As at the Latest Practicable Date, the construction of the foundation and the surrounding walls of and the roads for access to the Plant have been completed. It is currently estimated that the extended clinical trial based on part B of the Protocol will commence in or around July 2013, and report on the results of the clinical trial is expected to be submitted for assessment by SFDA in or around January 2015. Subject to further review by the Board of the then progress of the clinical trial in early 2014, it is the present intention of the Board to enter into supplemental agreement with Sea Ascent in early 2014 for the extension of the longstop date of the SP Agreement, and to agree on the timetable for the construction of the Plant so that the construction can be restarted in or around June 2014 for completion and delivery thereof to the Group in or around June 2015. As the Medicine provides a more convenient, safer and painless way of administration for patients, the Smart Ascent Group targets to achieve a 30% annual revenue growth when manufacturing of the Medicine is estimated to commence in October 2015.

The consolidated net asset value of Smart Ascent was approximately HK$258,518,000 as at 31 March 2012. For each of the two financial years ended 31 March 2011 and 31 March 2012, the consolidated net loss before taxation of Smart Ascent amounted to approximately HK$11,071,000 and HK$6,634,000 respectively, and the consolidated net loss after taxation of Smart Ascent amounted to approximately HK$11,078,000 and HK$6,642,000 respectively.

Based on the valuation report prepared by Castores Magi, Registered Professional Surveyors and an independent professional valuer, the appraised market value of the equity interest of Smart Ascent Group (that is, 100% equity interest in Smart Ascent together with its 51% equity interests in Fosse Bio and Welly Surplus) as at 28 February 2013 amounted to approximately HK$2,519,000,000. On the basis that the market value of the Sale Shares represents 49% of the appraised market value of the equity interest of Smart Ascent Group, the Consideration represents a discount of approximately 46.5% to the appraised market value of the Sale Shares.

Castores Magi has appraised the equity of the Smart Ascent Group on the basis of "market value" on the premise of going concern which 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. Castores Magi has also made the following assumptions in the course of its appraisal:

- 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 the Medicine from the SFDA after completion of the further stage of clinical trial, which is expected to take approximately three years;
- there will be no material changes from political, legal, economic or financial aspects in the jurisdictions in which 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 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 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 Smart Ascent Group will not make any decision, which is harmful to the revenue generation ability of Smart Ascent Group's business; and
- the financial forecast of Smart Ascent Group, and the assumptions on which such financial forecast is made, will be achievable. The principal assumptions on the financial forecast are:

  (i) the estimated diabetic population of the PRC in 2015 will be 93 million and is expected to grow at 0.5 million per annum after 2015;

  (ii) the following factors considered in the financial forecast:

	For the financial year ending 31 March				
	2016	**2017**	**2018**	**2019**	**2020**
Number of capsules (50 IU)('000)	496,400	1,107,410	1,435,180	1,925,740	2,479,080
Unit Price (RMB)	2.70	2.70	2.70	2.70	2.70
Revenue (RMB'000)	1,340,280	2,990,007	3,874,986	5,199,498	6,693,516
Growth rate of revenue	—	123.09%	29.60%	34.18%	28.73%

(iii) 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

(iv) 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.

Set out below is the basis of the factors considered in the financial forecast:

Timing of commercialisation

Fosse Bio has recently completed the multi-centered, randomised, double-blinded and placebo-controlled clinical trial of the Medicine on treatment of type 2 diabetes (part A of the Protocol) with satisfactory results, and is currently working with the project team and the clinical experts led by the Peking University People's Hospital in the PRC to conduct extended clinical trial, being part B of the Protocol filed with the SFDA. The progress and results of the clinical trials up-to-date indicated that the Medicine achieved positive effect, in particular, the statistical outcome of the per-protocol set (PPS) analysis relating to part A of the Protocol shows that the bio-efficacy of the Medicine in the treatment group was significantly superior to that of the control group in the effect of reducing blood glucose level in diabetics and the Company believes that there would be no major obstacle in completing the extended clinical trial for the Medicine and obtaining the final approval from SFDA for production and distribution of the Medicine in the PRC. Notwithstanding the history of delay to the commercialisation of the Medicine, based on the aforesaid favourable results of part A of the clinical trial contemplated in the Protocol, which is the first double-blinded, placebo-controlled clinical trial that Fosse Bio has completed, and the experience gained through the phases of clinical trials and assessment process of the SFDA, the Company estimates that the commencement of manufacturing of the Medicine will be in October 2015, i.e. the second half of year ended 31 March 2016.

The PRC diabetic population and market share of the Medicine in the PRC diabetic market

In estimating the revenue to be generated from marketing the Medicine in the PRC, the whole diabetic population in the PRC is included as the Company's target market, including the type 1 diabetics and type 2 diabetics. As type 1 diabetics cannot produce insulin by themselves, they must take insulin to restore the insulin level in their bodies and oral insulin can be effective in this respect. On the other hand, the treatment of type 2 diabetics can be a combination of continuous diet, exercises and the use of oral anti-diabetic drugs ("OADs"), which aim to lower glucose level in the human body. The Company is of the opinion that insulin is a preferred treatment to OADs for type 2 diabetics as OADs are considered to create more adverse side-effects to patients.

According to the International Diabetes Federation (the "IDF"), the adult (20 to 79 years old) diabetic population in the PRC amounted to approximately 92,300,000 in 2012 and the number of people who have diabetes will rise to approximately 552,000,000 by 2030, which translates into a compound annual growth rate of approximately 2% for the period from 2012 to 2030. Taking into account the above and relevant publicly available information gathered from various sources, including China Diabetes Society in the PRC and the World Health Organization, the Company estimates a diabetic population (including both type 1 diabetics and type 2 diabetics) of approximately 93,000,000 in the PRC when the Medicine is about to commence commercial sales in the second half of 2015, with a growth of 500,000 annually afterwards, which roughly translates to 0.5% annual growth.

According to statistics of the World Health Organisation (updated March 2013), type 2 diabetes which may be caused by obesity, physical inactivity is more common than type 1 diabetes, and accounts for approximately 90% of all diabetes worldwide. Childhood and adolescent obesity numbers are serious in the PRC. According to an article "Recommendations from the EGAPP Working Group: does genomic profiling to assess type 2 diabetes risk improve health outcomes?" published by the Evaluation of Genomic Applications in Practice and Prevention Working Group launched by the Centers for Disease Control and Prevention of the United States on 14 March 2013, up to 95% of all diabetes is considered type 2 diabetes. With reference to the above, the Company estimated that among the diabetes patients, about 8% of them belong to type 1 diabetes and 92% of them belong to type 2 diabetes. Based on the management's experience and the consideration of launching a new diabetic treatment method of oral insulin and the market price of the comparable insulin medicine and OADs and the advantages of oral insulin, the Company made the following assumptions on the percentages and subsequent growth of market share in the type 1 diabetic population and type 2 diabetic population respectively in estimating the market share of the Medicine in the PRC diabetic population (assuming the commercialisation of the Medicine will commence in October 2015):

	Market share in	
	Type 1 diabetic Population	**Type 2 diabetic Population**
Year 1	0.50%	1.50%
Year 2	0.80%	1.80%
Year 3	1.20%	2.40%
Year 4	1.50%	3.20%
Year 5	1.80%	4.00%

In estimating the market share of the Medicine, the management considered the market shares of existing competitors in the insulin market in the PRC, the growth potential of the market share with reference to the management's knowledge of penetration of other new medicines in the PRC, and the Company's focus on marketing the Medicine to type 2 diabetic population. For details of the assumptions and estimates, please refer to appendix IV(A) to this circular.

Pricing

The management estimates a price of RMB2.7 per capsule (with 50 units of insulin). Based on the findings from the previous clinical trials, the management estimates that the suitable level of intake of the Medicine for type 1 diabetics and type 2 diabetics per day is 200 units and 100 units of insulin intake respectively, which is equivalent to four capsules and two capsules of the Medicine respectively.

In determining the pricing of the Medicine, which is the wholesale distribution price of the Medicine, the Company considered the market acceptability of the estimated retail price of the Medicine. In the opinion of the management, distributors may accept a lower margin for an unprecedented new drug like oral insulin which is generally believed to have great market potential. In assessing the market acceptability of the estimated retail pricing, the management referred to the pricing of injected insulin and OADs currently available in the PRC market.

With reference to available retail price information from the market, subject to doctors' prescription, the costs for patients with minimum or recommended daily dosage of the injected insulin would range from about RMB3 to RMB11 (for instance, one of the representative injected insulin costs about RMB10 per day), whereas costs for patients with minimum or recommended daily dosage of OADs would range from about RMB2 to RMB22 (for instance, one of the representative OADs costs about RMB15 per day). Subject to doctors' prescription, the recommended daily dosage for the Medicine for type 2 diabetics would be two capsules (with 50 units of insulin per capsule, at estimated retail price of RMB4.5) which would cost the patients of about RMB9 per day. As such, the management considers that the pricing of the Medicine is competitive amongst the injected insulin and OADs.

Cost of sales and other expenses

Based on the management's experience and the consideration of producing a single product in large scale, cost of sales is estimated to be RMB1.2 per capsule (with 50 units of insulin) which included variable and fixed components, and the variable components contributed to the majority of the cost of sales. Variable components in cost of sales include the cost of local insulin which is the main component of the Medicine, and other chemical components. The variable components also include variable processing costs incurred in the production of the Medicine, including but not limited to the fee payable under the Cooperation Agreement. Fixed costs include principally land and property taxes and other fixed factory overheads such as labour cost.

Expense items are principally marketing and distribution expenses and administrative expenses. Major items in the estimated marketing and distribution expenses include the amount payable to Tsinghua University, Beijing, which will be calculated based on 1.5% of annual sales of the Medicine. Other items include finance costs, pre-operating expenses, amortisation and income tax. Based on the management's experience, it is estimated that the marketing and distribution expenses and the administrative expenses will increase in proportion to the increase in revenue in order to secure the target market share.

Castores Magi has used discounted cash flow method in evaluating the business of Smart Ascent Group as at 28 February 2013. As advised by the Company's auditors, East Asia Sentinel Limited, the accounting policies and calculations adopted in and the calculations of the discounted cash flow forecast underlying such valuation have been properly complied in accordance with the bases and assumptions as set out therein, 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 2012. The Directors confirm that they had made the discounted cash flow forecast underlying such valuation after due and careful enquiry.

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

5. INFORMATION ON THE MEDICINE AND THE DIABETES MARKET

Information on the Medicine

Insulin, which is a kind of protein, is medically used as an effective diabetic treatment and the insulin drugs are currently available in injection form. The formidable task of administering insulin orally has been pursued over the last several decades with a view to ease the pain and stress caused during delivery of insulin injections to the diabetic patients worldwide. Since insulin is a protein which is digested and destroyed in the stomach and intestine by digestive enzymes, and cannot penetrate by itself through the wall of intestine into blood vessels, researchers have to overcome these obstacles to enable insulin delivery by oral route which is considered to be a more convenient, safer and painless way of administration, facilitating better patient compliance and can also help improving quality of life of patients.

An invention, "a method of production of oil-phase preparation of oral insulin" (一種製備口服胰島素油相製劑的方法), is registered with patent under the joint names of Fosse Bio and Tsinghua University, Beijing under the registration numbers of ZL 01 1 15327.X (in respect of the PRC patent registration in 2004) and US 7,018,980 B2 (in respect of the United States patent registration in 2006), expiring in April 2021 and April 2022 respectively, and such technologies involve the use of a fine micro-emulsion particle by combining protein with lipids, which can protect the protein from being digested and enable the protein to pass through the wall of digestive tract to the liver (major area in the body where the function of insulin takes place) through portal vein. Oral insulin product (as the Medicine) in soft capsule, oral dosage form, is one of the oral insulin products co-developed by Fosse Bio and Tsinghua University, Beijing and is intended for use in type 1 and type 2 diabetes patients. The Medicine will be sold as a prescription drug and targets on customers currently taking insulin injection and/or OADs and those prospective customers who may not take injectable insulin or OADs at all due to various reasons e.g. pain, inconvenience, complications, and resistance to insulin through injection or side effects from taking OADs.

Information on the diabetes market

Diabetes is a chronic disease caused by deficiency in insulin production in the pancreas, or by failure of organs to react properly to the insulin produced. A lack of insulin results in increased concentrations of glucose in the blood, which in turn damages many of the body's organs and functions, in particular the blood vessels and nerves. Lack of treatment will lead to mortality.

Two main types of diabetes

Type 1 diabetes is characterised by a lack of insulin production, and usually develops in childhood and adolescence and patients require lifelong insulin treatment for survival.

Type 2 diabetes is resulted from the body's inability to respond properly to the insulin produced by the pancreas or ineffective use of insulin. Type 2 diabetes usually develops in adulthood and is related to obesity, lack of physical activity, and unhealthy diets. This is the more common type of diabetes accounting for about 90% of diabetic cases worldwide and treatment may involve lifestyle changes and weight loss alone, or oral medications or even insulin injections.

Complications of diabetes

Cardiovascular disease: This affects the heart and blood vessels and may cause fatal complications such as coronary heart disease (leading to attack) and stroke.

Kidney disease: This can result in total kidney failure and the need for dialysis or kidney transplant.

Nerve disease: This can ultimately lead to ulceration and amputation of the toes, feet and lower limbs. Loss of feeling is a particular risk because it can allow foot injuries to escape notice and treatment, leading to major infections and amputation.

Eye disease: This is characterised by damage to the retina of the eye which can lead to vision loss.

Prevalence and mortality

Over past decades, a continuous increase in prevalence of type 2 diabetes, which parallels a marked lifestyle transition and a worldwide epidemic of obesity has been observed in both developed and developing countries. Unlike the gradual transition in most western countries, these changes in the PRC have occurred over a short time. With the aggravation of aging degree, improvement in living standards and increase in obese groups caused by unhealthy lifestyles, the prevention and treatment of diabetes are increasingly severe. Information from IDF shows that, in 2012, the PRC has the world's largest diabetic population of 92,300,000 (globally estimated to be 371,300,000). It has the highest rate of 9.7% of diabetes. In a national study conducted from 2007 to 2008 on adults of 20 years of age or above and reported in the New England Journal of Medicine in 2010, it was also predicted that there would be 148,000,000 pre-diabetes in the PRC. These results indicate that diabetes has become a major public health problem in the PRC and that strategies aimed at the prevention and treatment of diabetes are needed.

World Health Orgainsation projects that diabetes will become the seventh leading cause of death in the world by the year 2030 and total deaths from diabetes are projected to rise by more than 50% in the next ten years.

Diabetes treatment

Treatment typically includes diet control, exercise, home blood glucose testing, and in addition to a small part of patients with type 2 diabetes which can be controlled through diet therapy and exercise therapy, the rest all need drug treatment — oral medication and/or insulin injection.

Injectable insulin

As individuals may differ in their response to insulin, the onset, peak time and duration of various insulin preparations have been developed to satisfy the needs of patients, which include:

Rapid-acting analogues: These can be injected just before, with or after food and have a peak action at between zero and three hours. They tend to last between two and five hours and only last long enough for the meal at which they are taken.

Long-acting analogues: These tend to be injected once a day to provide background insulin lasting approximately twenty-four hours. They do not need to be taken with food since they do not have a peak action.

Short-acting insulins: These should be injected fifteen to thirty minutes before a meal to cover the rise in blood glucose levels that occurs after eating. They have a peak action of two to five hours and can last for up to eight hours.

Medium- and long-acting insulins: These are taken once or twice a day to provide background insulin or in combination with short-acting insulins or rapid-acting analogues. Their peak activity is between four and twelve hours and can last up to thirty hours.

Mixed insulin: This is a combination of medium- and short-acting insulin.

Oral anti-diabetic drugs

Oral medications are available from:

Sulphonylureas: These work by increasing the amount of insulin the pancreas produces and increasing the effectiveness of insulin.

Biguanides/Metformin: These prevent the liver from producing glucose and help to improve the body's sensitivity towards insulin.

Alpha-glucosidase inhibitors: These slow down the digestion of carbohydrates in the small intestine and help to reduce after meal blood sugar levels.

Prandial glucose regulators: These have a similar response as sulphonylureas but act for a shorter time.

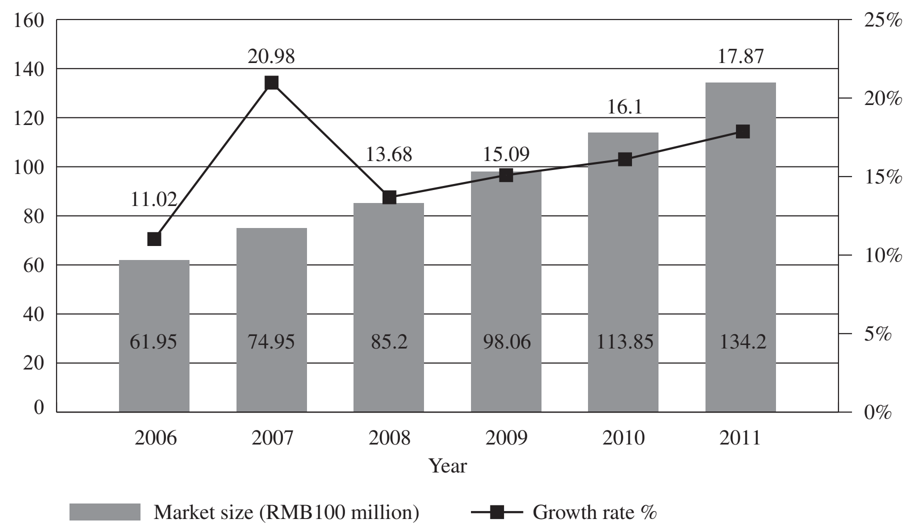
Thiazolidinediones: These help to improve insulin sensitivity.

DPP-4 inhibitors: These help to stimulate the production of insulin and reduce the production of glucagon, particularly during digestion.

Insulin is medically used as an effective diabetic treatment but the insulin drugs are available in injection form, whereas oral medication is more acceptable by patients but the available oral anti-diabetic drugs may cause common side effects which include gastro-intestinal e.g. irritation to stomach and intestines, flatulence, indigestion; secondary inefficacy (diminishing efficacy to no efficacy); impairment of liver and kidney function; hypoglycemia; adverse effects to fetus and infants; edema, retention of water and sodium (increasing harms to patients having heart failure and lung edema); functional failure of pancreatic isle cells, leucopenia, metabolic acidosis.

In this sense, an oral insulin therapy which is pain-free, needle-free and a non-invasive drug delivery would be most desirable by researchers.

The following table reflects figures of the size and growth rate of diabetes drugs purchasing of hospitals in the PRC during the period 2006 and 2011.



Source Menet "中國醫藥信息網"

In recent years, with the development of the PRC's economy and improvement in people's living standards, coupled with changes in diet and physical activity related to rapid development and urbanisation have led to sharp increases in the number of people developing diabetes, the incidence and morbidity rates of diabetes also present the increasing trend year by year. Diabetes has caused RMB173,400,000,000 in medical expenditure each year and has become a major public health problem in the PRC that strategies aimed at the prevention and treatment of diabetes are needed.

The PRC government issued the China National Plan for Chronic Diseases Prevention and Treatment (2012–2015) last year, with diabetes as a major concern. According to the report of the National People's congress released in early March 2013, the PRC will increase its healthcare expenditure by 27.1% year-on-year in 2013.

6. REASONS FOR AND BENEFITS OF THE ACQUISITION

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

Since the expiry of the longstop date of the Principal Acquisition Agreement, the Directors have been monitoring the progress of the clinical trial of the Medicine to decide whether it was in the interest of the Group and the Shareholders to proceed with the Acquisition before re-negotiating with the Vendor on the Acquisition. As part A of the Protocol filed with the SFDA had been completed with satisfactory results in February 2013 and given the industry prospect of the Medicine, the Directors considered that it was appropriate time to proceed with the Acquisition.

Upon Completion, Smart Ascent will become an indirect wholly-owned subsidiary of the Company. By buying out the minority interest in Smart Ascent, the Group will be able to exercise absolute control over the management of Smart Ascent, which is the holding company of Fosse Bio and Welly Surplus upon Completion, and will be able to enjoy 100% of the benefit from the financial results of the Smart Ascent Group as and when it starts to generate income from the sales of the Medicine which, subject to the progress of the clinical trials and the approval processes involved, is currently estimated to be launched in the market in or around October 2015, i.e. the second half of the year ended 31 March 2016.

Over the recent years, the PRC pharmaceutical industry has witnessed rapid growth facilitated by the PRC government's continuous investment. In 2009, the PRC government announced its plans to invest RMB850,000,000,000 between 2009 and 2011 to implement a series of programmes under the healthcare reform plan, aiming at providing universal healthcare for its citizens. Under the "12th Five-Year Plan" (2011–2015), the PRC government has identified pharmaceuticals and biotechnology as one of the seven national strategic industries and set out provisions to boost and consolidate the sector, including an investment of RMB10,000,000,000, demonstrating its support for innovation and the enhancement of pharmaceutical industry. The PRC pharmaceutical industry realised RMB1,830,000,000,000 in output value in 2012, representing a 21.7% increase over the previous year, as released by the National Development and Reform Commission.

Tremendous growth of diabetic population in the PRC has been fueled by the aging population, accelerating urbanisation coupled with unhealthy diets and sedentary lifestyles in recent years. According to the press release published on the website of the Chinese Diabetes Society on 9 April 2012, a survey on diabetes conducted by the Chinese Center for Disease Control and Prevention and other institutes in 2010 indicates that there was adult diabetic population of approximately 97,000,000 in the PRC, 9.7% of population of 18 years old or above had diabetes and 19.6% of population of 60 years old or above had such disease. According to the 5th edition of the Diabetes Atlas of IDF (issued in November 2012 and published on the website of the IDF), it was estimated that for 2012, the adult (20-79 years old) diabetic population in the PRC amounted to approximately 92,300,000 and there were approximately 371,300,000 of such population worldwide. The IDF also forecasts that the number of people who have diabetes worldwide will rise to approximately 552,000,000 by 2030, which translates into a compound annual growth rate of approximately 2% for the period from 2012 to 2030. Diabetes is often associated with several other disorders such as cardiovascular events and kidney impairment and, according to the World Health Organisation, diabetes will be among the leading causes of death by 2030. With obesity on the rise due to inactivity and taking high caloric food, diabetes is affecting more people everyday globally. The Group estimates that the diabetic population would be about 93,000,000 in 2015, with a growth of 500,000 annually afterwards, which roughly translates to 0.5% annual growth. In the PRC, with the improvement of living standards and people's increased health awareness, more patients are being screened for and being diagnosed with diabetes. According to "China Diabetes Triples Creating $3.2 Billion Drug Market", an article published by Bloomberg on 5 November 2012, a

Shanghai-based consultant with IMS Health Inc., which is an international medical statistics company, estimated that the PRC's diabetes drugs market will expand by 20% annually to reach RMB20,000,000,000 by 2016, spurred by guidelines that set higher treatment standards. The PRC's pharmaceuticals market overall will increase by 15% to 18% a year to reach as much as US$165,000,000,000 over the same period. Backed by the growing diabetic population along with the PRC government's supportive policies in the pharmaceutical and healthcare industry, the Company believes that there exists enormous demand and market for the Medicine, an innovative drug allowing oral intake of insulin, which would improve the quality of life of patients.

For SFDA's assessment for granting of the certificate of new medicine for the Medicine, in 2008, Fosse Bio was required to undertake double-blinded tests where the researchers had little knowledge on which patients belong to the treatment group (where patients would be given the Medicine) or the control group (where patients would be given placebo). As Fosse Bio had not conducted double-blinded tests before, it had engaged a project administrator, Shenyang XinTaigoler Medical Technology Co. Ltd. (瀋陽鑫泰格爾醫藥科技開發有限公司), to organise the clinical trial. In order to sustain a solid foundation for the success of the clinical trial, the Protocol, which consists of two parts, was then designed by recognised clinical trial bases and led by the Peking University People's Hospital in the PRC and filed with the SFDA.

Until recently, Fosse Bio has completed the multi-centered, randomised, double-blinded and placebo-controlled clinical trial of the Medicine on treatment of type 2 diabetes with satisfactory results, and is currently working with the project team and the clinical experts led by the Peking University People's Hospital in the PRC to conduct extended clinical trial with more extensive sampling of the Medicine contemplated in the Protocol filed with the SFDA. It is estimated that the extended clinical trial will commence in or around July 2013 and be completed with report of results thereof submitted for assessment by SFDA in or around January 2015. Subject to satisfactory assessment by the SFDA of the results of the clinical trial, the certificate of new medicine (新藥證書) is estimated to be obtained in or around June 2015, and the Group will monitor the progress of obtaining the certificate of new medicine so that the construction of the Plant in Jiangsu, the PRC under the Cooperation Agreement will be completed in or around the time when the certificate of new medicine is obtained. The Group estimates that the pharmaceutical manufacturing permit (藥品生產許可證) shall be approved by the SFDA about three months after the completion of construction of the Plant, and the manufacturing and distribution of the Medicine shall commence another month thereafter. Nevertheless, as the time required for construction of the Plant would take about one year, the Group considers it more appropriate to conclude the timetable for the completion of the Plant and the extension of the longstop date of the SP Agreement in early 2014 after reviewing the then progress of the clinical trial. For details of the funding requirement of the SP Agreement, please refer to the section headed "7. Risks in Connection with the Acquisition - Funding requirement" in this letter from the Board. Welly Surplus will continue to act as the manufacturing and distribution arm of the Group in the development of the Medicine. Therefore, the Directors believe that the Group will be better positioned to tap the business opportunities arising from the launch of the Medicine and other oral insulin products in the future with enlarged profit attributable to the Shareholders.

Taken into account the amount of the cash and cash equivalents of the Group as at 31 May 2013 of approximately HK$125,600,000 (excluding pledged bank deposits of approximately HK$19,700,000), the Directors are of the opinion that the Group has sufficient working capital for research and development expenses in relation to the extended clinical trial as well as the pre-marketing effort before commencement of commercial production and distribution of the Medicine. As at the Latest Practicable Date, the Group has no present intention to carry out any fund raising activities for such purpose.

Notwithstanding its net current liabilities and net loss position as at 28 February 2013, the Directors believe that the Smart Ascent Group will be a revenue generating arm of the Group after the launch of the Medicine in the market. The Directors consider that the terms of the Acquisition Agreement and the Consideration are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

7. RISKS IN CONNECTION WITH THE ACQUISITION

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

Final approval for production and distribution of the Medicine not yet obtained

The Group is currently preparing to conduct the extended clinical trial with more extensive sampling of the Medicine contemplated in the Protocol. Though the Group is doing its endeavour to expedite the progress of this clinical trial which is expected to commence in or around July 2013 and be completed with report thereof for SFDA assessment in or around January 2015, it is still possible that the Medicine will fail to obtain the SFDA approval upon completion of the extended clinical trial. There will be a chance that the SFDA may impose additional requirements or raise queries on the clinical trial, which may create further hurdles for the final approval. The progress and results from the clinical trials up-to-date indicated that the Medicine achieved positive effect. Nevertheless, the timing of final approval is still subject to uncertainty.

Fosse Bio is also required to obtain a number of licences, certificates and permits from the relevant regulatory authorities in the PRC before formal manufacturing and distribution of the Medicine being able to commence. These include, among others, the certificate of new medicine (新藥證書) and the pharmaceutical manufacturing permit (藥品生產許可證). These licences, certificates and permits may also be subject to periodic renewal requirements.

Should Fosse Bio fail to obtain all necessary approvals from the relevant authorities, it may not be able to commence the manufacturing and distribution of the Medicine in the PRC, which would have material and adverse impact on the business and financial results of the Smart Ascent Group, and in turn the Group's business and financial results.

In such event, the Group would have to provide for an impairment provision for the goodwill arising from the Acquisition amounting to approximately HK$596,861,000, representing the amount in excess of the cost of the Acquisition over the Group's share of 49% of fair value of the net assets of the Smart Ascent Group, and an impairment 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 30 September 2012, of which approximately HK$183,610,000 would be attributable to the equity holders of the Company. The Group would also have to write off other payables of the Smart Ascent Group representing the amount of the Outstanding Amount payable by Smart Ascent, which amounted to HK$31,780,000 as at 30 September 2012. In addition, the Group would refund the sum of HK$31,780,000 to Ms Wu Kiet Ming and the Vendor who should have paid to the Group as security for their payment obligation in respect of the said outstanding purchase price for the release and discharge of the pledge over the Sale Shares. The Group would record this amount as other receivables which would have to be written off.

Funding requirement

As disclosed in the Company's announcement dated 24 October 2006 and the circular dated 18 December 2006, on 19 October 2006, Welly Surplus and Fosse Bio entered into the Cooperation Agreement with Sea Ascent for, among others, the establishment of a company named Jiangsu Prevalence Pharmaceutical Limited ("**Jiangsu Prevalence**") by Joy Kingdom Industrial Limited ("**Joy Kingdom**"), a wholly owned subsidiary of Sea Ascent, for the acquisition of a piece of industrial land situated in the Jiangsu Province, the PRC and construction of the Plant thereon for the production of the Medicine in the PRC. Under the Cooperation Agreement, Sea Ascent shall procure that the Plant shall have an annual production capacity of at least 1,500,000,000 capsules of the Medicine, with the gross floor area sufficient for expanding its annual production capacity to at least 3,000,000,000 capsules of the Medicine, and satisfy the standards as required for obtaining the compliance certificate under the Guidelines on Good Manufacturing Practices for Pharmaceutical Products (藥品生產質量管理規範) of the PRC for the production of the Medicine. The above shall be financed by Sea Ascent by way of an unsecured, non-interest bearing shareholder's loan for the principal amount of RMB40,000,000. In return, Sea Ascent will be entitled to a fee calculated at RMB6 cents for each capsule of Medicine produced, up to a maximum of RMB180,000,000 (on the basis that the maximum annual production capacity of 3,000,000,000 capsules of Medicine for the Plant) for a period of six years commencing from the date on which the Medicine is launched for sales in the open market.

On the same day, Welly Surplus entered into the SP Agreement with Sea Ascent for the acquisition of the entire equity interest in Joy Kingdom and shareholder's loan of RMB40,000,000 at a total consideration of approximately RMB40,000,000. A nominal amount of approximately RMB10,000 is payable upon completion of the SP Agreement, with the remaining balance payable within one month after the expiry of the six years commencing from the date on which the Medicine is launched for sales in the open market.

Through the entering into of the Cooperation Agreement and the SP Agreement, the Group is able to monitor the progress of the clinical trial and approval process of the Medicine by the SFDA for the completion of the Plant and could significantly lower its operating risk for the development and manufacturing of the Medicine as the funding for the construction of the Plant would be advanced by Sea Ascent instead of the Group.

The Cooperation Agreement is conditional and shall become effective on the date on which approval of the Cooperation Agreement by the Shareholders at general meeting of the Company being obtained. Such approval, together with the approval of the SP Agreement, were obtained at the special general meeting of the Company held on 3 January 2007. On 8 April 2009, Welly Surplus and Sea Ascent signed a confirmation whereby both parties agreed to extend the longstop date of the SP Agreement from 30 November 2007 to 30 June 2010. It is noted that the extended longstop date has lapsed and as at the Latest Practicable Date, Welly Surplus and Sea Ascent have not further extended the longstop date of the SP Agreement. The Company will closely monitor the progress of the clinical trial and approval process of the Medicine to ensure that the timetable for construction of the Plant for the Medicine and completion of the SP Agreement will correspond to the approval process of the Medicine, which is expected to be in or about June 2015. Based on the progress of the clinical trial and approval process of the Medicine by the SFDA, Welly Surplus would decide the date for further extension of the longstop date of the SP Agreement and procure completion of the construction of the Plant.

The Company estimates that the Smart Ascent Group will require a further working capital of approximately HK$29,600,000 for research and development expenses in relation to the upcoming clinical trial, and approximately HK$6,200,000 for pre-marketing efforts before the commencement of commercial manufacturing and distribution of the Medicine. Should the actual development and pre-marketing expenses turn out to be higher than the estimated amounts and 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 be completed and commercialised successfully.

Manufacturing and distribution

As at the Latest Practicable Date, the Plant for the Medicine was still under construction. Save for 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 the 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 are proved to be too weak to promote sales of the Medicine, the target market share of the Medicine may not be reached. In addition, as the Group is expected to rely on these distributors to distribute the Medicine in the PRC, if these distributors are unsuccessful in selling and marketing the Medicine, or the Group fails to adequately supervise and manage these distributors in their sales and marketing of the Medicine, the Group's results of operations may be materially and adversely affected. The Group's brand and reputation and its sales could also be adversely affected if the Group or the Medicine becomes the target of any negative publicity as a result of, among others, any malpractice taken by these distributors.

Market acceptance and competition

It is assumed in the financial projections that market share of the Medicine will be in an increasing trend during 2016 and 2020. However, there is no assurance that the Medicine can gain enough market acceptances in the PRC diabetic market in order to achieve the projected revenue. The level of market penetration, sales and pricing can only be broad estimates at this stage. In case the effectiveness of the Medicine is not as expected, the Smart Ascent Group may not be able to gain enough market acceptances to support the estimated revenue.

In assessing the acceptance of the Medicine to be launched to the market, diabetics may also make reference to the effectiveness and pricing of the Medicine as compared with other existing products. If there is any emergence of side effect or the pricing assumption made in the financial projections proves too optimistic, target diabetics may stay with their existing drugs without switching to the Medicine.

If the Medicine is approved and introduced successfully, there appears to be a large potential market of diabetics in the PRC. Nevertheless, rival products could emerge and the sales price of the Medicine 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 the Smart Ascent Group. Although the Directors 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 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 available in the PRC market being sold more aggressively by competitors, may also impact the financial results of the Smart Ascent Group, and in turn the Group's business and financial results.

Expiry of patent

The technologies for the manufacturing of the Medicine have been jointly developed by Fosse Bio and Tsinghua University, Beijing, and registered as patent in the PRC and the United States of America, expiring in April 2021 and April 2022, respectively. There is no specific provision under the laws of the PRC for the renewal of patent registration, and upon expiry of the patent, the Medicine would become generic medicine, allowing other drug manufacturers to manufacture the Medicine without patent infringement. This may in turn have an adverse effect on the selling price of the Medicine and thus the Group's profit margin attributable from the sales of the Medicine.

In order for the Group to remain competitive against the other drug manufacturers, the Group may need to, among other means, continue to improve its manufacturing techniques, quality control and cost control in respect of the Medicine, and/or to develop newer version of the Medicine or other replacement drugs with superior functionality and significant changes to the version under the expired patent so as to maintain the Group's competitive edge on one hand, and to "renew" the patent protection by another patent registration over the new version of the Medicine and/or the replacement drugs on the other hand. It is uncertain as to whether the Group will take any of these measures, or any such measures taken will be effective. Should the Group fail to maintain the Medicine's or (as the case may be) its replacement drugs' competitiveness after the expiry of the existing patent of the Medicine, there may be an adverse impact on the revenue and profit margin of the Group, and in turn the Group's business and financial results.

Product concentration

The financial projections prepared by the Company are based solely on the sales of the Medicine, which accounted for 100% of the revenue to be generated by the Smart Ascent Group. In the event that the Medicine is not successfully commercialised in the PRC market, or the sales price or sales volumes of the Medicine do not reach the estimated amounts, the Smart Ascent Group's total sales would be materially and adversely affected, and in turn the Group's financial results.

Fluctuations in cost of sales

According to the financial projections, the cost of the main component of the Medicine, insulin powder, accounts for approximately 65% 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 by then. The gross profit margin of the Smart Ascent Group may be adversely impacted if the purchase price of insulin powder or other components rises significantly.

Product liability

The Smart Ascent Group 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 Smart Ascent Group in respect of the Medicine would not have an adverse effect on the Smart Ascent Group's business operations and financial results and position, and accordingly the Group's business operations and financial results and position.

Price control of products

Pursuant to the Opinion of the Bureau of State Planning Commission regarding Reforms on Price Administration of Pharmaceutical Products (國家計委關於改革藥品價格管理的意見) issued by the Bureau of State Planning Commission of the PRC on 20 July 2000 and the Circular of the National Development and Reform Commission on Issue of Price-controlled Pharmaceutical Products Catalogue of National Development and Reform Commission (國家發展改革委關於調整《國家發展改革委定價藥品目錄》等有關問題的通知) issued on 5 March 2010, certain pharmaceutical products that are included in either price-controlled drugs (the "**Price-controlled Drugs**") catalogues from time to time published by either the National Development and Reform Commission or the relevant pricing administration departments at provincial level, autonomous regions and directly control municipals (the "**Catalogues**") are subject to price control with respect to their ex-factory prices, wholesale prices and/or retail prices. Manufacturers may not fix the selling prices of their Price-controlled Drugs above the price ceiling therefor from time to time prescribed by the National Development and Reform Commission or, as the case may be, the relevant pricing administration departments at provincial level, autonomous regions and directly control municipals. The selling prices of pharmaceutical products not included in the Catalogues may be determined by the manufacturers at their own discretion.

The Medicine is currently not included in the Catalogues. However, there is no assurance that the Medicine will not be included into the Catalogues, in which case its selling price will be regulated by the PRC government. As the nature and extent of price control may vary from time to time, the flexibility for the Group to raise or set its selling prices for the Medicine may be limited which in turn may adversely affect the profitability of the Smart Ascent Group.

Failure to protect and defend the Group's intellectual property rights

The success of the business of the Smart Ascent Group depends largely on legal protection for the intellectual property rights for production of the Medicine under the PRC law. Third parties may produce counterfeits, or may copy or otherwise infringe the Group's intellectual property rights in respect of the Medicine without obtaining authorisation from the Group. The Group's inability to protect its intellectual property may materially and adversely affect on the market value and the sales performance of the Medicine and in turn the profitability of the Group.

Quality control by the SFDA

The SFDA actively and regularly takes samples of and perform quality testing on pharmaceutical products sold in the PRC market on a random basis. If the quality control on the production of the Medicine fails to ensure that the Medicine complies with its registered standard, such information will be announced on the website of the SFDA and such failure may lead to cancellation of the pharmaceutical manufacturing permit and also cause damages on the Group's reputation. In such event, the Group's business and profitability may be adversely affected.

Conducting business in the PRC

Since the operation of business of the Smart Ascent Group is mainly conducted in the PRC, its business, financial condition, results of operations and prospects may be influenced to a significant degree by the political, economic, social conditions and legal systems in the PRC.

The PRC economy has experienced significant growth since the start of economic reforms by the PRC government in the late 1970s, which aim at transforming the PRC economy from a planned economy into a more market-oriented economy. Notwithstanding that measures implemented by the PRC government emphasises on greater utilisation of market forces in the allocation of resources and greater autonomy for enterprises in their operations, a substantial portion of productive assets in the PRC is still owned by the PRC government. By formulating the annual, five and ten year plans through setting monetary policy, allocating resources and providing preferential treatments to particular industries or companies, the PRC government also exercises significant control over the PRC's economic growth. Changes in economic policies of the PRC government may have a material adverse effect on the overall economic growth of the PRC. In such event, the Group's business may be materially and adversely affected.

Since the adoption of economic reforms, the PRC government has also been reforming the political system which has resulted in significant economic growth and social progress. Further measures in refinement and readjustment may be adopted by the PRC government in order to enable the development of the political system in a more sophisticated form, however, changes in the PRC political and social conditions resulting from such measures may not have a positive effect on the operations of the Smart Ascent Group.

In addition, the operations of the Smart Ascent Group are subject to PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions may be cited as reference only which have a limited precedential value. Since 1979, the PRC government has promulgated laws, rules and regulations relating to economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with the aim to develop a comprehensive system of commercial laws. However, these laws, rules and regulations are relatively new and are still evolving. The interpretation and enforcement of these laws, rules and regulations involve a significant degree of uncertainty which may limit the legal protection to the operations of the Smart Ascent Group.

The pharmaceutical industry in the PRC is subject to extensive government regulation and supervision. The sustained deepening reform of the pharmaceutical and healthcare system under the Twelfth Five-Year Plan has introduced and implemented more regulatory measures, rules and regulations including the advancing of the new Good Manufacturing Practice for Pharmaceutical Products and issuing guidelines as to Good Supply Practices for Pharmaceutical Products. These regulatory measures and future government regulations may lead to significant changes in the PRC pharmaceutical industry which may result in increased costs and lowered profit margins for pharmaceutical companies. These may in turn have a material adverse effect on the financial conditions, results of operations and prospects of Smart Ascent Group.

8. FINANCIAL IMPACT OF THE ACQUISITION

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

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

Earnings

For the financial year ended 31 March 2012, the Group recorded audited net profit from ordinary activities attributable to the equity holders of the Company of approximately HK$20,414,000. Based on the audited consolidated accounts of Smart Ascent for the year ended 31 March 2012 which have been prepared in accordance with the Hong Kong Financial Reporting Standards, the consolidated net loss before and after taxation of Smart Ascent amounted to approximately HK$6,634,000 and HK$6,642,000, respectively.

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

In view of the growing number of diabetics in the PRC and the market potential of the Medicine, the Directors consider that Smart Ascent would contribute positively to the Group's revenue base and profitability after the successful launch of the Medicine to the market in the future. Positive goodwill will be recognised and determined at the time of Completion, which would amount to approximately HK$596,861,000, representing an excess of the Consideration of HK$660,000,000 over the consolidated net asset value and minority interest of Smart Ascent attributable to the Group as at 28 February 2013 of approximately HK$63,139,000 and will be subject to annual impairment reviews. No immediate profit and loss effect will be recognised immediately upon Completion.

Based on the unaudited pro forma financial information of the Group as set out in Appendix III to this circular, assuming the Acquisition had taken place on 1 April 2012, the unaudited consolidated net profit attributable to equity holders of the Company for the period ended 30 September 2012 would have decreased to HK$2,246,000 mainly due to the imputed interest expenses on the Bonds issued as part of the Consideration of approximately HK$5,641,000.

Assets and liabilities

Based on the audited consolidated accounts of Smart Ascent which have been prepared in accordance with the Hong Kong Financial Reporting Standards, the consolidated net asset value of Smart Ascent was approximately HK$258,518,000 as at 31 March 2012.

Appendix III to this circular contains the unaudited pro forma financial information of the Group which has been prepared for the purpose of illustrating the effects of the Acquisition on the assets and liabilities of the Group as if Completion had taken place on 30 September 2012. Based on the unaudited pro forma financial information of the Group and the bases and assumptions as set out in Appendix III to this circular, the net assets of the Group would have increased approximately by 72.9% from approximately HK$581,700,000 to approximately HK$1,005,700,000. In accordance with Hong Kong Financial Reporting Standard 3: Business Combination, a positive goodwill in the amount of approximately HK$596,861,000 being the excess of the Consideration of HK$660,000,000 over the Group's share of 49% of the fair value of the consolidated net asset value of Smart Ascent will be recognised upon Completion. The goodwill in the context is attributable to the acquisition of the 49% equity interest from the Vendor.

The Directors consider that the amount of the goodwill is reasonable in light of the expected future profits and cash flows to be generated from the Acquisition with regards to the prospects of the Medicine in the growing market of diabetic patients in the PRC. The Directors have assessed the recoverable amount of the goodwill and are in the opinion that there is no impairment. The recoverable amount of the goodwill has been determined on the basis of its value in use. The Directors will also carry out an impairment assessment of the goodwill at the end of each reporting period.

As advised by East Asia Sentinel Limited, based on the information currently available, they have assessed and agree with the Directors' current assessment that no impairment on the goodwill will be recognised in the first set of financial statements of the Group after the Completion. East Asia Sentinel Limited will adopt consistent accounting policies and principal assumptions in the treatment of the goodwill in the financial statements of the Group.

Smart Ascent is principally engaged in investment holding and is the holding company for the Group's oral insulin operations. The material assets of which are its interests in Fosse Bio and Welly Surplus, both being 51% non wholly-owned subsidiaries of Smart Ascent. Based on the valuation report issued by Castores Magi set out in appendix IV to this circular, the value of the equity interest of the Smart Ascent Group as at 28 February 2013 amounted to approximately HK$2,519,000,000.

The aggregate Consideration of the Sale Shares is HK$660,000,000. The Directors consider that the Acquisition will have positive effect on the assets and liabilities of the Group.

9. IMPLICATIONS UNDER THE LISTING RULES

As the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Rule 14.06 of the Listing Rules. Besides, as the Vendor is a substantial shareholder of a subsidiary of the Company by virtue of his interest in Smart Ascent, and Dr. Mao is also interested in the Acquisition by virtue of his transaction under the Sub-sale Agreement with the Vendor, the Acquisition constitutes a connected transaction for the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Vendor, Dr. Mao and their respective associates (including JNJ Investments Limited and Fudan Pharmaceutical Limited which are indirectly controlled by Dr. Mao), and any other connected persons of the Company who are materially interested in the Acquisition, are therefore required to abstain from voting on the resolution proposed to be passed at the SGM for approving the Acquisition, the Acquisition Agreement and the transactions contemplated thereby.

The Directors would like to draw the attention of the Shareholders to the fact that notwithstanding the Sub-sale Agreement is a personal transaction between the Vendor and Dr. Mao, Dr. Mao had duly disclosed to the Board of the transaction under the Sub-sale Agreement and his interests thereunder in accordance with the bye-laws of the Company. As Dr. Mao is materially interested in the Acquisition by virtue of the Principal Sub-sale Agreement, after the entering into of the Principal Sub-sale Agreement by Dr. Mao in September 2011, Dr. Mao had ceased to participate in any negotiations with the Vendor in relation to the Acquisition, and had abstained from voting in Board meetings in relation to the Acquisition since then. The Board also noted that nothing in the Sub-sale Agreement would prejudice the Group's interests or rights under the Principal Acquisition Agreement and/or the Supplemental Agreement. Pursuant to article 110(H) of the bye-laws of the Company, Dr. Mao had abstained from voting (and had not been counted in the quorum) on the resolutions approving the Acquisition at the Board meetings on 7 February 2013 and 27 February 2013. Dr. Xie Yi had also abstained from voting (and had not been counted in the quorum) on the resolutions approving the Acquisition at the Board meetings on 7 February 2013 and 27 February 2013 by virtue of his shareholding interests and control in JNJ Investments Limited and Fudan Pharmaceutical Limited, being associates of Dr. Mao. As such, the Board considers that Dr. Mao has fulfilled his duties to act in good faith and in the interests of the Company and the Shareholders as a whole in accordance with Rule 3.08 and Rule 3.09 of the Listing Rules.

10. OTHER INFORMATION

The Directors would like to draw the attention of the Shareholders to the announcements dated 29 April 2013 and 15 May 2013 issued by United Gene (the "UG Announcements"). According to the UG Announcements, United Gene has entered into the UG SP Agreement with Dr. Mao and JNJ Investments Limited regarding United Gene's conditional acquisitions (i) from Dr. Mao and JNJ Investments Limited of the Bonds for the principal amount of HK$320,650,000 and the 450,000,000 Shares at the aggregate consideration of HK$608,000,000; and (ii) from Dr. Mao of the Bonds for the principal amount of HK$256,520,000 at the consideration up to HK$256,000,000. As the Group is not a party to the UG SP Agreement, please refer to the UG Announcements for details about the UG SP Agreement and the transactions contemplated thereunder.

Under the Acquisition Agreement, the Consideration, including but not limited to the Bonds, shall be payable to the Vendor and Dr. Mao (at the direction of the Vendor in accordance with the supplemental agreement to the Principal Sub-sale Agreement) or any other persons at the direction of the Vendor. Up to the Latest Practicable Date, the Group has not received any other direction from the Vendor regarding any change of allottee of the Bonds.

Under the terms and conditions of the Bonds, the Bonds shall be transferable to any person by the bondholder, provided that where the Bonds are intended to be transferable to a connected person (as defined in the Listing Rules) of the Company (other than the associates of the Bondholder) such transfer shall comply with the requirements under the Listing Rules and/or requirements imposed by the Stock Exchange (if any) and shall be subject to approval by the Board. The Acquisition, the Acquisition Agreement and the transactions contemplated thereby, including but not limited to the terms of the Bonds, shall be subject to the approval of the Independent Shareholders at the forthcoming SGM. Any transfer of the Bonds after Completion shall be subject to compliance with the terms and conditions of the Bonds, including but not limited to the approval thereof by the Board.

11. SGM

The Company will convene the SGM at Harbour View Room I, 3rd Floor, The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Thursday, 4 July 2013 at 3:00 p.m. to consider and, if thought fit, approve the Acquisition, the Acquisition Agreement and the transactions contemplated thereby. A notice of the SGM is set out on pages S-1 to S-3 of this circular.

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

A notice convening the SGM is set out on pages S-1 to S-3 of this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM or any adjournment thereof if you so wish.

12. RECOMMENDATION

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jin Song, has been established to advise the Independent Shareholders as to whether the Acquisition, the Acquisition Agreement and the transactions contemplated thereby are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to how to vote. Your attention is drawn to the advice of the Independent Board Committee set out in its letter on page 42 of this circular. Your attention is also drawn to the letter of advice from Quam to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the Acquisition Agreement and the transactions contemplated thereby set out on pages 43 to 80 of this circular.

The Independent Board Committee, having taken into account the advice of Quam, considers that the Acquisition, the Acquisition Agreement (including the terms of the Consideration) and the transactions contemplated thereby are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. The Independent Board Committee therefore recommends the Independent Shareholders to vote in favour of the ordinary resolution to approve the Acquisition, the Acquisition Agreement and the transactions contemplated thereby at the SGM.

13. ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED
Xie Yi
Director

EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED
精優藥業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 00858)

18 June 2013

To the Independent Shareholders

Dear Sir or Madam,

SUPPLEMENTAL AGREEMENT IN RELATION TO ACQUISITION OF MINORITY INTEREST IN SMART ASCENT CONNECTED AND MAJOR TRANSACTION

We refer to the circular issued by the Company to its shareholders and dated 18 June 2013 ("**Circular**") of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

We have been appointed by the Board to consider the Acquisition, the Acquisition Agreement and the transactions contemplated thereby as to whether, in our opinion, they are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Quam Capital Limited has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect.

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

Yours faithfully,
For and on behalf of
Independent Board Committee
Mr. Fang Lin Hu **Mr. Xue Jing Lun** **Ms. Jin Song**
Independent non-executive Directors

* *For identification purpose only*

The following is the full text of a letter of advice from Quam, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the Acquisition Agreement and the transactions contemplated thereby.

Quam CAPITAL 華富嘉洛企業融資
Quam Capital Limited
A Member of The Quam Group

18 June 2013

To the Independent Board Committee and the Independent Shareholders
Extrawell Pharmaceutical Holdings Limited
Room 3409–10, 34/F
China Resources Building
26 Harbour Road, Wanchai
Hong Kong

Dear Sir or Madam,

SUPPLEMENTAL AGREEMENT IN RELATION TO ACQUISITION OF MINORITY INTEREST IN SMART ASCENT CONNECTED AND MAJOR TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the Acquisition Agreement and the transactions contemplated thereby, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular of the Company dated 18 June 2013 (the "**Circular**"), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jin Song, has been established to advise the Independent Shareholders as to whether the Acquisition, the Acquisition Agreement and the transactions contemplated thereby are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to how to vote. As the independent financial adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

Quam is independent of and not connected with any members of the Group or any of their substantial shareholders, directors or chief executives, or any of their respective associates, and is accordingly qualified to give an independent advice in respect of the Acquisition, the Acquisition Agreement and the transactions contemplated thereby.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information and facts supplied by the Company and its advisers; (iii) the opinions expressed by and the representations of the Directors and management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects at the time they were made and will remain so up to the time of the SGM and may be relied upon. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations regarding the Company and the Acquisition provided to us by the Company and/or the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the management of the Group and the advisers of the Company.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have neither carried out any independent verification of the information, nor conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, Smart Ascent or any of their respective subsidiaries or associates, and are not experts in the medical application of insulin.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the Acquisition, the Acquisition Agreement and the transactions contemplated thereby are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Background of and reasons for the Acquisition

(a) *Background of the Acquisition and the Acquisition Agreement*

On 3 March 2004, Extrawell BVI, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with the Vendor and Ms. Wu Kiet Ming whereby it agreed to acquire a 51% interest in Smart Ascent, which was then equally owned by the Vendor and Ms. Wu Kiet Ming (the "2004 Acquisition"). The 2004 Acquisition was completed on 17 August 2004 and was subsequently rectified in the special general meeting of the Company dated 8 June 2009. Smart Ascent is currently a 51% non wholly-owned subsidiary of the Company.

On 27 July 2007, Extrawell BVI entered into the Principal Acquisition Agreement with the Vendor for the acquisition of the remaining 49% interest in the share capital of Smart Ascent at the aggregate consideration of HK$768,900,000, which would be payable by the Group to the Vendor by allotting and issuing 300 million Consideration Shares to the Vendor at the issue price of HK$2.563 per Consideration Share. Completion shall be conditional upon, among others, the conditions set out in the Principal Acquisition Agreement being satisfied on or before 12:00 noon on 31 October 2007 or such later date as the Group may agree.

Since the expiry of the long stop date of the Principal Acquisition Agreement, the Directors have been monitoring the progress of the clinical trial of the Medicine to decide whether it was in the interest of the Group and the Shareholders to proceed with the Acquisition before re-negotiating with the Vendor on the Acquisition. As part A of the phase III clinical trial protocol (the "**Protocol**") filed with the SFDA had been completed with satisfactory results in February 2013, the Board considered it the appropriate time to initiate further negotiations with the Vendor and to consider the feasibility for the Group to proceed with the Acquisition. Accordingly, two of the Directors, namely Dr. Lou Yi and Ms. Wong Sau Kuen, entered into further negotiations with the Vendor on the terms and conditions of the Supplemental Agreement. After arm's length negotiations, the Board (with Dr. Mao and Dr. Xie Yi abstained from voting) decided to proceed with the Acquisition and on 23 February 2013, Extrawell BVI entered into the Supplemental Agreement to amend certain terms and conditions of the Principal Acquisition Agreement and to extend the long stop date for the satisfaction of the conditions precedent to the Principal Acquisition Agreement whereby Extrawell BVI agreed to acquire the Sale Shares, which was then owned by the Vendor, at the Consideration of HK$660,000,000.

As announced by the Company on 7 September 2011, the Board had been informed by the Vendor and Dr. Mao that the Vendor and Dr. Mao entered into the Principal Sub-sale Agreement on 6 September 2011 for the acquisition by Dr. Mao from the Vendor of either the 24.5% interest in the share capital of Smart Ascent, if the Acquisition was not proceeded with by the Group or the 150 million of the Consideration Shares to be allotted and issued to the Vendor upon completion of the Principal Acquisition Agreement, if the Group chose to proceed with and complete the Acquisition in accordance with the terms of the Principal Acquisition Agreement, at an initial consideration of HK$155,000,000. As stated in the Letter from the Board, Dr. Mao confirmed that under the Sub-sale Agreement, such consideration was subject to downward adjustments based on the progress of the clinical trial of the Medicine. As the phase III clinical trial of the Medicine had not been completed and the report thereof had not been submitted to the SFDA for approval within seven months after the date of the Principal Sub-sale Agreement, and Fosse Bio had not obtained the Certificate of New Medicine (新藥證書) issued by the SFDA within 12 months after the date of the Principal Sub-sale Agreement, the consideration had been adjusted to HK$20,000,000, which had been fully paid by Dr. Mao in accordance with the terms of the Principal Sub-sale Agreement. At the time when the Principal Sub-sale Agreement was entered into between the Vendor and Dr. Mao, the Board had not decided on whether and when to proceed with the Acquisition. Dr. Mao (being a party to the Principal Sub-sale Agreement) and Dr. Xie Yi, (by virtue of his shareholding interests in JNJ Investments Limited and Fudan Pharmaceutical Limited, being associates of Dr. Mao), became materially interested in the Acquisition after the entering into of the Principal Sub-sale Agreement by Dr. Mao, and therefore have ceased to participate in any negotiations with the Vendor in relation to, and have abstained from voting in Board meetings in relation to, the Acquisition since then.

As further announced by the Company on 23 February 2013 and 27 February 2013, given the variation of certain terms of the Acquisition under the Supplemental Agreement, the Board has been informed by the Vendor and Dr. Mao that a supplemental agreement has been entered into between the Vendor and Dr. Mao on 23 February 2013 to supplement the Principal Sub-sale Agreement, pursuant to which Dr. Mao has conditionally agreed to acquire from the Vendor, and the Vendor has conditionally agreed to sell to Dr. Mao (1) (where the Acquisition Agreement shall be completed in accordance with its terms) the Bonds for the principal amount of HK$320,650,000 to be allotted and issued to the Vendor upon Completion, and the Vendor shall pay or procure to pay to Dr. Mao a sum of HK$9,350,000, being 50% of the cash consideration payable by Extrawell BVI to the Vendor under the Acquisition Agreement; or (2) (where the Acquisition Agreement shall lapse or otherwise be terminated in accordance with its terms) 24.5% interest in the share capital of Smart Ascent. As stated in the Letter from the Board, Dr. Mao confirmed that completion of the Sub-sale Agreement is conditional upon, among others, the Acquisition Agreement having been completed or (where earlier) having lapsed or been terminated in accordance with its terms.

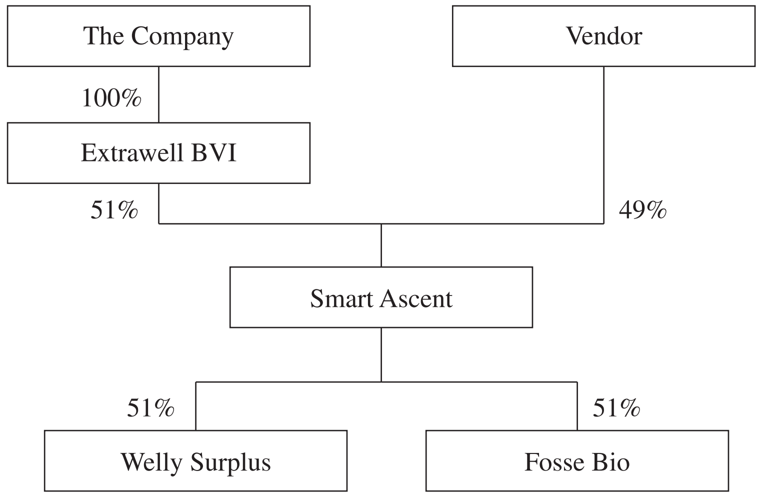
As further announced by the Company on 1 March 2013, the Board was informed by the Vendor and Dr. Mao on 28 February 2013 that the Vendor and Dr. Mao entered into a subscription agreement on 28 February 2013 pursuant to which the Vendor has granted the Call Option to Dr. Mao pursuant to which Dr. Mao shall have the right, within 12 months after the date of receipt by the Vendor of his interests in the Bonds, to acquire from the Vendor the Bonds up to the principal amount of HK$256,520,000 held by the Vendor at an aggregate exercise price of HK$272,000,000 (or a pro rata amount thereof if the Call Option is partially exercised). As advised by the Directors, under the Call Option Agreement, in addition to the exercise price, Dr. Mao shall pay to the Vendor a premium for an aggregate amount of RMB14,900,000, which was payable as to RMB8,000,000 as deposit (the "Deposit") within three business days after the signing of the Call Option Agreement, and the balance of RMB6,900,000 shall be payable within three business days upon notice by the Vendor of his receipt of his interests in the Bonds. The Deposit shall be refundable to Dr. Mao within three business days after the termination of the Acquisition Agreement.

The transactions under these agreements were personal transactions between the Vendor and Dr. Mao. As confirmed by Dr. Mao, since it had been agreed under the Principal Sub-sale Agreement in September 2011 that the Vendor would sell and transfer either 24.5% interest in the share capital of Smart Ascent or 150,000,000 Consideration Shares (being 50% of the consideration payable by the Group under the Principal Acquisition Agreement) to Dr. Mao, given that the Group and the Vendor have subsequently agreed to amend the Consideration payable by the Group under the Principal Acquisition Agreement so that cash consideration and Bonds (in lieu of Consideration Shares) shall be payable by the Group, the supplemental agreement was entered into between the Vendor and Dr. Mao accordingly to reflect such change. Save for the settlement arrangements in respect of the Consideration under the Acquisition Agreement which reflected the Vendor's direction for facilitating the completion of the Sub-sale Agreement, the Group had not been involved in the negotiation of the Principal Sub-sale Agreement and/or its supplemental agreement.

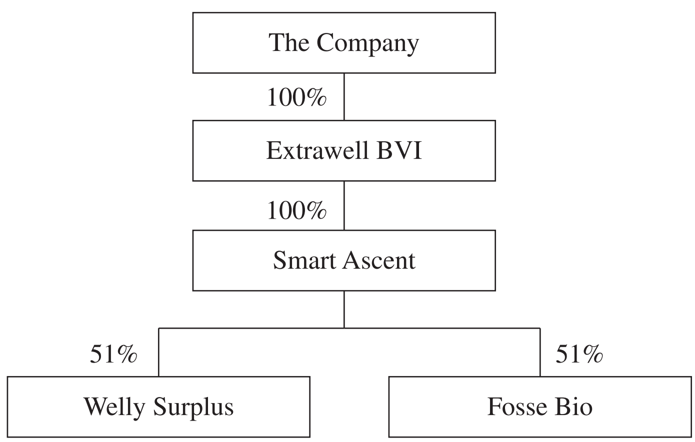
As at the Latest Practicable Date, the principal assets of Smart Ascent are Fosse Bio and Welly Surplus, both being 51% non wholly-owned subsidiaries of Smart Ascent. Fosse Bio is principally engaged in the research and development of oral insulin with Tsinghua University, Beijing. Welly Surplus is currently inactive and ,subject to the completion of the SP Agreement, will be principally engaged in the manufacturing and distribution of the Medicine after issuance of the Certificate of New Medicine (新藥證書) and Pharmaceutical Manufacturing Permit to the Smart Ascent Group.

Set out below is the shareholding structure of the Smart Ascent Group as at the Latest Practicable Date and immediately upon Completion:

As at the Latest Practicable Date



Immediately upon Completion



Note: The other businesses of the Group, which are not directly related to the Acquisition, are excluded from the above shareholding structures of the Group.

(b) ***Information on the Group***

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

Set out below are the consolidated statement of comprehensive income of the Group for the three years ended 31 March 2012 and for the six months ended 30 September 2011 and 2012 as extracted from the Group's 2011 and 2012 annual reports and the Group's 2012 interim report, which were prepared in accordance with Hong Kong Financial Reporting Standards:

	For the six months ended 30 September		For the year ended 31 March		
	2012	**2011**	**2012**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
Turnover	82,944	78,617	157,406	198,816	196,291
Cost of sales	(57,518)	(53,822)	(109,943)	(146,785)	(142,447)
Gross profit	25,426	24,795	47,463	52,031	53,844
Other revenues	1,050	653	3,561	8,335	7,057
Reclassification from translation reserve	—	—	8,384	—	—
Selling and distribution expenses	(3,313)	(5,237)	(10,430)	(17,506)	(18,883)
Administrative expenses	(13,060)	(11,434)	(27,230)	(29,418)	(28,421)
Research and development expenses	(644)	(132)	(4,885)	(8,339)	(809)
Share of results of an associate	(2,142)	—	—	—	—
Profit before taxation	7,317	8,645	16,863	5,103	12,788
Taxation	(716)	(415)	(926)	(1,055)	2,784
Profit for the period/year	6,601	8,230	15,937	4,048	15,572
Profit for the period/year attributable to:					
— Equity holders of the Company	6,987	8,714	20,414	11,567	14,624
— Non-controlling interests	(386)	(484)	(4,477)	(7,519)	948
	6,601	8,230	15,937	4,048	15,572

The turnover of the Group for the six months ended 30 September 2012 increased by approximately HK$4.3 million, representing an increase of approximately 5.5%, in comparing with that for the six months ended 30 September 2011. Such increase was mainly attributable to a significant growth in turnover of approximately 39.5% in the Group's segment of development, manufacture and sales of pharmaceutical products, which balanced off the decrease in turnover of approximately 10.3% in the Group's segment of marketing and distribution of imported pharmaceutical products for the six months ended 30 September 2012. The net profit for the six months ended 30 September 2012 decreased by approximately HK$1.6 million, representing a decrease of approximately 19.8%, in comparing with that for the six months ended 30 September 2011. Such decrease was mainly attributable to the share of loss of an associate amounting to approximately HK$2.1 million due to its business start-up costs.

The turnover of the Group for the year ended 31 March 2012 decreased by approximately HK$41.4 million, representing a decrease of approximately 20.8%, in comparing with that for the year ended 31 March 2011. Such decrease was mainly attributable to the Group's adjustment on the distribution model on trading business of imported pharmaceuticals. The net profit for the year ended 31 March 2012 increased by approximately HK$11.9 million, representing an increase of approximately 293.7%, in comparing with that for the year ended 31 March 2011. Although the revenue dropped for the year ended 31 March 2012, positive effects of an improved overall gross margin from approximately 26.2% to 30.2%, a reduction of the total administrative, selling and distribution expenses by about HK$9.3 million from HK$46.9 million to HK$37.7 million achieved and a reclassification from translation reserve of approximately HK$8.4 million recorded and thus resulted in a significant increase in net profit for the year ended 31 March 2012.

The turnover of the Group for the year ended 31 March 2011 slightly increased by approximately HK$2.5 million, representing an increase of approximately 1.3%, in comparing with that for the year ended 31 March 2010. Such increase was mainly attributable to the proactive steps taken by the Group to adjust its marketing and distribution strategies for its imported products for the year ended 31 March 2011. In comparing the profit attributable to the equity holders of the Company of approximately HK$11.6 million for the year ended 31 March 2011 with HK$14.6 million for the year ended 31 March 2010, a decrease of approximately HK$3.0 million was mainly attributable to the Group's share of expenses incurred in the oral insulin project.

Set out below are the consolidated statements of financial position of the Group as at 31 March 2010, 2011 and 2012 and as at 30 September 2012 as extracted from the Group's 2011 and 2012 annual reports and the Group's 2012 interim report, which were prepared in accordance with Hong Kong Financial Reporting Standards:

	As at 30 September	As at 31 March		
	2012	2012	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)	(audited)
Non-current assets				
Property, plant and equipment	65,332	50,555	49,657	50,045
Prepaid land lease payments	23,103	24,201	23,691	13,634
Investment properties	1,763	—	—	—
Interest in an associate	10,377	—	—	—
Intangible assets	286,524	286,675	286,936	287,186
Amounts due from non-controlling interests	6,430	6,140	12,970	9,598
Loan to a non-controlling interest	5,998	4,807	—	—
	399,527	372,378	373,254	360,463
Current assets				
Inventories	12,063	12,980	15,232	23,121
Trade receivables	83,013	73,593	72,575	84,756
Deposits, prepayments and other receivables	87,577	69,182	57,712	60,304
Amount due from a non-controlling interest	—	—	3	3
Pledged bank deposits	19,648	19,600	20,743	20,579
Cash and cash equivalents	126,005	140,071	124,573	104,987
	328,306	315,426	290,838	293,750
Current liabilities				
Trade and bills payables	17,897	10,527	7,152	8,479
Accruals and other payables	27,207	22,884	35,949	46,312
Amounts due to non-controlling interests	39,495	39,389	36,778	32,570
Tax payables	1,583	1,304	1,987	2,171
	86,182	74,104	81,866	89,532
Net current assets	242,124	241,322	208,972	204,218
Total assets less current liabilities	641,651	613,700	582,226	564,681

	As at 30 September	As at 31 March		
	2012	**2012**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)	(audited)
Non-current liabilities				
Amounts due to non-controlling interests	16,836	15,195	21,851	14,493
Loan from a non-controlling interest	5,998	4,807	—	—
Deferred income	37,037	18,519	—	—
Deferred tax liabilities	102	102	102	102
	59,973	38,623	21,953	14,595
Net assets	581,678	575,077	560,273	550,086
Capital and reserves				
Share capital	22,900	22,900	22,900	22,900
Reserves	357,523	350,536	331,255	313,896
Equity attributable to equity holders of the Company	380,423	373,436	354,155	336,796
Non-controlling interests	201,255	201,641	206,118	213,290
	581,678	575,077	560,273	550,086

As at 30 September 2012, the net assets value of the Group and equity attributable to the equity holders of the Company amounted to approximately HK$581.7 million and HK$380.4 million respectively, and the total assets and total liabilities of the Group amounted to approximately HK$727.8 million and HK$146.2 million respectively.

As at 30 September 2012, the Group had intangible assets of approximately HK$286.5 million, which included carrying value of the technological know-how of approximately HK$284.3 million in relation to the oral insulin product and the exclusive right for the commercialisation of the Medicine owned by the Group. As at 30 September 2012, the Group had total cash and bank balances (including pledged bank deposits) of approximately HK$145.7 million. The Group did not have bank borrowings as at 30 September 2012 but had banking facilities on its trade finance, which were supported by the pledge of the Group's fixed deposits of approximately HK$19.6 million and corporate guarantees from the Company and certain subsidiaries of the Company.

As at 30 September 2012, the balance of the consideration for the sum of HK$31,780,000 being payable to Fordnew Industrial Limited, one of the existing shareholders of Fosse Bio in relation to the acquisition of 51% interests in the issued share capital of Fosse Bio was accounted for in the Group's amounts due to non-controlling interests. The total debts of the Group amounted to approximately HK$62.3 million as at 30 September 2012, which comprised amounts due to non-controlling interests of subsidiaries and loan from a non-controlling interest.

(c) ***Information on Smart Ascent***

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

Fosse Bio

Fosse Bio is principally engaged in the research and development and commercialisation of oral insulin products since its establishment in 1998. Fosse Bio and Tsinghua University, Beijing entered into the agreements in 1998 (the "**THU Collaboration Arrangement**") in connection with the research and development of the oral insulin products, including the Medicine. Pursuant to the THU Collaboration Arrangement, Fosse Bio will be entitled to commercialise the relevant technologies of the oral insulin products and to manufacture and sell the oral insulin products on an exclusive basis, and Tsinghua University, Beijing, is entitled to 1.5% of Fosse Bio's annual sales upon commercialisation of the oral insulin products. Under the joint research and development by Fosse Bio and Tsinghua University, Beijing under the THU Collaboration Arrangement, 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) (the "**Relevant Technologies**") was patented in the PRC in 2004 and in the United States in 2006, which will be expired in April 2021 and April 2022 respectively.

After satisfactory results from pre-clinical studies, the formulation of the Medicine was approved by SFDA for clinical trials in 2003. The phase I clinical trial was designed to assess the safety of the drug, and was tested on a small number of healthy human testing subjects who did not suffer from diabetes. The phase I clinical trial was undertaken by a team of clinical experts in the National Pharmacology Research Base of the Peking Union Medical College Hospital (北京協和醫院). The phase I clinical trial was completed in early 2004. The results of phase I clinical trial indicated that oral insulin is effective in lowering the glucose level after it has entered into the blood system through the digestive system and the oral insulin is safe for application.

Phase II clinical trial aims at further verifying the medical effects of the oral insulin in bringing down the glucose level and its safety in application to diabetic patients. From October 2004, the phase II clinical trial had been undertaken in the five SFDA authorised medical centers, namely Beijing Union Medical College Hospital, Beijing Tongren Hospital, the First Clinical Hospital of China Medical University, Shenyang, Shanghai Changzheng Hospital and Qilu Hospital of Shandong University, Jinan, under the leadership of Beijing Union Medical College Hospital. At the end of year 2005, the phase II clinical trial had been completed with encouraging results issued by the above five medical centers. The result had been submitted to SFDA for approval in 2006 and SFDA indicated that additional clinical trial was required before the final assessment and approval of the Medicine. In respect of the next phase of the clinical trial, SFDA imposed more stringent requirements which include a requirement for a larger sample group of patients, and the use of double-blind tests where neither the patents nor the researchers have knowledge on which patients belong to the treatment group (where patients will be given the Medicine) or the control group (where patients will be given placebo), with a view to reducing experimental bias during the next phase clinical trial.

In light of the above, the Protocol has been designed by recognised clinical trial bases and led by the Peking University People's Hospital in the PRC, which consists of two parts. Part A of the Protocol relates to the multi-centered, randomised, double-blinded and placebo-controlled clinical trial of the Medicine on treatment of Type 2 diabetes. With reference to the benchmark indicators, in particular, on the effect of reducing blood glucose level in diabetics through absorption of the Medicine into blood circulation of human body, the statistical outcome of the per-protocol set (PPS) analysis shows that the bio-efficacy of the Medicine in the treatment group (where patients were given the Medicine) was significantly superior to that of the control group (where patients were given placebo). Part A of the Protocol has been completed with satisfactory results in February 2013. In order to further validate the efficacy of the use of the Medicine in more diabetic testees, Fosse Bio is working with the project team and the clinical experts led by the Peking University People's Hospital in the PRC to conduct part B of the clinical trial on the Medicine, among others, in larger scale of participating cases contemplated in the Protocol filed with the SFDA.

The Company expects that the part B of the clinical trial contemplated in the Protocol will be completed with report for results thereof for evaluation by the SFDA in around January 2015 and the commencement of manufacturing of the Medicine will be in the second half of 2015 following satisfactory assessment by the SFDA.

Welly Surplus

Welly Surplus is currently inactive and is intended to act as the manufacturing and distribution arm of the Group in the development of the Medicine. On 19 October 2006, Welly Surplus entered into the Cooperation Agreement with Sea Ascent, which is currently owned as to 70% by an independent third party namely Mr. Wang Wei and as to 30% by another independent third party namely Mr. Zhao Peng, and Fosse Bio for, among others, the establishment of a company named Jiangsu Prevalence Pharmaceutical Limited ("**Jiangsu Prevalence**") by Sea Ascent's wholly-owned subsidiary namely Joy Kingdom Industrial Limited ("**Joy Kingdom**") for acquisition of a piece of industrial land situated in the Jiangsu Province, PRC and construction of a pharmaceutical production plant thereon for the production of the Medicine in the PRC.

Sea Ascent shall procure that the Plant shall have an annual production capacity of at least 1.5 billion capsules of the Medicine, with the gross floor area sufficient for expanding its annual production capacity to at least 3 billion capsules of the Medicine, and satisfy the standards as required for obtaining the compliance certificate under the Guidelines on Good Manufacturing Practices for Pharmaceuticals Products (藥品生產質量管理規範) for the production of the Medicine. The above shall be financed by Sea Ascent by way of an unsecured, non-interest bearing shareholder's loan for the principal amount of RMB40 million. In return, Sea Ascent will be entitled to a fee calculated at RMB6 cents for each capsule of Medicine produced, up to a maximum of RMB180 million (on the basis that the maximum annual production capacity of 3 billion capsules of Medicine for the production plant) for a period of six years commencing from the date on which the Medicine is launched for sales in the open market (the "**Initial Operating Period**").

On the same day, Welly Surplus entered into the SP Agreement whereby it agreed to acquire from Sea Ascent the entire equity interest in Joy Kingdom and shareholder's loan of RMB40.0 million at a total consideration of approximately RMB40.0 million. A nominal amount of approximately RMB10,000 is payable upon completion of the SP Agreement, with the remaining balance payable within one month after the expiry of the Initial Operating Period. The Directors considered that through the entering into of the Cooperation Agreement and the SP Agreement, the Group could significantly lower its operating risk for the development and manufacturing of the Medicine as the funding for acquisition of land use rights, and construction of the manufacturing plant as well as the machineries would be advanced by Sea Ascent.

As at the Latest Practicable Date, the SP Agreement and the construction of the Plant were yet to be completed. The Company expects that the report of results of an extended clinical trial, being part B of clinical trial contemplated in the Protocol will be submitted to the SFDA for assessment in or about January 2015 and subject to satisfactory assessment by the SFDA, the Certificate of New Medicine (新藥證書) is estimated to be obtained in or about June 2015. As advised by the Company, subject to further review by the Board of the then progress of the clinical trial in early 2014, it is the present intention of the Board to enter into supplemental agreement with Sea Ascent in early 2014 for the extension of the longstop date of the SP Agreement, and to agree on the timetable for the construction of the Plant so that the construction can be restarted in or around June 2014 for completion and delivery thereof to the Group in or around June 2015. The Company will closely monitor the progress of the construction of plant, the clinical trial and approval process of the Medicine to ensure that the timetable for construction of the manufacturing plant for the Medicine and completion of the SP Agreement will correspond to the approval process of the Medicine and the issuance of the Certificate of New Medicine (新藥證書), which is expected to be in or about June 2015. The Company also expects that the Pharmaceutical Manufacturing Permit could be obtained about three months after the completion of construction of the manufacturing plant, which is estimated to be in or about June 2015 and the commercialisation of the Medicine shall commence one month after obtaining the Pharmaceutical Manufacturing Permit.

Financial information of the Smart Ascent Group

Set out below are the consolidated statements of comprehensive income of the Smart Ascent Group for the three years ended 31 March 2012 and for the eleven months ended 28 February 2013, which were prepared in accordance with Hong Kong Financial Reporting Standards and extracted from Appendix II to the Circular:

	For the eleven months ended		For the year ended		
	28 February 2013	29 February 2012	31 March 2012	2011	2010
	HK$	*HK$* (unaudited)	*HK$*	*HK$*	*HK$*
Turnover	—	—	—	—	—
Other revenues	—	—	189,366	10,780	27,386
Administrative expenses	(2,107,150)	(1,629,576)	(2,409,918)	(2,956,050)	(1,199,573)
Research and development expenses	(2,430,724)	(4,260,680)	(4,413,580)	(8,125,644)	—
Loss before taxation	(4,537,874)	(5,890,256)	(6,634,132)	(11,070,914)	(1,172,187)
Taxation	—	(4,223)	(8,102)	(7,012)	(15,875)
Loss for the period/year	(4,537,874)	(5,894,479)	(6,642,234)	(11,077,926)	(1,188,062)
Loss for the period/year attributable to:					
— Equity holder of Smart Ascent	(2,343,295)	(3,066,181)	(3,364,676)	(5,680,108)	(674,548)
— Non-controlling interests	(2,194,579)	(2,828,298)	(3,277,558)	(5,397,818)	(513,514)
	(4,537,874)	(5,894,479)	(6,642,234)	(11,077,926)	(1,188,062)

As discussed above, the Group's oral insulin products are still at the stage of research and development and yet to be commercialised. Therefore, the Smart Ascent Group did not record any turnover for the three years ended 31 March 2012 and for the eleven months ended 28 February 2013. The major expenses incurred by the Smart Ascent Group were research and development expenses and the staff cost. Research and development expenses represented the cost incurred for the research and development of the oral insulin products which were not qualified to be recognised as intangible assets.

For the eleven months ended 28 February 2013, the research and development expenses, which represented costs for preparation of the drugs for clinical trial purpose and clinical trial management services charges recognised, decreased by approximately HK$1.8 million, representing a decrease of approximately 42.9%, in comparing with that for the eleven months ended 29 February 2012. During the financial years ended 31 March 2011 and 2012 and the period ended 28 February 2013, prepaid research and development costs amounting to an aggregate of approximately RMB12 million were paid to the project administrator in the PRC and recognised as prepayments. The prepayments were recognised as expenses in accordance with the progress of the clinical trial of the Medicine. The decrease in loss for the eleven months ended 28 February 2013 was mainly due to the decrease in the research and development expenses for the same period.

For the year ended 31 March 2012, the research and development expenses significantly decreased by approximately HK$3.7 million, representing a decrease of approximately 45.7%, in comparing with that for the year ended 31 March 2011. The decrease in loss for the year ended 31 March 2012 was mainly due to the decrease in the research and development expenses for the same period.

For the year ended 31 March 2011, the research and development expenses of approximately HK$8.1 million were recognised during the year and had not yet been incurred for the year ended 31 March 2010. The administrative expenses for the year ended 31 March 2011 increased by approximately HK$1.8 million, representing an increase of approximately 146.4%, in comparing with that for the year ended 31 March 2010. Such increase was mainly attributable to the increase in travelling expenses and staff cost in progressing the clinical trial and the provision for impairment of other receivable. The research and development expenses incurred and the increase in administrative expenses for the year ended 31 March 2011 resulted a significant increase in loss of approximately HK$9.9 million for the year ended 31 March 2011.

Set out below are the consolidated statements of financial position of the Smart Ascent Group as at 31 March 2010, 2011 and 2012 and as at 28 February 2013, which were prepared in accordance with Hong Kong Financial Reporting Standards and extracted from Appendix II to the Circular:

	As at 28 February	As at 31 March		
	2013	**2012**	**2011**	**2010**
	HK$	*HK$*	*HK$*	*HK$*
Non-current assets				
Intangible assets	281,473,437	281,473,437	281,473,437	281,473,437
Amounts due from non-controlling interests	6,060,483	6,139,996	12,969,890	9,598,103
Loan to a non-controlling interest	5,997,584	4,806,529	—	—
	293,531,504	292,419,962	294,443,327	291,071,540
Current assets				
Deposits, prepayments and other receivables	40,064,758	40,067,650	46,923,315	43,241,271
Cash and cash equivalents	88,797	116,309	12,474	25,733
	40,153,555	40,183,959	46,935,789	43,267,004
Current liabilities				
Accruals and other payables	341,408	244,657	455,479	1,356,600
Amount due to a fellow subsidiary	—	69,348	—	—
Amount due to a non-controlling interest	32,403,892	32,403,892	32,403,892	32,403,892
Amounts due to shareholders	14,564,452	14,401,965	13,821,643	4,745,751
Tax payable	—	—	5,000	6,000
	47,309,752	47,119,862	46,686,014	38,512,243
Net current (liabilities)/assets	(7,156,197)	(6,935,903)	249,775	4,754,761
Total assets less current liabilities	286,375,307	285,484,059	294,693,102	295,826,301
Non-current liabilities				
Amounts due to non-controlling interests	9,347,522	8,502,885	14,471,020	9,598,103
Amounts due to shareholders	17,049,900	13,656,470	15,061,673	9,989,863
Loan from a non-controlling interest	5,997,584	4,806,529	—	—
	32,395,006	26,965,884	29,532,693	19,587,966
Net assets	253,980,301	258,518,175	265,160,409	276,238,335
Capital and reserves				
Share capital	10,000	10,000	10,000	10,000
Reserves	128,845,779	131,189,074	134,553,750	140,233,858
Equity attributable to equity holders of Smart Ascent	128,855,779	131,199,074	134,563,750	140,243,858
Non-controlling interests	125,124,522	127,319,101	130,596,659	135,994,477
Total equity	253,980,301	258,518,175	265,160,409	276,238,335

As at 28 February 2013, the net assets value of the Smart Ascent Group and equity attributable to the equity holders of Smart Ascent amounted to approximately HK$254.0 million and HK$128.9 million respectively, and the total assets and total liabilities of the Smart Ascent Group amounted to approximately HK$333.7 million and HK$79.7 million respectively.

As at 28 February 2013, the Smart Ascent Group had intangible assets of approximately HK$281.5 million, which represented carrying value of the technological know-how in relation to the oral insulin product. The Smart Ascent Group did not have any bank borrowings or provision of corporate guarantees as at 28 February 2013.

As at 28 February 2013, the balance of the consideration for the sum of HK$31,780,000 being payable to Fordnew Industrial Limited, one of the existing shareholders of Fosse Bio in relation to the acquisition of 51% interests in the issued share capital of Fosse Bio was accounted for in the Smart Ascent Group's amount due to a non-controlling interest.

Shareholders' attention is drawn to the content of report prepared by the reporting accountants of the Company as contained in Appendix II to the Circular, in which the reporting accountants has highlighted an emphasis of significant matters on the uncertain outcome of the results of the clinical trials and the launching of the Medicine and the recoverability of the Outstanding Amount (as defined in section (2)(d) below). In the event that the outcome of the results of the clinical trials and the launching of the Medicine are unfavourable, the carrying value of the intangible assets and the receivable in relation to the Outstanding Amount will be written down, which would have significant adverse effect on the business and results of the Smart Ascent Group.

(d) ***Reasons for the Acquisition***

There are two major forms of diabetes. They are type 1 diabetes which is characterised by a lack of insulin production and type 2 diabetes which is resulted from the body's ineffective use of insulin. According to the 5th edition of the Diabetes Atlas of International Diabetes Federation ("IDF") issued in November 2012 and published on the website of IDF, it is estimated that for 2012, the adult (that is 20-79 years old) diabetic population in the PRC amounts to approximately 92.3 million with a mean diabetes-related expenditure per person with diabetes of USD194, and for the world, such population amounts to approximately 371.3 million with a mean diabetes-related expenditure per person with diabetes of USD1,270. IDF also forecasts that the number of people who have diabetes worldwide will rise to approximately 552 million by 2030, which translates into a compound annual growth rate of approximately 2% for the period from 2012 to 2030. We also noted from IDF that diabetes caused at least USD465 billion dollars in healthcare expenditures in 2011 and 11% of total healthcare expenditures in adults (that is 20–79 years old). We also noted from the article of "10 Facts about Diabetes" published on the website of World Health Organisation ("WHO") being updated in March 2013 that among people worldwide that have diabetes, type 2 diabetes is much more common than type 1 diabetes, which accounts for approximately 90% of all diabetes worldwide. According to an article "Recommendations from the EGAPP Working Group: does genomic profiling to assess type 2 diabetes risk improve health outcomes?" published by the Evaluation of Genomic Applications in Practice and Prevention Working Group launched by the Centers for Disease Control and Prevention of the United States on 14 March 2013, up to 95% of all diabetes is considered type 2 diabetes. WHO projects that diabetes will become the seventh leading cause of death in the world by the year of 2030 and total deaths from diabetes are projected to rise by more than 50% in the next 10 years.

With the increasing number of people with diabetes globally due to, among others, population ageing and growth, and increasing obesity, unhealthy diets and sedentary lifestyles, the diabetes drugs market is expected to be further stimulated in future.

As disclosed in the 2012 interim report of the Company, it is a stated objective of the Group to place a high priority on promoting the success of the clinical trial of the oral insulin which is progressing in the clinical trial centres in the PRC, aiming at pushing forward an encouraging result. As a development strategy, the Group will continue to put efforts into product research and development and exploit new products possibly through collaborative relations with international enterprises. With positive development prospects for the PRC's pharmaceutical and healthcare sectors, the Group is well-positioned in maintaining a stable and sustainable development of the Group.

The Acquisition involves the acquisition of remaining 49% stake in Smart Ascent. Since the expiry of the long stop date of the Principal Acquisition Agreement, the Directors have been monitoring the progress of the clinical trial of the Medicine to decide whether it was in the interest of the Group and the Shareholders to proceed with the Acquisition before re-negotiating with the Vendor on the Acquisition. After taking into account (i) that part A of the Protocol filed with the SFDA had been completed with satisfactory results in February 2013; (ii) that the Group has gained experience through the phases of clinical trials; and (iii) the prospects of the oral insulin products, the Directors decided to proceed with the Acquisition at a commercially justifiable price, despite the uncertainties on the results of the clinical trials, assessment result by SFDA and the manufacturing process of the Medicine, and on 23 February 2013, Extrawell BVI entered into the Supplemental Agreement with the Vendor to amend certain terms and conditions of the Principal Acquisition Agreement and to extend the long stop date. Upon Completion, Smart Ascent will become a wholly-owned subsidiary of the Company. The Acquisition provides the Company the opportunity to consolidate its control on the Smart Ascent Group at the Consideration which is commercially justifiable (our analyses of which are set out as below) and to enjoy the full extent of the first-mover advantage by tapping into the diabetic drug market, which is facing the growing diabetic population by the Smart Ascent Group with its oral insulin products. Given the above, we concur with the view of the Directors that the entering into the Supplemental Agreement in February 2013 and the Acquisition can enable the Group to be better positioned in the pharmaceutical market taking into account the prospect of oral insulin products, which in turn would improve the Shareholders' return and is in the interests of the Company and the Shareholders as a whole. Furthermore, in view of the satisfactory results regarding the part A of the Protocol obtained in February 2013 and consolidating an absolute control over Smart Ascent via the Acquisition, we consider the Directors' decision to proceed with the Acquisition and enter into the Supplemental Agreement on 23 February 2013 after the expiry of the long stop date is reasonable. This also conforms to the Group's stated business objectives and strategy as discussed above.

2. Principal terms of the Principal Acquisition Agreement (as supplemented and amended by the Supplemental Agreement)

(a) *The Consideration and its basis of determination*

The Consideration shall be HK$660,000,000 and shall be payable upon Completion and to be satisfied in the following manner:

(i) as to HK$641,300,000, by the Company issuing the Bonds in the following manner:

(a) as to the principal amount of HK$320,650,000, to the Vendor; and

(b) as to the principal amount of HK$320,650,000, to Dr. Mao (at the direction of the Vendor in accordance with the supplemental agreement to the Principal Sub-sale Agreement, or in such other allottees or denominations of the Bonds as the Vendor may direct by giving a notice in writing to Extrawell BVI at least ten Business Days prior to the Completion Date); and

(ii) as to the balance of the Consideration for the amount of HK$18,700,000, to be paid in cash in the following manner:

(a) as to HK$9,350,000 to the Vendor; and

(b) as to HK$9,350,000 to Dr. Mao (at the direction of the Vendor in accordance with the supplemental agreement to the Principal Sub-sale Agreement, or to such other payee(s) as the Vendor may direct by giving a notice in writing to Extrawell BVI at least ten Business Days prior to the Completion Date). So far as the Directors understand, half of the balance of the cash Consideration shall be payable to Dr. Mao as it was the agreement between Dr. Mao and the Vendor under the Sub-sale Agreement that, should the Group choose to proceed with the Acquisition, Dr. Mao should be entitled to 50% of the sales proceeds given that the Vendor had sub-sold half of his interests in Smart Ascent to Dr. Mao under the Sub-sale Agreement.

As stated in the Letter from the Board, the Consideration was arrived at after arm's length negotiation among the parties to the Acquisition Agreement, after taking into account the original consideration of HK$768,900,000 under the Principal Acquisition Agreement, which was then determined after arm's length negotiations between the Group and the Vendor with reference to the value of the Smart Ascent Group as at 30 June 2007 as appraised by Castores Magi on its valuation report dated 22 August 2007. Moreover, the Company bargained with the Vendor for further discount on the consideration for the benefit of the Company on an arm's length basis and also considered the consolidated net asset value of Smart Ascent as at 31 March 2012 of approximately HK$258,518,000 (approximately HK$281,500,000 of which represents the intangible assets of technological knowhow in relation to the Medicine), the industry prospects and the growing diabetic drug market in which Smart Ascent operates in, and the progress of the clinical trial of the Medicine in the course of its negotiation of the terms of the Supplemental Agreement with the Vendor.

As shown in the section headed "Information on Smart Ascent" in this letter, the Smart Ascent Group was loss making for the three years ended 31 March 2012 and the eleven months ended 28 February 2013, and the oral insulin project is yet to be commercialised. As such, price-to-earnings ratio is not considered relevant in assessing the Consideration.

It is noted that the Consideration is at a premium over the net asset value and fair value of the intangible assets of Smart Ascent. As advised by the Company, apart from the net asset value and fair value of the intangible assets of Smart Ascent, the industry prospects and the growing diabetic drug market in which Smart Ascent operates in, and the progress of the clinical trial of the Medicine are the key factors in determining the Consideration. The historical net asset value and fair value of the intangible assets of Smart Ascent alone may not be indicative for future earning power of Smart Ascent. After taking into account the above and view of Castores Magi on the valuation approach adopted in the valuation report, we concur with the view of the Company and therefore consider that it is more appropriate to assess the Consideration against the valuation of the economic value to be derived from commercialisation of the Medicine. Based on the estimated cash flow projections made by the management of the Company, Castores Magi appraised the entire equity interest of Smart Ascent at approximately HK$2,519 million as at 28 February 2013 (the "**Valuation**"). The Consideration of HK$660 million represents a discount of approximately 46.5% to the valuation of approximately HK$1,234.3 million attributable to 49% equity interest of Smart Ascent as assessed by Castores Magi.

(b) ***Valuation of the Smart Ascent Group***

Castores Magi appraised the equity interest of Smart Ascent on the basis of the financial projections of the Smart Ascent Group from 1 April 2012 to 31 March 2020 prepared by the Company (the "**Financial Projections**"). We have discussed with Castores Magi the methodology and assumptions used in performing the Valuation and with the Company on major bases and assumptions used in the Financial Projections. The full text of the valuation report from Castores Magi is contained in Appendix IV to the Circular.

Methodology and assumptions used in the Valuation

Valuation approach

In the process of appraising the equity interest of Smart Ascent, Castores Magi considered three valuation approaches, namely the market approach, cost approach and income approach. We concur with Castores Magi that the market approach is not appropriate in the circumstances as, to the best understanding of Castores Magi, there has been no public sale and purchase of similar business transactions that completed in Hong Kong and the PRC. We also concur with Castores Magi that the cost approach, which normally neglects the future business growth and is normally suitable for a manufacturing company, is not appropriate for valuing an innovative project such as the one which Smart Ascent is embarking on. The income approach, which measures the present worth of the net economic benefit to be received and focuses on the income-generating capability of a company, was considered by Castores Magi (also concurred by us) the most appropriate approach for appraising the equity interest of a company like Smart Ascent.

Under the income approach, the discounted cash flow method was used by Castores Magi, which estimated the market value of Smart Ascent by discounting the future free cash flows to be generated by Smart Ascent, including revenues and costs, at a relevant rate of return required by equity to its present value.

Discount rate

A discount rate of 15% was used by Castores Magi in discounting the future free cash flows generated by Smart Ascent. The discount rate was determined using the capital asset pricing model and applying the risk-free rate of 1.45%, unlevered beta of 0.78, risk premium of 12.27%, country risk premium of 2% and investment specific risk premium of 2%. Based on our discussion with Castores Magi about the bases used for determining the discount rate, we considered that such rate is justifiable.

Terminal value

Of the approximately HK$2,519 million valuation on the entire interest of Smart Ascent, approximately 66.2% is attributable to the terminal value which was calculated by discounting the forecast cash flow as from 1 April 2020, by then the economic return from the oral insulin project is expected to have reached a stable level, and assumes no further growth.

We notice that the patent in the PRC granted to Fosse Bio and Tsinghua University, Beijing, in respect of the Relevant Technologies will expire in April 2021. In assessing the terminal value, we discussed with Castores Magi about the potential impact on the Valuation in relation thereto and understood that Castores Magi considered that there is no concrete basis to assume non-renewal of the patent registration after expiry and has assumed a perpetual stable free cashflow to the Smart Ascent Group after the expiry of the patent. There is no specific provision under the laws of the PRC for the renewal of patent registration. Assuming the Medicine being commercialised in the second half of 2015, the Company considers that even if the patent registration in the PRC cannot be renewed after April 2021, the Group would (i) have enjoyed the first-mover advantage by being the first entrant to gain the customers' acceptability and loyalty given that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, there is no other pharmacist having undertaken phase II clinical trial in the PRC in relation to research and development of oral insulin medicine as at the Latest Practicable Date based on the public information available; (ii) have well established marketing and sales channel and brand image of the Medicine; and (iii) have achieved economies of scale to reduce cost of production, and should possess competitive advantage over the new market entrants and continue to enjoy economic return from the Medicine.

Discount for lack of marketability (the "LOM")

The equity interest of Smart Ascent itself is not readily marketable as a public listed company. Castores Magi therefore applied a LOM discount of 35% to the net present value of the future free cash flows of the Smart Ascent Group. We have discussed with Castores Magi and understood that, in determining the LOM, Castores Magi made reference to the previous research and studies on the average discounts for closely held companies compared with publicly traded counterpart averages, which ranged from 10% to 50%. We concur with Castores Magi's conservative approach and the application of LOM discount of 35% is reasonable in this regard.

Major bases and assumptions used in the Financial Projections

Timing of commercialisation

Fosse Bio is currently working with the project team and the clinical experts led by the Peking University People's Hospital in the PRC to conduct extended clinical trial with more extensive sampling of the Medicine, being part B of clinical trial contemplated in the Protocol filed with the SFDA. The progress and results from the clinical trials up-to-date indicated that the Medicine achieved positive effect, in particular, the statistical outcome of the per-protocol set (PPS) analysis relating to part A of the Protocol shows that the bio-efficacy of the Medicine in the treatment group was significantly superior to that of the control group on the effect of reducing blood glucose level in diabetics and the Company believes that there would be no major obstacle in completing the extended clinical trial for the Medicine and obtaining the final approval from SFDA for production and distribution of the Medicine in the PRC. As disclosed in the Company's circular dated 21 May 2009, the Company had estimated that the further clinical trial of the Medicine would be completed and the report thereof would be prepared for approval by the SFDA by March 2010. As advised by the Company, in order to achieve convincing results for SFDA's assessment, Fosse Bio had appointed the project administrator for organising the clinical trial and was advised to design the Protocol, which was more complicated and time-consuming as compared to the previous completed clinical trials but was considered to be a solid foundation for SFDA's assessment. The Group currently estimated that the extended clinical trial based on part B of the Protocol will commence in or around July 2013 and report on the results of the clinical trial is expected to be submitted for assessment by SFDA in or around January 2015. Notwithstanding the history of delay to the commercialisation of the Medicine, taking into account the history and development of the clinical trials of the Medicine and that the Protocol has been designed to conduct the clinical trials under a controlled framework, the aforesaid recent favourable results of part A of the clinical trial contemplated in the Protocol and the experience gained through the phases of clinical trials and evaluation process of SFDA, we consider the plans of the commencement of manufacturing and the commercialisation of the Medicine in October 2015, i.e. the second half of the year ended 31 March 2016 being adopted in the Valuation by Castores Magi is not unreasonable.

The PRC diabetic population and market share in the PRC diabetic market

In estimating the revenue to be generated from marketing the Medicine in the PRC, the Company included the whole diabetic population in the PRC as its target market, including the type 1 diabetics and type 2 diabetics. As type 1 diabetics cannot produce insulin by themselves, they must take insulin to restore the insulin level in their bodies and oral insulin can be effective in this respect. On the other hand, the treatment of type 2 diabetics can be a combination of continuous diet, exercises and the use of oral anti-diabetic drugs ("OADs"), which aim to lower glucose level in the human body. The Company is of the view that insulin is a preferred treatment to OADs for type 2 diabetics as OADs are considered to create more adverse side-effects to patients. Based on the above, the Company believes that the prospective target customers can include both type 1 diabetics and type 2 diabetics in the PRC and this seems reasonable.

The Company estimated a diabetic population (including both type 1 diabetics and type 2 diabetics) of approximately 93 million in the PRC when the Medicine is about to commence commercial sales in the second half of 2015, with a growth of 0.5 million annually afterwards, which roughly translates to 0.5% annual growth. Reference is made to the estimate of IDF, pursuant to which, the adult (that is 20–79 years old) diabetic population in the PRC amounts to approximately 92.3 million in 2012. Furthermore, according to IDF, the number of people who have diabetes will rise to approximately 552 million by 2030, which translates into a compound annual growth rate of approximately 2% for the period from 2012 to 2030.

Based on the management's experience and the consideration of launching a new diabetic treatment method of oral insulin, the market price of the comparable insulin medicine and OADs and the advantages of oral insulin, the Company made the following assumptions on the percentages and subsequent growth of market share in the type 1 diabetic population and type 2 diabetic population respectively in estimating the market share of the Medicine in the PRC diabetic population (assuming the commercialisation of the Medicine will commence in October 2015):

	Market share in	
	Type 1 diabetic population	**Type 2 diabetic population**
Year 1	0.50%	1.50%
Year 2	0.80%	1.80%
Year 3	1.20%	2.40%
Year 4	1.50%	3.20%
Year 5	1.80%	4.00%

In estimating the market share of the Medicine, the Company considered (i) the market shares of existing competitors in the insulin market in the PRC; (ii) the growth potential of the market share with reference to the management's knowledge of penetration of other new medicines in the PRC; and (iii) the Company's focus on marketing the Medicine to type 2 diabetic population. We have conducted industry research on the recent development of the PRC insulin medicine and OADs industry and market price of the comparable insulin medicine and OADs based on publicly available information and investigated the unique features and advantages of the Medicine.

Pricing

The Company estimated a price of RMB2.7 (or approximately HK$3.33) per capsule (with 50 units of insulin). Based on the findings from the previous clinical trials, the management estimates that the suitable level of intake of the Medicine for type 1 diabetics and type 2 diabetics per day are 200 units and 100 units of insulin intake respectively, which is equivalent to 4 capsules and 2 capsules of the Medicine respectively.

We have reviewed the history and development of the clinical trials of the Medicine and the market price of the comparable insulin medicine and OADs. Besides, a sensitivity analysis was performed by Castores Magi on the impact of a lower unit selling price on the Valuation, which reduces the value of the 49% interest of Smart Ascent Group to approximately HK$717 million in the event that the selling price decreased by 10%. Details of the sensitivity analysis are set out in the valuation report from Castores Magi contained in Appendix IV to the Circular.

In determining the pricing of the Medicine, which is the wholesale distribution price of the Medicine, the Company considered the market acceptability of the estimated retail price of the Medicine. In the opinion of the management, distributors may accept a lower margin for an unprecedented new drug like oral insulin which is generally believed to have great market potential. In assessing the market acceptability of the estimated retail pricing, the management referred to the pricing of injected insulin and OADs currently available in the PRC market.

Cost of sales and other expenses

Cost of sales in the Financial Projections was separated into variable and fixed components, and the variable components contributed to the majority of the cost of sales. Variable component in cost of sales included the cost of local insulin which is the main component of the Medicine, and other chemical components. The variable component also included variable processing costs incurred in the production of the Medicine, including but not limited to the fee payable under the Cooperation Agreement. Fixed costs included principally land and property taxes and other fixed factory overheads such as labour cost.

We have reviewed the history and development of the clinical trials of the Medicine and the Financial Projection. Besides, a sensitivity analysis was performed by Castores Magi on the impact of a higher cost of sales on the Valuation, which reduces the value of the 49% of Smart Ascent Group to approximately HK$1,004.5 million in the event that the cost of sales increased by 10%. Details of the sensitivity analysis are set out in the valuation report from Castores Magi contained in Appendix IV to the Circular.

Expense items are principally marketing and distribution expenses and administrative expenses. It was estimated that these expenses will increase in proportion to the increase in revenue in order to secure the target market share. Major item in the estimated marketing and distribution expenses included the amount payable to Tsinghua University, Beijing, which will be calculated based on 1.5% of annual sales of the Medicine. Other items include finance costs, pre-operating expenses, amortisations and income tax.

Conclusion

Based on the above and our due diligence including but not limited to, review of historical financial information of the Smart Ascent Group and the Financial Projections, review of the published announcements and circulars of the Company relevant to the Acquisition etc., and having discussed with Castores Magi and the Company regarding, among others, (i) the bases and assumptions of the Financial Projections; (ii) the scope of work and assumptions of the Valuation; and (iii) the valuation basis and methodologies adopted as discussed above, nothing material has come to our attention that would lead us to believe that the valuation report from Castores Magi was not prepared on a reasonable basis nor reflected estimates and assumptions which have been arrived at after due and careful consideration. Therefore, we consider that the basis, assumptions and methodologies adopted by Castores Magi for the valuation are appropriate. We also noted that the adjusted valuations under the above sensitivity analyses are higher than the Consideration of HK$660 million. However, Shareholders are advised to note that the conclusions of fair market value of the equity interest of Smart Ascent were based on generally accepted valuation procedures and practices that rely exclusively on the use of numerous assumptions which involve certain degree of risks and uncertainties due to possibility of non-fulfillment of the assumptions that are not easily quantified or ascertained. Failure of any such assumptions would materially affect the Valuation.

Having considered that the Acquisition can strengthen the Group's management position in Smart Ascent and enable the Group to consolidate a full control over Smart Ascent and the Consideration represents a discount of approximately 46.5% to the estimated fair market value of 49% equity interest in Smart Ascent, we consider that the Consideration is fair and reasonable in this regard.

(c) *The issue of the Bonds*

As discussed in section (2)(a) above, HK$641,300,000 of the Consideration will be satisfied by the issue of the Bonds at initial conversion price of HK$0.6413 per Conversion Share (the "**Conversion Price**"). It is noted that the maturity of the Bonds falls on the 20th anniversary from the issue date of the Bonds (the "**Maturity**"). The Bonds bear no coupon interest (the "**Coupon Interest**").

Assuming there is an immediate exercise in full of the conversion rights attaching to the Bonds in the aggregate principal amount of HK$641,300,000 at the Conversion Price by the bondholders, the Company will issue an aggregate of 1,000,000,000 new Shares, representing (i) approximately 43.67% of the existing issued share capital of the Company; and (ii) approximately 30.40% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

We were advised that, apart from the issue of the Bonds, the Company has also considered other settlement methods or financing means through the capital market (including open offer, rights issue and placing) or bank borrowings to finance the Consideration. However, given (i) that the issue of Shares as the settlement method will have immediate dilution effect; (ii) the working capital requirement for the Group's current operations; (iii) the potential capital requirement for development of the Medicine and other projects of the Group; (iv) that there is no certainty that the then internal cash resources of the Group will be adequate or other financing alternatives will be available in the future for investment opportunities in view of the current credit and equity market condition; and (v) that the interest payment of other debt financing is considered to be higher than that of the issue of the interest-free Bonds, the management of the Company considers that it would be difficult and inefficient for the Company and not in the best interest of the Shareholders to settle the Consideration by issue of securities or through fund raising activities in the debt or capital market from independent third parties. In this regard, the issue of the Bonds is considered to be the most appropriate method to finance the Consideration and in the best interest of the Company in this regard.

In assessing the fairness and reasonableness of the terms of the Bonds, we have attempted to compare it with acquisition and connected transactions involving issue of convertible bonds or notes as part of the consideration by companies listed on the Stock Exchange during the past six months immediately preceding 5 February 2013 (the "**Review Period**"), being the last trading day prior to the date of the Supplemental Agreement (the "**Last Trading Day**"). To the best of our knowledge, we have identified 16 comparables (the "**Comparables**"), which represents an exhaustive list and are fair and representative samples. In the view that the Acquisition constitutes a connected transaction for the Company, in selecting the Comparables, we have focused on transactions involving the issue of convertible bonds/notes which also constitute connected transactions. As the terms of convertible bonds/notes are usually determined by reference to prevailing market conditions, we consider that the Review Period is appropriate for the purposes of comparison which would also provide a reasonable number of comparables as it provides an insight on the principal terms of the convertible bonds/notes recently issued by other listed companies on the Stock Exchange under similar market conditions and sentiments. We believe that the Comparables may reflect the recent trend of issue of convertible bonds/notes in the market. We would like to highlight that the comparisons with the Comparables are for illustrative purposes only as each of the Comparables may not be entirely comparable to the Bonds in terms of, including but not limited to, issuers' market capitalisation, asset base, risk profile, composition of business activities and future business prospects as well as size and nature of the issue of the convertible bonds/notes. All these factors may affect the determination of respective terms of the Comparables as indicated by the varied range of result of our comparison. Therefore, in forming our opinion, we have considered the results of the comparison together with the other factors stated in this letter as a whole. The following table sets out the details of the Comparables:

Date of announcement	**Company name (stock code)**	**Interest rate (p.a.)** %	**Term to maturity** *(years)*	**Premium/(discount) of the conversion/ subscription prices over/(to) the closing price prior to announcement** %
24 January 2013	Greenfield Chemical Holdings Limited (582)	0.0	3	(31.1)
22 January 2013	New Times Energy Corporation Limited (166)	0.0	1	1.0
18 January 2013	Goldpoly New Energy Holdings Limited (686)	0.0	5	(21.3)

Date of announcement	Company name (stock code)	Interest rate (p.a.) %	Term to maturity *(years)*	Premium/(discount) of the conversion/ subscription prices over/(to) the closing price prior to announcement %
17 January 2013	Huafeng Group Holdings Limited (364) *(Note 1)*	4.0	2.5 *(Note 2)*	(29.3)
		0.0	4	(29.3)
7 January 2013	Bestway International Holdings Limited (718)	0.0	5	17.7
31 December 2012	Shunfeng Photovoltaic International Limited (1165)	0.0	20	(40.6)
21 December 2012	Sino Prosper State Gold Resources Holdings Limited (766)	0.0	5 *(Note 3)*	7.3
28 November 2012	Mongolia Energy Corporation Limited (276)	5.0	3	14.3
16 November 2012	Prosperity International Holdings (H.K.) Limited (803)	0.0	2	26.6
14 November 2012	China Ruifeng Galaxy Renewable Energy Holdings Limited (527)	6.0	5	(7.4)
2 November 2012	Brockman Mining Limited (159)	5.0	3	3.8
17 October 2012	Viva China Holdings Limited (8032)	0.0	perpetual	0.0
8 October 2012	North Asia Resources Holdings Limited (61)	variable	5	(39.3)
4 October 2012	China Boon Holdings Limited (922)	0.0	5	11.1
6 September 2012	EC-Founder (Holdings) Company Limited (618)	0.0	5	0.0
4 September 2012	REXLot Holdings Limited (555)	6.0	4	12.3

Note: figures calculated using the initial conversion prices and premiums as stated in the announcements

	Maximum	6.0	20	26.6
	Minimum	0.0	1	(40.6)
	Average	1.6	5	(6.1)
27 February 2013	**The Company**	**0.0**	**20**	**(1.3)**

Source: the Stock Exchange's website

Notes:

1. The bonds issued by this Comparable to different bondholders were at different terms.

2. The maturity date of this Comparable is the earlier of (i) 2.5 years from the issue date of its respective convertible bonds or (ii) 31 December 2015 for certain bondholders.

3. The bonds issued by this Comparable are in four tranches and all of them will mature on the 5th anniversary of the date of issue of the first tranche of the bonds.

Conversion price

The initial Conversion Price of HK$0.6413 per Conversion Share, which was determined by the Vendor and the Group on an arm's length basis with reference to the then current market price of the Shares, represents:

(i) a discount of approximately 1.34% to the closing price of HK$0.65 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 2.83% to the average of the closing prices of approximately HK$0.66 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;

(iii) a discount of approximately 4.28% to the average of the closing prices of approximately HK$0.67 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;

(iv) a discount of approximately 8.39% to the closing prices of approximately HK$0.70 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a premium of approximately 152% over the net asset value per Share of HK$0.254 based on the unaudited consolidated financial statements of the Group as at 30 September 2012 and the number of Shares in issue as at the date of the Announcement.

As illustrated in the table above, the initial conversion prices of the Comparables range from a discount of approximately 40.6% to a premium of approximately 26.6% over the respective closing prices of their shares on the last trading day prior to the release of announcement in relation to the respective issue of convertible bonds/notes. It is noted that the discount represented by the initial Conversion Price to the relevant reference Share prices in paragraph (i) to (iii) above, respectively, falls within the said range. It is also noted that the initial Conversion Price represented a premium of approximately 152% over the net asset value per Share as at 30 September 2012. We note that the ranges of premium/discount for the Comparables are very wide. This might be due to specific circumstances facing each of the Comparables. Given the wide range, we consider that the premium/discount for the conversion prices in the Comparables may not be useful as a direct reference to the fairness and reasonableness of the Conversion Price. Therefore, in forming our opinion, we have considered the results of the above analysis together with all other factors, such as, among others, the Consideration and its basis of determination, the Valuation, the terms of the Bonds, the treatment of outstanding amounts owed by Smart Ascent, the financial position and prospect of the Smart Ascent Group as stated in this letter as a whole and consider that the initial Conversion Price is fair and reasonable to the Acquisition.

Coupon Interest

The Bonds shall accrue no interest. We consider that this is a favourable term to the Company as the Company has no obligation to pay any interest to the bondholder throughout the term of the Bonds. We note from the table of the Comparables above that the interest rates of the Comparables ranged from nil to 6.0% per annum and 11 Comparables did not carry any interest. The Coupon Interest is thus within the market range of interest rates of the Comparables.

Maturity

The Bonds will be matured on the 20th anniversary of the issue date. We note from the table of the Comparables above that the term to maturity of the Comparables ranges from 1 to 20 years, save for 1 of the Comparables having perpetual terms. The Maturity is thus within the market range of term to maturity of the Comparables. Given that the Bonds are interest-free, the relatively long Maturity is in the interests of the Company.

Other major terms of the Bonds

Neither the Company nor the bondholder has any right of early redemption of the Bonds before the Maturity, except that the Bonds shall be immediately due and repayable by a bondholder giving notice to the Company upon occurrence of any event of defaults as set out in the Bonds. We have also reviewed other major terms of the Bonds, the details of which are set out in the Letter from the Board, and are not aware of any terms (including the redemption clause) which are exceptional to normal market practice.

Conclusion

Based on the foregoing, we are of the opinion that the terms of the Bonds are based on normal commercial terms and are fair and reasonable.

(d) *Treatment of outstanding amounts owed by Smart Ascent*

Shareholder's loan owed by Smart Ascent

As at the date of the Supplemental Agreement, an unsecured, non-interest bearing shareholder's loan of approximately HK$15,000,000 was owed by Smart Ascent to the Vendor. As one of the Completion obligations of Extrawell BVI, Extrawell BVI will procure Smart Ascent to satisfy and settle all the then outstanding shareholder's loan owed by Smart Ascent to the Vendor as at the Completion Date by repaying to the Vendor for the sum equal to (i) the total amount of the outstanding Vendor's shareholder's loan as at the Completion Date, less (ii) HK$2,000,000. As advised by the Company, such HK$2,000,000, which is arrived at after arm's length negotiation between the parties with reference to the historical operating expenses of the Smart Ascent Group, shall be deemed contribution to the development of Smart Ascent by the Vendor and shall be waived by the Vendor upon Completion.

Outstanding purchase price 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$39,780,000 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$8,000,000 had already been paid by Smart Ascent, and the balance of the consideration for the sum of HK$31,780,000 shall be payable by Smart Ascent to Fordnew in the manner as described in the paragraph headed "Outstanding purchase price owed by Smart Ascent" in the Letter from the Board.

While Smart Ascent is and will after Completion remain primarily liable for payment of the above balance of the consideration, under the sale and purchase agreement dated 3 March 2004 entered into between Extrawell BVI, Ms. Wu Kiet Ming and the Vendor in respect of the acquisition by Extrawell BVI of the 51% interests in Smart Ascent, Ms. Wu Kiet Ming and the Vendor, being the then shareholders of Smart Ascent, had jointly and severally undertaken to Extrawell BVI that they will be responsible to pay in full the said outstanding purchase price and all costs (including legal costs), expenses or other liabilities which any of Smart Ascent or Extrawell BVI may incur in connection with the payment of such outstanding purchase price for and on behalf of Smart Ascent if and when it becomes due and payable by Smart Ascent (collectively, the "**Outstanding Amount**"), and the Vendor had pledged the Sale Shares to Extrawell BVI as security for their payment obligations as aforesaid.

Albeit Completion, the undertaking of Ms. Wu Kiet Ming and the Vendor shall continue to be in effect and Ms. Wu Kiet Ming and the Vendor shall remain to be jointly and severally liable for the Outstanding Amount when it becomes due and payable by Smart Ascent to Fordnew. Without prejudice to the respective rights and obligations of Extrawell BVI, Ms. Wu Kiet Ming and the Vendor in respect of the Outstanding Amount, the pledge over the Sale Shares will be released and discharged upon Completion and their obligations will become unsecured obligations thereafter.

To secure the Vendor's and Ms. Wu Kiet Ming's payment obligation in respect of the said outstanding purchase price and against the release and discharge of the pledge over the Sale Shares, the Directors confirmed that, on 23 May 2013, the Vendor gave an undertaking to the Group that he will pay to the Group a sum representing the then outstanding purchase price upon Completion.

Given that the above treatment of outstanding amounts owed by Smart Ascent would not prejudice the rights and obligations of the Group, we concur with the Directors that the above treatment is fair and reasonable in this regard.

(e) *Conclusion*

Based on the foregoing, we are of the opinion that the terms of the Principal Acquisition Agreement (as supplemented and amended by the Supplemental Agreement) are based on normal commercial terms and are fair and reasonable.

3. Possible financial effects of the Acquisition on the Group

(a) *Earnings and net asset value*

Smart Ascent is currently a 51% non-wholly owned subsidiary of the Group. Upon Completion, Smart Ascent will become a wholly-owned subsidiary of the Group.

In accordance with the unaudited pro forma consolidated financial information of the Group upon Completion (the "**Enlarged Group**") contained in Appendix III to the Circular (the "**Pro Forma Financial Information**"), assuming the Acquisition had taken place on 1 April 2012, the unaudited pro forma consolidated profit attributable to equity holders of the Company for the six months ended 30 September 2012 would have decreased by about 67.9% from about HK$7.0 million to HK$2.2 million, which is mainly attributable to the imputed interest expenses on the Bonds issued as part of the Consideration of approximately HK$5.6 million. It is also noted that based on the unaudited equity attributable to equity holders of the Company of about HK$380.4 million as at 30 September 2012, the unaudited pro forma consolidated equity attributable to equity holders of the Company would be increased by about 128.1% to about HK$867.6 million. Such increase is mainly attributable to the positive goodwill of approximately HK$596.9 million, representing an excess of the Consideration of HK$660 million over the consolidated net asset value and minority interest of Smart Ascent attributable to the Group as at 28 February 2013 of approximately HK$63.1 million, to be recognised and determined upon Completion and will be subject to annual impairment reviews. Having discussed with the reporting accountants of the Company, East Asia Sentinel Limited, we understand that, based on the information currently available, they have assessed and agreed with the Directors' current assessment that no impairment on the goodwill will be recognised in the first set of financial statements of the Group after Completion and that the accounting policy of the goodwill is in accordance with the applicable Hong Kong Financial Reporting Standards. In normal circumstances when there is a substantial premium of the consideration over the net asset value of the target company, subject to impairment reviews, a significant goodwill will generally be recognised in accordance with the applicable Hong Kong Financial Reporting Standards. Notwithstanding the decrease in profit attributable to the equity holders of the Company presented in the Pro Forma Financial Information, given that the commercialisation of the Medicine is expected to be in the second half of 2015, we concur with the Company that the Acquisition will have a positive contribution to the asset base and profitability of the Enlarged Group which in turn will enhance the Shareholder's value.

(b) *Cash flows*

As discussed in section (2)(a) above, the Consideration will be satisfied by cash of HK$18,700,000 and the allotment and issue of the Bonds. In addition, as discussed in section (2)(d) above, the total amount of the outstanding Vendor's shareholder's loan as at the Completion Date less HK$2,000,000 will be paid by Smart Ascent to the Vendor as at the Completion Date. The Group had pledged bank deposits and cash and cash equivalents of approximately HK$145.7 million as at 30 September 2012 and based on the Pro Forma Financial Information, the unaudited pro forma pledged bank deposits and cash and cash equivalents of the Enlarged Group would be slightly decreased to approximately HK$145.6 million as a result of the Acquisition.

The Company estimates that the Smart Ascent Group will require a further working capital of approximately HK$29.6 million for research and development expenses in relation to the upcoming clinical trial, and approximately HK$6.2 million for pre-marketing efforts before the commencement of commercial manufacturing and distribution of the Medicine. Given that (i) the pledged bank deposits and cash and cash equivalents of the Group amounted to approximately HK$145.7 million as at 30 September 2012, (ii) the Directors confirmed that there is no material adverse change in the financial or trading position of the Group since 30 September 2012 up to the Latest Practicable Date, we concur with the Company's view that the additional expenditure required for the development and manufacturing of the Medicine can be funded by the Group from its internal resources.

The Company expects that the commercialisation of the Medicine will enable the Smart Ascent Group to record positive cash flows, which will then increase the Group's net cash inflows and strengthen its financial position, thereby fostering further development and growth of the Group.

It is noted that the Directors are of the opinions that, having regard to the financial resources available to the Group, including internally generated funds, the Group will have sufficient working capital for its present requirements for the next twelve months from the date of the Circular.

(c) ***Gearing***

Based on the interim report of the Company for the six months ended 30 September 2012, the gearing ratio (defined as total debt/total equity x 100%) of the Group was about 10.7% as at 30 September 2012. According to the Pro Forma Financial Information, the Enlarged Group's gearing ratio would increase to about 20.1%, which is mainly attributable to the issue of the Bonds as part of the Consideration. Considering (i) the cashflow to be generated from the commericalisation of the Medicine; (ii) that the immediate cash outlay under the Consideration settlement method is minimised; (iii) that the Bonds are non-interest bearing; and (iv) that the gearing ratio may be reduced should the conversion rights attached to the Bonds are exercised, the Company is of the view that there will not be material adverse impact on the gearing ratio of the Enlarged Group upon Completion.

4. Risk factors

Set out below are the principal risk factors in connection with the Acquisition which we have considered during our assessment of the fairness and reasonableness of the Acquisition as well as the bases and assumptions used in the Valuation:

Final approval for manufacturing and distribution of the Medicine not yet obtained

As discussed in the paragraph headed "Timing of commercialisation" in the section headed "Valuation of the Smart Ascent Group" in this letter, Fosse Bio is currently preparing to conduct the extended clinical trial with more extensive sampling of the Medicine contemplated in the Protocol filed with the SFDA. It is still possible that the Medicine will fail to obtain SFDA approval upon completion of the extended clinical trial. There will be a chance that SFDA may impose additional requirements or raise queries on the clinical trial, which may create further hurdles for the final approval. The progress and results from the clinical trials up-to-date indicated that the Medicine achieved positive effect. Nevertheless, the timing of final approval is still subject to uncertainty.

Fosse Bio is also required to obtain a number of licences, certificates and permits from the relevant regulatory authorities in the PRC before formal manufacturing and distribution of the Medicine being able to commence. These include, among others, the Certificate of New Medicine (新藥證書) and the Pharmaceutical Manufacturing Permit. These licences, certificates and permits may also be subject to periodic renewal requirements.

Should Fosse Bio fail to obtain all necessary approvals from the relevant authorities, it may not be able to commence the manufacturing and distribution of the Medicine in the PRC, which would have material and adverse impact on the business and financial results of the Smart Ascent Group, and in turn the Group's business and financial results.

In such event, the Group would have to provide for an impairment provision for the goodwill arising from the Acquisition amounting to approximately HK$596,861,000, representing the amount in excess of the cost of the Acquisition over the Group's share of 49% of fair value of the net assets of the Smart Ascent Group, and an impairment 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 30 September 2012, of which approximately HK$183,610,000 would be attributable to the equity holders of the Company. The Group would also have to write off other payables of the Smart Ascent Group representing the amount of the Outstanding Amount payable by Smart Ascent, which amounted to HK$31,780,000 as at 30 September 2012. In addition, the Group would refund the sum of HK$31,780,000 to Ms Wu Kiet Ming and the Vendor who should have paid to the Group as security for their payment obligation in respect of the said outstanding purchase price for the release and discharge of the pledge over the Sale Shares. The Group would record this amount as other receivables which would have to be written off.

Funding requirement

As advised by the Company, the Company estimates that the Smart Ascent Group will require a further working capital of approximately HK$29.6 million for research and development expenses in relation to the upcoming clinical trial, and approximately HK$6.2 million for pre-marketing efforts before the commencement of commercial manufacturing and distribution of the Medicine. Should the actual development and pre-marketing expenses turn out to be higher than the estimated amounts and 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 be completed and commercialised successfully.

Manufacturing and distribution

As at the Latest Practicable Date, the Plant was still under construction. Save for 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.

As advised by the Company, 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 are proved to be too weak to promote sales of the Medicine, the target market share of the Medicine may not be reached. In addition, as the Group is expected to rely on these distributors to distribute the Medicine in the PRC, if these distributors are unsuccessful in selling and marketing the Medicine, or the Group fails to adequately supervise and manage these distributors in their sales and marketing of the Medicine, the Group's results of operations may be materially and adversely affected. The Group's brand and reputation and its sales could also be adversely affected if the Group or the Medicine becomes the target of any negative publicity as a result of, among others, any malpractice taken by these distributors.

Market acceptance and competition

It is assumed in the Financial Projections that market share of the Medicine will be in an increasing trend during 2016 and 2020. However, there is no assurance that the Medicine can gain enough market acceptances in the PRC diabetic market in order to achieve the projected revenue. The level of market penetration, sales and pricing can only be broad estimates at this stage. In case the effectiveness of the Medicine is not as expected, Smart Ascent Group may not be able to gain enough market acceptances to support the estimated revenue.

In assessing the acceptance of the new Medicine to be launched to the market, diabetics may also make reference to the effectiveness and pricing of the Medicine as compared with other existing products. If there is any emergence of side effect or the pricing assumption made in the Financial Projections proves too optimistic, target diabetics may stay with their existing drugs without switching to the Medicine.

If the Medicine is approved and introduced successfully, there appears to be a large potential market of diabetics in the PRC. Nevertheless, rival products could emerge and the sales price of the Medicine 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 the Smart Ascent Group. 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 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 OADs available in the PRC market being sold more aggressively by competitors, may also impact the financial results of the Smart Ascent Group, and in turn the Group's business and financial results.

Expiry of patent

The technologies for the manufacturing of the Medicine have been jointly developed by Fosse Bio and Tsinghua University, Beijing, and registered as patent in the PRC and the United States of America, expiring in April 2021 and April 2022, respectively. There is no specific provision under the laws of the PRC for the renewal of patent registration, and upon expiry of the patent, the Medicine could become generic medicine, allowing other drug manufacturers to manufacture the Medicine without patent infringement. This may in turn have an adverse effect on the selling price of the Medicine and thus the Group's profit margin attributable from the sales of the Medicine.

In order for the Group to remain competitive against the other drug manufacturers, the Group may need to, among other means, continue to improve its manufacturing techniques, quality control and cost control in respect of the Medicine, and/or to develop newer version of the Medicine or other replacement drugs with superior functionality and significant changes to the version under the expired patent so as to maintain the Group's competitive edge on one hand, and to "renew" the patent protection by another patent registration over the new version of the Medicine and/or the replacement drugs on the other hand. It is uncertain as to whether the Group will take any of these measures, or any such measures taken will be effective. Should the Group fail to maintain the Medicine's or (as the case may be) its replacement drugs' competitiveness after the expiry of the existing patent of the Medicine, there may be an adverse impact on the revenue and profit margin of the Group, and in turn the Group's business and financial results.

Product concentration

The Financial Projections were based solely on the sales of the Medicine, which accounted for 100% of the revenue to be generated by the Smart Ascent Group. In the event that the Medicine is not successfully commercialised in the PRC market, or the sales price or sales volumes of the Medicine do not reach the estimated amounts, the Smart Ascent Group's total sales would be materially and adversely affected, and in turn the Group's financial results.

Fluctuations in cost of sales

According to the Financial Projections, the cost of the main component of the Medicine, insulin powder, accounts for approximately 65% 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 by then. The gross margin of the Smart Ascent Group may be adversely impacted if the purchase price of insulin powder or other components rises significantly.

Product liability

The Smart Ascent Group 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 Smart Ascent Group in respect of the Medicine would not have an adverse effect on the Smart Ascent Group's business operations and financial results and position, and accordingly the Group's business operations and financial results and position.

Price control of products

Pursuant to the Opinion of the Bureau of State Planning Commission regarding Reforms on Price Administration of Pharmaceutical Products (國家計委關於改革藥品價格管理的意見) issued by the Bureau of State Planning Commission of the PRC on 20 July 2000 and the Circular of the National Development and Reform Commission on Issue of Price-controlled Pharmaceutical Products Catalogue of National Development and Reform Commission (國家發展改革委關於

調整《國家發展改革委定價藥品目錄》等有關問題的通知) issued on 5 March 2010, certain pharmaceutical products that are included in either price-controlled drugs (the "**Price-controlled Drugs**") catalogues from time to time published by either the National Development and Reform Commission or the relevant pricing administration departments at provincial level, autonomous regions and directly control municipals (the "**Catalogues**") are subject to price control with respect to their ex-factory prices, wholesale prices and/or retail prices. Manufacturers may not fix the selling prices of their Price-controlled Drugs above the price ceiling therefor from time to time prescribed by the National Development and Reform Commission or, as the case may be, the relevant pricing administration departments at provincial level, autonomous regions and directly control municipals. The selling prices of pharmaceutical products not included in the Catalogues may be determined by the manufacturers at their own discretion.

The Medicine is currently not included in the Catalogues. However, there is no assurance that the Medicine will not be included into the Catalogues, in which case its selling price will be regulated by the PRC government. As the nature and extent of price control may vary from time to time, the flexibility for the Group to raise or set its selling prices for the Medicine may be limited which in turn may adversely affect the profitability of the Smart Ascent Group.

Failure to protect and defend the Group's intellectual property rights

The success of the business of the Smart Ascent Group depends largely on legal protection for the intellectual property rights for production of the Medicine under the PRC law. Third parties may produce counterfeits, or may copy or otherwise infringe the Group's intellectual property rights in respect of the Medicine without obtaining authorisation from the Group. The Group's inability to protect its intellectual property may materially and adversely affect on the market value and the sales performance of the Medicine and in turn the profitability of the Group.

Quality control by the SFDA

The SFDA actively and regularly takes samples of and performs quality testing on pharmaceutical products sold in the PRC market on a random basis. If the quality control on the production of the Medicine fails to ensure that the Medicine complies with its registered standard, such information will be announced on the website of the SFDA and such failure may lead to cancellation of the pharmaceutical manufacturing permit and also cause damages on the Group's reputation. In such event, the Group's business and profitability may be adversely affected.

Conducting business in the PRC

Since the operation of business of the Smart Ascent Group is mainly conducted in the PRC, its business, financial condition, results of operations and prospects may be influenced to a significant degree by the political, economic, social conditions and legal systems in the PRC.

The PRC economy has experienced significant growth since the start of economic reforms by the PRC government in the late 1970s, which aim at transforming the PRC economy from a planned economy into a more market-oriented economy. Notwithstanding that measures implemented by the PRC government emphasises on greater utilisation of market forces in the allocation of resources and greater autonomy for enterprises in their operations, a substantial portion of productive assets in the PRC is still owned by the PRC government. By formulating the annual, five and ten year plans through setting monetary policy, allocating resources and providing preferential treatments to particular industries or companies, the PRC government also exercises significant control over the PRC's economic growth. Changes in economic policies of the PRC government may have a material adverse effect on the overall economic growth of the PRC. In such event, the Group's business may be materially and adversely affected.

Since the adoption of economic reforms, the PRC government has also been reforming the political system which has resulted in significant economic growth and social progress. Further measures in refinement and readjustment may be adopted by the PRC government in order to enable the development of the political system in a more sophisticated form, however, changes in the PRC political and social conditions resulting from such measures may not have a positive effect on the operations of the Smart Ascent Group.

In addition, the operations of the Smart Ascent Group are subject to PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions may be cited as reference only which have a limited precedential value. Since 1979, the PRC government has promulgated laws, rules and regulations relating to economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with the aim to develop a comprehensive system of commercial laws. However, these laws, rules and regulations are relatively new and are still evolving. The interpretation and enforcement of these laws, rules and regulations involve a significant degree of uncertainty which may limit the legal protection to the operations of the Smart Ascent Group.

The pharmaceutical industry in the PRC is subject to extensive government regulation and supervision. The sustained deepening reform of the pharmaceutical and healthcare system under the Twelfth Five-Year Plan has introduced and implemented more regulatory measures, rules and regulations including the advancing of the new Good Manufacturing Practice for Pharmaceutical Products and issuing guidelines as to Good Supply Practices for Pharmaceutical Products. These regulatory measures and future government regulations may lead to significant changes in the PRC pharmaceutical industry which may result in increased costs and lowered profit margins for pharmaceutical companies. These may in turn have a material adverse effect on the financial conditions, results of operations and prospects of Smart Ascent Group.

5. Potential dilution effect to shareholding of the public Shareholders upon Completion

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the issue and allotment of the Conversion Shares upon exercise in full of the conversion rights attached to the Bonds at the initial Conversion Price and assuming that completion of the UG SP Agreement does not take place, the Call Option is not exercised by Dr. Mao and there being no other change to the shareholding structure of the Company from the Latest Practicable Date; (iii) immediately upon the issue and allotment of the Conversion Shares upon exercise in full of the conversion rights attached to the Bonds at the initial Conversion Price and assuming that completion of the UG SP Agreement does not take place, the Call Option is exercised in full by Dr. Mao, and there being no other change to the shareholding structure of the Company from the Latest Practicable Date; (iv) immediately upon the transfer of Shares and the Bonds upon completion of the UG SP Agreement but assuming that the conversion rights attached to the Bonds are not exercised at all and there being no other change to the shareholding structure of the Company from the Latest Practicable Date; and (v) immediately upon the transfer of Shares and the Bonds upon completion of the UG SP Agreement and the issue and allotment of the Conversion Shares upon exercise in full of the conversion rights attached to the Bonds at the Conversion Price and assuming that there being no other change to the shareholding structure of the Company from the Latest Practicable Date. Pursuant to the Instrument, a bondholder may not convert the Bonds in a manner that will cause the Company to be in breach of the Public Float Requirement, or if immediately following such exercise, the bondholder and its parties acting in concert, taken together, will directly or indirectly control or be interested in 30% or more of the Shares (or such lower percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer). Shareholders should take note that the analysis under scenarios (ii), (iii), (iv) and (v) is shown for illustrative purpose only.

Shareholders	**As at the Latest Practicable Date**		**Immediately upon the issue and allotment of Conversion Shares upon exercise of the conversion rights attached to the Bonds in full and assuming completion of the UG SP Agreement does not take place and that the Call Option is not exercised by Dr. Mao**		**Immediately upon the issue and allotment of Conversion Shares upon exercise of the conversion rights attached to the Bonds in full and assuming that completion of the UG SP Agreement does not take place and the Call Option is exercised in full by Dr. Mao**		**Immediately upon the transfer of Shares and the Bonds upon completion of the UG SP Agreement but assuming that the conversion rights attached to the Bonds are not exercised at all**		**Immediately upon the transfer of Shares and the Bonds upon completion of the UG SP Agreement and the issue and allotment of Conversion Shares upon exercise of the conversion rights attached to the Bonds in full**	
	Number of Shares	*%* *(Note 1)*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Dr. Mao *(Note 2)*	600,000	0.03	500,600,000	15.21	900,600,000	27.37	600,000	0.03	600,000	0.02
JNJ Investments Limited	450,000,000 *(Note 3)*	19.65	450,000,000 *(Note 3)*	13.68	450,000,000 *(Note 3)*	13.68	—	—	—	—
Fudan Pharmaceutical Limited	30,000,000 *(Note 3)*	1.31	30,000,000 *(Note 3)*	0.91	30,000,000 *(Note 3)*	0.91	30,000,000 *(Note 3)*	1.31	30,000,000 *(Note 3)*	0.91
Sub-total	480,600,000	20.99	980,600,000	29.80	1,380,600,000	41.96	30,600,000	1.34	30,600,000	0.93
The Vendor	—	—	500,000,000	15.20	100,000,000	3.04	—	—	100,000,000	3.04
United Gene *(Note 4)*	—	—	—	—	—	—	450,000,000	19.65	1,350,000,000	41.03
Public Shareholders	1,809,400,000	79.01	1,809,400,000	55.00	1,809,400,000	55.00	1,809,400,000	79.01	1,809,400,000	55.00
Total	2,290,000,000	100.00	3,290,000,000	100.00	3,290,000,000	100.00	2,290,000,000	100.00	3,290,000,000	100.00

Notes:

1. The percentage is calculated on the basis of 2,290,000,000 Shares in issue as at the Latest Practicable Date, without taking into account any Shares to be allotted and issued upon exercise of the conversion rights attached to the Bonds.

2. Dr. Mao is an executive Director.

3. The associates of Dr. Mao are JNJ Investments Limited and Fudan Pharmaceutical Limited. The entire issued share capital of each of JNJ Investments Limited and Fudan Pharmaceutical Limited is owned by Biowindow Gene Development (Hong Kong) Limited, and the entire issued share capital of Biowindow Gene Development (Hong Kong) Limited is owned by United Gene Group Limited. The issued share capital of United Gene Group Limited is owned as to 33% by United Gene Holdings Limited and as to 33% by Ease Gold Investments Limited. The issued share capital of each of United Gene Holdings Limited and Ease Gold Investments Limited is wholly owned by Dr. Mao and Dr. Xie Yi respectively.

4. According to the announcement dated 29 April 2013 issued by United Gene, United Gene entered into a sale and purchase agreement with Dr. Mao and JNJ Investments Limited on 27 April 2013 regarding a proposed acquisition of the Shares held by JNJ Investments Limited and the Bonds to be issued to Dr. Mao upon Completion and exercise of the Call Option in full.

As illustrated in the table above, assuming full conversion of the Bonds, the shareholding interests of the existing public Shareholders will be diluted from about 79.0% to 55.0%.

Having considered the above and (i) the reasons for and benefits of the Acquisition as discussed in section (1) above; (ii) the terms of the Principal Acquisition Agreement (as supplemented and amended by the Supplemental Agreement) and the terms of the Bonds are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) that the shareholding of all existing public Shareholders will be diluted proportionally to their respective shareholdings upon the conversion of the Bonds (if any), we consider the aforementioned potential dilution effect to be acceptable in this regard.

RECOMMENDATION

Having taken into account the principal factors and reasons discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- the reasons for and benefits of the Acquisition as discussed in section (1) above;
- that the Acquisition is in line with the Group's stated business objective and strategy as discussed in section (1)(d) above;
- that the Consideration is fair and reasonable having considered, among others, the Valuation;
- that the terms of the Principal Acquisition Agreement (as supplemented and amended by the Supplemental Agreement) are fair and reasonable and in the interest of the Company and the Shareholders as a whole;
- that the terms of the Bonds are fair and reasonable so far as the Independent Shareholders are concerned;
- the impact on the financial position of the Group as a result of the Acquisition to be acceptable; and
- that the potential dilution effect of the shareholding of the public Shareholders is considered to be acceptable,

we are of the opinion that the Acquisition is in the ordinary and usual course of business of the Company and the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole and the terms of the Acquisition Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition, Acquisition Agreement and the transactions contemplated thereby.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Gary Mui
Managing Director

1. FINANCIAL INFORMATION OF THE GROUP

The accountants' reports, together with the audited financial information of the Group for the three years ended 31 March 2010, 2011 and 2012 have been disclosed in the annual reports of the Company for each of the three years ended 31 March 2010, 2011 and 2012 respectively. The aforementioned annual reports have been published on both the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.extrawell.com.hk as follows:

(A) in respect of the annual report of the Company for the year ended 31 March 2010 (pages 31 to 85):

http://www.hkexnews.hk/listedco/listconews/SEHK/2010/0727/LTN20100727465.pdf

http://www.extrawell.com.hk/catalog/pdf/ar_2010_e.pdf

(B) in respect of the annual report of the Company for the year ended 31 March 2011 (pages 29 to 85):

http://www.hkexnews.hk/listedco/listconews/SEHK/2011/0721/LTN20110721093.pdf

http://www.extrawell.com.hk/catalog/pdf/AR2011_E.pdf

(C) in respect of the annual report of the Company for the year ended 31 March 2012 (pages 30 to 85):

http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0720/LTN20120720091.pdf

http://www.extrawell.com.hk/catalog/pdf/AR2012_E.pdf

2. INDEBTEDNESS

Borrowings and other indebtedness

As at the close of business on 30 April 2013, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this circular, the Group's total borrowings were about HK$63,600,000, comprising amounts due to non-controlling interests of subsidiaries of about HK$57,600,000 and loan from a non-controlling interest of a subsidiary of about HK$6,000,000.

As at the close of business on 30 April 2013, the Group did not have bank borrowings but had banking facilities on trade finance, which were supported by the pledge of the Group's fixed deposits of about HK$19,700,000 and corporate guarantees from the Company and certain subsidiaries of the Company.

Contingent liabilities

As at 30 April 2013, corporate guarantees totaling HK$18,000,000 were given by the Group to a bank in connection with banking facilities provided to certain subsidiaries of the Company, and approximately HK$8,161,000 of the banking facilities had been utilised.

Save as aforesaid and apart from intra-group liabilities, at the close of business on 30 April 2013, the Group had no other outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

To the best knowledge of the Directors having made all reasonable enquiries, there has been no material change in indebtedness or contingent liabilities of the Group since 30 April 2013 and up to the Latest Practicable Date.

3. WORKING CAPITAL

The Directors, after taking into account the effect of the Acquisition and the present internal financial resources available to the Group including internally generated cash flows and the existing banking and credit facilities available, are of the opinion that the Group has sufficient working capital for its present requirements in the next 12 months from the date of publication of this circular in the absence of unforeseen material circumstances.

4. FINANCIAL AND TRADING PROSPECTS

In light of the supportive policies of the PRC government under the "Twelfth Five-year Plan" in the pharmaceutical and healthcare industry in the PRC, the Group is better positioned to grasp the growing market demand by offering quality pharmaceutical products.

Whilst the Group would strive to operate its existing businesses to maintain steady cash flows, as a long-term development strategy, the Group has leveraged on the opportunities of advancing its manufacturing capability and capacity during the relocation of its existing plant in the PRC, aiming at enriching its product mix by research and development of new products to enhance its core competitiveness. On the other hand, the Group would continue to explore the opportunities of exploiting new products through collaborative relations with international enterprises.

Further, promoting the success of the Medicine will remain the Group's focus in the years to come. In view of the growing diabetics in the PRC, the Group expects an enormous market for the Medicine after its successful launch which shall justify the Group's investment and enhance its corporate value.

(A) ACCOUNTANTS' REPORT OF SMART ASCENT GROUP

The following is the text of the accountants' report dated 18 June 2013 from the Company's auditors, East Asia Sentinel Limited, in connection with the financial information of Smart Ascent Group for each of the three financial years ended 31 March 2010, 2011 and 2012 and each of the eleven months ended 29 February 2012 and 28 February 2013, prepared for the purpose of incorporation in this circular.

East Asia Sentinel Limited
衛亞會計師事務所有限公司
Certified Public Accountants

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18 June 2013

The Board of Directors
Extrawell Pharmaceutical Holdings Limited
Room 3409–10, 34/F.
China Resources Building
26 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Consolidated Financial Information") regarding Smart Ascent Limited (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") which comprises the consolidated statements of financial position of the Target Group as at 31 March 2010, 2011, 2012 and at 28 February 2013, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for each of the years ended 31 March 2010, 2011 and 2012 and the eleven months ended 28 February 2013 (hereinafter collectively referred to as the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes. The Consolidated Financial Information is prepared for inclusion in the circular of Extrawell Pharmaceutical Holdings Limited (the "Company") dated 18 June 2013 (the "Circular") in connection with the acquisition of the remaining non-controlling interests in the Target Company.

The Target Company was incorporated in Hong Kong with limited liability on 1 December 2000. The principal activity of the Target Company is investment holding. As at the date of this report, the particulars of the Target Company's subsidiaries are set out below:

Name	Place of incorporation/ registration and operations	Issued and paid up capital	Effective interest directly held by the Target Company	Principal activities
Fosse Bio-Engineering Development Limited ("Fosse Bio")	Hong Kong/The People's Republic of China ("PRC")	10,000 ordinary shares of HK$10 each	51%	Development and commercialisation of oral insulin products
Welly Surplus Development Limited ("Welly Surplus")	Hong Kong	100 ordinary shares of HK$1 each	51%	Inactive

For the purpose of this report, the directors of the Target Company have prepared the consolidated financial statements (the "Underlying Financial Statements") of the Target Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). No adjustments were considered as necessary to the Underlying Financial Statements of the Target Group in preparing our report for inclusion in the Circular.

The Consolidated Financial Information for the Relevant Periods as set out in this report has been prepared by the directors of the Target Company based on the Underlying Financial Statements of the Target Group.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Target Company are responsible for the preparation of the Consolidated Financial Information and the Underlying Financial Statements which give a true and fair view in accordance with HKFRSs issued by the HKICPA. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Consolidated Financial Information and the Underlying Financial Statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently and making accounting estimates that are reasonable in the circumstances.

For the comparative financial information (the "Comparative Financial Information") for the eleven months ended 29 February 2012 (the "Comparative Period"), the directors of the Target Company are responsible for the preparation and the presentation of the Comparative Financial Information in accordance with the accounting policies which are in conformity with HKFRSs.

It is our responsibility to form an independent opinion, based on our examination, on the Consolidated Financial Information and to report our opinion to you. We have, for the purpose of this report, examined the Underlying Financial Statements used in preparing the Consolidated Financial Information and carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

For the Comparative Financial Information for the eleven months ended 29 February 2012, our responsibility is to express a conclusion on the Comparative Financial Information based on our review and to report our conclusion to you. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2400 "Engagements to Review Financial Statements" issued by the HKICPA. This Standard requires us to conclude whether anything has come to our attention that causes us to believe that the Comparative Financial Information, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements. A review is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained. The procedures performed are substantially less than those performed in an audit conducted in accordance with Hong Kong Standards on Auditing. Accordingly, we do not express an audit opinion on the Comparative Financial Information.

EMPHASIS OF SIGNIFICANT MATTERS

There are two significant matters that need to be highlighted in this report.

(a) Included in Intangible Assets as at 31 March 2010, 2011, 2012 and 28 February 2013 is a technological know-how with the carrying value of HK$281,473,437 (the "Know-how") in relation to an oral insulin product (the "Product") and the exclusive right for the commercialisation of the Product. The Know-how is held by Fosse Bio, a 51% owned subsidiary acquired by the Target Company during the year ended 31 March 2004. In an appraisal conducted by an independent professional valuer, the Know-how is valued at an amount that is not less than HK$281,473,437 as at 31 March 2010, 2011, 2012 and 28 February 2013. Notwithstanding this valuation, the recoverability of the carrying value of the Know-how is still uncertain as it depends on the result of the clinical trials and the successful launching of the Product. Should the outcome of the clinical trials and the launching of the Product be unsuccessful, material adjustments to the carrying value of the Know-how may be required which would have an adverse effect on the business and results of the Target Group.

(b) In connection with the acquisition of the 51% interest in Fosse Bio in the year ended 31 March 2004 as referred to in the above paragraph, the Target Company owed the vendor of the 51% interest in Fosse Bio ("Fosse Bio Vendor") in amount of HK$31,780,000 being the third and fourth installment payments for the acquisition and according to the agreement for sale and purchase of shares in relation thereon, the repayment of these two installments is to be made upon the issuance of certain certificates of the clinical trials and of the Product by the State Food and Drug Administration of the PRC. When the Company acquired the 51% interest in the Target Company in the year ended 31 March 2004, the balance remained outstanding in the books of the Target Company and remained outstanding as at 31 March 2010, 2011, 2012 and 28 February 2013. The vendors of the 51% interest of the Target Company (the "Smart Ascent Vendors") undertook that they would pay this balance of HK$31,780,000 in full as and when the amount becomes due and payable. As the security for this undertaking, Smart Ascent Vendors pledged to the Group the remaining 49% interest in the Target Company still owned by them. There is no assurance that the Smart Ascent Vendors are capable of repaying the HK$31,780,000 in full. While this risk of recoverability is mitigated by the shares representing the 49% interest in the Target Company pledged to the Company, the risk continues to exist in the event that the outcome of the clinical trials and the launching of the Product are unsuccessful. The Target Group may suffer a further loss, in addition to any adjustments to the carrying value of the Know-how mentioned above, in respect of this balance of HK$31,780,000 undertaken to be paid by Smart Ascent Vendors.

Having considered the appraisal report issued by the independent professional valuer on the carrying value of the Know-how and the relevant disclosure in the notes to the Consolidated Financial Information, we consider the uncertainty as to the risks associated with the assets as mentioned in the above two paragraphs have been adequately disclosed in the Consolidated Financial Information and do not find it necessary to make further qualifications in this report in respect of the carrying value of the Know-how or the receivables.

OPINION AND REVIEW CONCLUSION

In our opinion, except for the matter included in the emphasis of significant matters paragraph as set above, the Consolidated Financial Information, for the purpose of the Circular, gives a true and fair view of the state of affairs of the Target Group as at 31 March 2010, 2011 and 2012, and at 28 February 2013 and of the results and cash flows of the Target Group for each of the Relevant Periods then ended.

On the basis of our review which does not constitute an audit, for the purpose of this report, except for the matter included in the emphasis of significant matters paragraph as set above, nothing has come to our attention that caused us to believe that the Comparative Financial Information, for the purpose of this report, is not prepared in accordance with the accounting policies which are in conformity with HKFRSs.

Yours faithfully,
East Asia Sentinel Limited
Certified Public Accountants
Hong Kong

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		For the 11 months ended		For the year ended		
		28/2/2013	**29/2/2012**	**31/3/2012**	**31/3/2011**	**31/3/2010**
	NOTE	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
			(unaudited)			
TURNOVER	6	—	—	—	—	—
OTHER REVENUES	7	—	—	189,366	10,780	27,386
ADMINISTRATIVE EXPENSES		(2,107,150)	(1,629,576)	(2,409,918)	(2,956,050)	(1,199,573)
RESEARCH AND DEVELOPMENT EXPENSES	8	(2,430,724)	(4,260,680)	(4,413,580)	(8,125,644)	—
LOSS BEFORE TAXATION	8	(4,537,874)	(5,890,256)	(6,634,132)	(11,070,914)	(1,172,187)
TAXATION	9(a)	—	(4,223)	(8,102)	(7,012)	(15,875)
LOSS FOR THE PERIOD/YEAR		(4,537,874)	(5,894,479)	(6,642,234)	(11,077,926)	(1,188,062)
OTHER COMPREHENSIVE INCOME		—	—	—	—	—
TOTAL COMPREHENSIVE LOSS		(4,537,874)	(5,894,479)	(6,642,234)	(11,077,926)	(1,188,062)
Loss for the period/year attributable to:						
— Equity holders of the Target Company		(2,343,295)	(3,066,181)	(3,364,676)	(5,680,108)	(674,548)
— Non-controlling interests of the Target Company's subsidiaries		(2,194,579)	(2,828,298)	(3,277,558)	(5,397,818)	(513,514)
		(4,537,874)	(5,894,479)	(6,642,234)	(11,077,926)	(1,188,062)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at			
		28/2/2013	**31/3/2012**	**31/3/2011**	**31/3/2010**
	NOTE	*HK$*	*HK$*	*HK$*	*HK$*
NON-CURRENT ASSETS					
Intangible assets	11	281,473,437	281,473,437	281,473,437	281,473,437
Amounts due from non-controlling interests	12	6,060,483	6,139,996	12,969,890	9,598,103
Loan to a non-controlling interest	12	5,997,584	4,806,529	—	—
		293,531,504	292,419,962	294,443,327	291,071,540
CURRENT ASSETS					
Deposits, prepayments and other receivables	13	40,064,758	40,067,650	46,923,315	43,241,271
Cash and cash equivalents	14	88,797	116,309	12,474	25,733
		40,153,555	40,183,959	46,935,789	43,267,004
CURRENT LIABILITIES					
Accruals and other payables	15	341,408	244,657	455,479	1,356,600
Amount due to a fellow subsidiary	16	—	69,348	—	—
Amount due to a non-controlling interest	17	32,403,892	32,403,892	32,403,892	32,403,892
Amounts due to shareholders	17	14,564,452	14,401,965	13,821,643	4,745,751
Tax payable	9(b)	—	—	5,000	6,000
		47,309,752	47,119,862	46,686,014	38,512,243
NET CURRENT (LIABILITIES)/ASSETS		(7,156,197)	(6,935,903)	249,775	4,754,761
TOTAL ASSETS LESS CURRENT LIABILITIES		286,375,307	285,484,059	294,693,102	295,826,301
NON-CURRENT LIABILITIES					
Amounts due to non-controlling interests	17	9,347,522	8,502,885	14,471,020	9,598,103
Amounts due to shareholders	17	17,049,900	13,656,470	15,061,673	9,989,863
Loan from a non-controlling interest	17	5,997,584	4,806,529	—	—
		32,395,006	26,965,884	29,532,693	19,587,966
NET ASSETS		253,980,301	258,518,175	265,160,409	276,238,335
CAPITAL AND RESERVES					
Share capital	19	10,000	10,000	10,000	10,000
Reserves		128,845,779	131,189,074	134,553,750	140,233,858
Equity attributable to:					
Equity holders of the Target Company		128,855,779	131,199,074	134,563,750	140,243,858
Non-controlling interests of the Target Company's subsidiaries		125,124,522	127,319,101	130,596,659	135,994,477
TOTAL EQUITY		253,980,301	258,518,175	265,160,409	276,238,335

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the equity holders of the Target Company				
	Share capital	Retained earnings	Total	Non-controlling interests of the Target Company's subsidiaries	Total equity
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
FOR THE YEAR ENDED 31 MARCH 2010					
At 1 April 2009	10,000	140,908,406	140,918,406	136,507,991	277,426,397
Loss for the year	—	(674,548)	(674,548)	(513,514)	(1,188,062)
Total comprehensive loss	—	(674,548)	(674,548)	(513,514)	(1,188,062)
At 31 March 2010	10,000	140,233,858	140,243,858	135,994,477	276,238,335
FOR THE YEAR ENDED 31 MARCH 2011					
At 1 April 2010	10,000	140,233,858	140,243,858	135,994,477	276,238,335
Loss for the year	—	(5,680,108)	(5,680,108)	(5,397,818)	(11,077,926)
Total comprehensive loss	—	(5,680,108)	(5,680,108)	(5,397,818)	(11,077,926)
At 31 March 2011	10,000	134,553,750	134,563,750	130,596,659	265,160,409
FOR THE YEAR ENDED 31 MARCH 2012					
At 1 April 2011	10,000	134,553,750	134,563,750	130,596,659	265,160,409
Loss for the year	—	(3,364,676)	(3,364,676)	(3,277,558)	(6,642,234)
Total comprehensive loss	—	(3,364,676)	(3,364,676)	(3,277,558)	(6,642,234)
At 31 March 2012	10,000	131,189,074	131,199,074	127,319,101	258,518,175
FOR THE ELEVEN MONTHS ENDED 28 FEBRUARY 2013					
At 1 April 2012	10,000	131,189,074	131,199,074	127,319,101	258,518,175
Loss for the period	—	(2,343,295)	(2,343,295)	(2,194,579)	(4,537,874)
Total comprehensive loss	—	(2,343,295)	(2,343,295)	(2,194,579)	(4,537,874)
At 28 February 2013	10,000	128,845,779	128,855,779	125,124,522	253,980,301

CONSOLIDATED STATEMENTS OF CASH FLOWS

	11 months ended 28/2/2013 HK$	11 months ended 29/2/2012 HK$ (unaudited)	Year ended 31/3/2012 HK$	Year ended 31/3/2011 HK$	Year ended 31/3/2010 HK$
CASH FLOWS FROM OPERATING ACTIVITIES					
(Loss) before taxation	(4,537,874)	(5,890,256)	(6,634,132)	(11,070,914)	(1,172,187)
Adjustments for:					
Interest income	—	—	—	—	(27,386)
Impairment on other receivables	—	—	—	987,154	—
Operating (loss) before changes in working capital	(4,537,874)	(5,890,256)	(6,634,132)	(10,083,760)	(1,199,573)
Decrease/(increase) in deposits, prepayments and other receivables	2,892	(792,919)	6,855,662	(4,669,198)	70,246
Increase/(decrease) in accrual and other payables	96,751	(155,594)	(210,821)	(901,121)	832,314
Increase/(decrease) in amounts due to shareholders	162,487	214,373	580,322	9,075,892	(277,196)
Increase/(decrease) in amount due to a fellow subsidiary	(69,348)	69,348	69,348	—	—
Net cash (used in)/generated from operations	(4,345,092)	(6,555,048)	660,379	(6,578,187)	(574,209)
Interest income received	—	—	—	—	27,386
Income tax (paid)	—	(9,223)	(13,102)	(8,012)	(15,875)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(4,345,092)	(6,564,271)	647,277	(6,586,199)	(562,698)
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase in amounts due to non-controlling interests	924,150	750,566	861,760	1,501,130	565,927
Increase/(decrease) in amounts due to shareholders	3,393,430	5,815,270	(1,405,202)	5,071,810	—
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	4,317,580	6,565,836	(543,442)	6,572,940	565,927
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(27,512)	1,565	103,835	(13,259)	3,229
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD/YEAR	116,309	12,474	12,474	25,733	22,504
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	88,797	14,039	116,309	12,474	25,733
ANALYSIS OF THE CASH AND CASH EQUIVALENTS					
Cash and banks balances	88,797	14,039	116,309	12,474	25,733

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

Smart Ascent Limited (the "Target Company") is a limited liability company incorporated in Hong Kong under the Hong Kong Companies Ordinance. The address of its registered office of the Target Company is Room 3409–10, 34/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

The principal activity of the Target Company is investment holding. Particulars of the Target Company's principal subsidiaries are set out in note 21 to the Consolidated Financial Information.

2. BASIS OF PREPARATION

The Consolidated Financial Information of the Target Group has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which in collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("HKAS") and Interpretations ("Ints") issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The Consolidated Financial Information has been prepared under the historical cost convention.

The Consolidated Financial Information is presented in Hong Kong dollars, unless otherwise stated. The preparation of Consolidated Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Information are disclosed in note 4.

(a) Amendments and interpretations to existing standards effective for the Target Group's financial period beginning on 1 April 2012 and relevant to the Target Group

There are no HKFRSs interpretations that are effective for the first time for the financial year beginning on or after 1 April 2012 that would be expected to have a material impact on the Target Group.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Target Group

Certain new standards, amendments and interpretations to existing HKFRSs (collectively, the "Amendments") have been published that are mandatory for the Target Group's accounting periods beginning on or after 1 April 2013. Some of the Amendments are relevant and applicable to the Target Group; however, they have not been early adopted in this Consolidated Financial Information. The Target Group has commenced, but not yet completed, an assessment of the impact of the applicable Amendments on its results of operations and financial positions. The directors of the Target Group are of the view that the impact on the Consolidated Financial Information would not be significant other than certain additional disclosures.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of this Consolidated Financial Information are set out below. These policies have been consistently applied to all the periods/years presented, unless otherwise stated.

(a) Consolidation

Subsidiaries are all entities (including controlled special purpose entities) over which the Target Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Target Company. They are de-consolidated from the date that control ceases.

The Target Company applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Target Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expenses as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Target Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income.

Inter-company transactions, balances and unrealised gains or losses on transactions between group companies are eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Company.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the Consolidated Financial Information of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Consolidated Financial Information is presented in Hong Kong dollars, which is the Target Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

(c) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Target Group's products development is recognised only if all of the following conditions are met:

— an asset is created that can be identified (such as software and new processes);

— it is probable that the asset created will generate future economic benefits; and

— the development cost of the asset can be measured reliably.

(d) Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(e) Receivables

Receivables including accounts and other receivables, amount due from related parties are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Target Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated statement of comprehensive income.

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(g) Accounts and other payables

Accounts and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Target Group and the amount of revenue can be measured reliably.

Interest income is recognised on a time-proportion basis using the effective interest method.

(i) Employee benefits

(i) Pension obligations

In accordance with the PRC regulations, the Target Group is required to pay social security contributions for its PRC staff based on certain percentage of their salaries to the social security plan organised by related governmental bodies (the "PRC plan").

The Target Group has no further payment obligations once the contributions have been paid to the retirement schemes and PRC plan. The Group's contributions to these retirement schemes and PRC plan are recognised as employee benefit expense in the consolidated statement of comprehensive income when they are due.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Target Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(j) Income tax

The tax expense for the period/year comprises current income tax and deferred tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Target Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Information. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, and associates, except where the timing of the reverse of the temporary differences is controlled by the Target Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(k) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are charged in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

(l) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided regularly to the Target Group's chief operating decision-makers for the purpose of allocation resources to, and assessing performance of, the Target Group's various lines of business and geographical locations.

(m) Related parties

For the purpose of this Consolidated Financial Information, related party includes a person and entity as defined below:

(a) A person or a close member of that person's family is related to the Target Group if that person:

(i) is a member of the key management personnel of the Target Group or of a parent of the Target Group;

(ii) has control or joint control over the Target Group; or

(iii) has significant influence over the Target Group.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) the entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same third entity.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity, or is a member of key management personnel of the entity (or of a parent of the entity).

(n) Events after the reporting period

Events after the reporting period provide additional information about the Target Group's position at the reporting period end or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Consolidated Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Consolidated Financial Information when material.

4. CRITICAL JUDGMENT IN APPLYING POLICIES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within twelve months after the Relevant Periods are discussed below.

(a) Income taxes and deferred taxation

The Target Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Target Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Estimation on impairment of intangible assets

The Target Group performs annual tests of impairment on intangible assets in respect of the Product with the carrying amount of approximately HK$281,473,437 as at 31 March 2010, 2011, 2012 and 28 February 2013 which is not yet available for use. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations. Where the actual outcome in future is different from the original estimates, such difference will impact the carrying value of the intangible assets and the impairment on intangible assets in the year in which such estimate has been changed.

5. FINANCIAL RISKS MANAGEMENT

The Target Group's major financial instruments include deposits, prepayments and other receivables, cash and cash equivalents, amounts due from/(to) non-controlling interests, accruals and other payables. Details of these financial instruments are disclosed in respective notes.

The Target Group's activities expose it to a variety of financial risks such as foreign exchange risk, credit risk, liquidity risk and interest rate risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance. The management monitors and manages the financial risks through internal risk assessment which analyses exposures by degree and magnitude of risks.

(a) Foreign exchange risk

Foreign exchange risk arises when commercial transactions, assets or liabilities are denominated in a currency that is not the functional currency of the Target Group's entities. The Target Group operates mainly in Hong Kong and the PRC and is exposed to foreign exchange rate risk arising from various foreign currency exposures, primarily with respect to United States dollars.

The directors are of the opinion that the Hong Kong dollars are reasonably stable with the United States dollars under the Linked Exchange Rate System, and accordingly, no sensitivity analysis of United States dollars with respect to Hong Kong dollars is performed.

(b) Credit risk

The Target Group's credit risk is primarily attributable to other receivables, amounts due from related parties and bank balances.

The Target Group has no significant credit risk on accounts and other receivables because the Target Group has policies in place for the control and monitoring of its credit risk.

The credit risk on liquid funds in banks is limited because the counterparties are reputable and creditworthy banks.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset at the end of reporting period.

(c) Liquidity risk

The Target Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. Accordingly, the directors of the Target Group are of the opinion that the Target Group does not have significant liquidity risk.

The table below analyses the Target Group's financial liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	At 28/2/2013	At 31/3/2012	At 31/3/2011	At 31/3/2010
	HK$	*HK$*	*HK$*	*HK$*
Less than 1 year				
— Accruals and other payables	341,408	244,657	455,479	1,356,600
— Amount due to a fellow subsidiary	—	69,348	—	—
— Amount due a non-controlling interest	32,403,892	32,403,892	32,403,892	32,403,892
— Amounts due to shareholders	14,564,452	14,401,965	13,821,643	4,745,751
	47,309,752	47,119,862	46,681,014	38,506,243
Between 1 and 2 years				
— Amounts due to non-controlling interests	9,347,522	8,502,885	14,471,020	9,598,103
— Amounts due to shareholders	17,049,900	13,656,470	15,061,673	9,989,863
— Loan from a non-controlling interest	5,997,584	4,806,529	—	—
	32,395,006	26,965,884	29,532,693	19,587,966

(d) Interest rate risk

Other than bank balances which carry interest at effective interest rate, the Target Group has no other significant interest-bearing assets and liabilities. Due to the insignificance of bank interest income and expense, the Target Group's income, expenses and operating cash flows are substantially independent of changes in market interest rates. The directors are of the opinion that the Target Group does not have significant cash flow and fair value interest rate risk and no sensitivity analysis is performed.

6. TURNOVER

The Target Group did not generate any turnover during the period/year.

7. OTHER REVENUES

	11 months ended 28/2/2013	11 months ended 29/2/2012	Year ended 31/3/2012	Year ended 31/3/2011	Year ended 31/3/2010
	HK$	*HK$* (unaudited)	*HK$*	*HK$*	*HK$*
Bank interest income	—	—	—	—	27,386
Exchange gain	—	—	189,366	10,780	—
	—	—	189,366	10,780	27,386

8. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	11 months ended 28/2/2013 HK$	11 months ended 29/2/2012 HK$ (unaudited)	Year ended 31/3/2012 HK$	Year ended 31/3/2011 HK$	Year ended 31/3/2010 HK$
Auditors' remuneration	50,000	50,000	100,000	100,000	100,000
Consultancy fee	—	24,706	24,706	21,176	15,318
Operating lease payment	132,000	87,529	104,471	70,588	34,091
Impairment on other receivables	—	—	—	987,154	—
Research and development expenses *(Note a)*	2,430,724	4,260,680	4,413,580	8,125,644	—
Staff cost (excluding directors' emoluments) — Salaries and allowances	1,232,000	1,178,257	1,223,084	1,199,299	907,921

Note:

(a) The research and development expenses are expenditure incurred on oral insulin project of Fosse Bio.

9. TAXATION

(a) Taxation in the consolidated statements of comprehensive income represents:

	11 months ended 28/2/2013 HK$	11 months ended 29/2/2012 HK$ (unaudited)	Year ended 31/3/2012 HK$	Year ended 31/3/2011 HK$	Year ended 31/3/2010 HK$
Current tax — Provision for the period/year — PRC Enterprise Income tax	—	4,223	8,102	7,012	15,875
Income tax charge	—	4,223	8,102	7,012	15,875

No provision for Hong Kong profits tax has been made for the three years ended 31 March 2010, 2011 and 2012 and the eleven months ended 28 February 2013 as the Target Group did not generate assessable profits in Hong Kong during the period/year.

Under the Enterprise Income Tax Law, the PRC enterprise income tax was standardised at the rate of 25%.

(b) Tax payable in the consolidated statements of financial position presents:

	At 28/2/2013	At 31/3/2012	At 31/3/2011	At 31/3/2010
	HK$	*HK$*	*HK$*	*HK$*
At the beginning of the period/year	—	5,000	6,000	6,000
Provision for the period/year	—	8,102	7,012	15,875
Tax paid for the period/year	—	(13,102)	(8,012)	(15,875)
At the end of the period/year	—	—	5,000	6,000

(c) Reconciliation between tax expenses/(credit) and accounting loss at applicable tax rates:

	11 months ended 28/2/2013	11 months ended 29/2/2012	Year ended 31/3/2012	Year ended 31/3/2011	Year ended 31/3/2010
	HK$	*HK$* (unaudited)	*HK$*	*HK$*	*HK$*
Loss before taxation	(4,537,874)	(5,890,256)	(6,634,132)	(11,070,914)	(1,172,187)
Tax on loss before taxation at applicable tax rates	(748,749)	(971,892)	(1,094,632)	(1,826,701)	(193,411)
Tax effect of non-taxable income	—	—	—	—	(4,519)
Tax effect of non-deductible expenses	748,749	976,115	1,102,734	1,833,713	213,805
Tax expenses	—	4,223	8,102	7,012	15,875

10. DIRECTORS' REMUNERATION

The directors did not receive and will not receive any emoluments in respect of their services to the Target Group for the three years ended 31 March 2010, 2011 and 2012 and the eleven months ended 28 February 2013.

11. INTANGIBLE ASSETS

The Target Group:

	HK$
Technological know-how, at cost at 1 April 2009, 31 March 2010, 31 March 2011, 31 March 2012 and 28 February 2013	281,473,437

The intangible assets represent the technological know-how (the "Know-how") in relation to an oral insulin product (the "Product") and the exclusive right for the commercialisation of the Product. The Product was co-developed by Fosse Bio-Engineering Development Limited ("Fosse Bio"), a subsidiary acquired by the Target Company during the year ended 31 March 2004, and Tsinghua University, Beijing ("THU"). Fosse Bio and THU jointly applied for a patent registration (the "Patent") in respect of the Know-how in the PRC and the United States of America (the "USA"). The Patent was granted by State Intellectual Property Office of the PRC and United States Patent and Trademark Office of the USA on 4 August 2004 and 28 March 2006 respectively.

The carrying value of the Know-how is determined based on market value measured under income approach and relief-from-royalty approach by reference to the valuation report issued by Castores Magi Asia Limited, an independent professional valuer. The independent professional valuer had issued valuation reports, providing a value as of 31 March 2010, 2011, 2012 and 28 February 2013 that is no less than the carrying value of the Know-how of HK$281,473,437. Should the approval of results of the clinical trial fail, the certificate of new medicine cannot be obtained from the State Food and Drug Administration ("SFDA") of the PRC or the launching of the Product is unsuccessful, adjustments would have to be made against the carrying value of the Know-how.

12. AMOUNTS DUE FROM NON-CONTROLLING INTERESTS AND LOAN TO A NON-CONTROLLING INTEREST

	At 28/2/2013	At 31/3/2012	At 31/3/2011	At 31/3/2010
	HK$	*HK$*	*HK$*	*HK$*
Amounts due from non-controlling interests				
Non-current portion:				
Fordnew Industrial Limited *(notes a, b and d)*	3,586,816	3,633,875	7,676,057	5,680,510
Zheng Chang Xue *(notes a, b and d)*	1,030,282	1,043,799	2,204,881	1,631,678
Hou Shi Chang *(notes a, b, c and d)*	181,815	184,200	389,097	287,943
Groupmark Investment Group Limited *(notes a, b and d)*	958,546	971,122	2,051,360	1,518,067
Feel So Good Limited *(notes a, b and d)*	303,024	307,000	648,495	479,905
	6,060,483	6,139,996	12,969,890	9,598,103
Loan to a non-controlling interest				
Non-current portion:				
Fordnew Industrial Limited *(notes e and f)*	5,997,584	4,806,529	—	—

Notes:

(a) The amounts due are unsecured, interest-free and have no fixed terms of repayment.

(b) The amounts represent outstanding contributions' receivable from non-controlling interests of Fosse Bio which made calls to its shareholders for contributions based on their respective equity interests in the company in respect of working capital and operation fund requirements for the further clinical trials of the oral insulin project. The aggregate contribution calls in relation thereof are recorded as amounts due to non-controlling interests in note 17.

(c) Hou Shi Chang is a shareholder of Fosse Bio.

(d) The amounts due are denominated in Renminbi.

(e) The amount due is denominated in Hong Kong dollars.

(f) This represents a loan made by the Target Company to Fordnew Industrial Limited ("Fordnew") pursuant to the loan agreement dated 25 May 2011. The loan is denominated in Hong Kong dollars, which is unsecured and non-interest bearing. The repayment terms of the loan are that Fordnew shall be at liberty to repay the loan in whole or in part at any time before the due dates set out below, provided that Fordnew shall repay the loan in full on or before the earlier of:

(i) the date falling three years after the date of notification of rejection of the application for new medicine for the Product by the relevant authority; or

(ii) in the event that Fosse Bio resolves to abandon the research and development project ("the Project") in respect of the Product, the date falling 3 years after the date of passing of the relevant documented resolution of the shareholders of Fosse Bio abandoning the Project; or

(iii) the date falling 8 years after the first drawdown of all or any part of the loan.

or such later date as may be agreed between the Target Company and Fordnew hereto in writing and subject to compliance with the relevant requirements of the Listing Rules.

Further details of the loan are disclosed in note 17 and note 25 to the Consolidated Financial Information.

13. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 28/2/2013	At 31/3/2012	At 31/3/2011	At 31/3/2010
	HK$	*HK$*	*HK$*	*HK$*
Deposits	—	—	5,305,882	—
Other receivables	2,219,200	2,226,190	9,837,433	11,461,271
Other receivables due from connected persons *(note a)*	31,780,000	31,780,000	31,780,000	31,780,000
Maximum exposure to credit risk	33,999,200	34,006,190	46,923,315	43,241,271
Prepayments	6,065,558	6,061,460	—	—
	40,064,758	40,067,650	46,923,315	43,241,271

The carrying amounts of deposits, prepayments and other receivables approximated their fair values as at 31 March 2010, 2011, 2012 and at 28 February 2013. The Target Group does not hold any collateral over these balances, except the other receivables due from connected persons as disclosed in note (a) below.

The carrying amounts of the deposits, prepayments and other receivables were denominated in the following currencies:

	At 28/2/2013	At 31/3/2012	At 31/3/2011	At 31/3/2010
	HK$	*HK$*	*HK$*	*HK$*
Renminbi	8,113,076	8,107,968	14,972,633	—
Hong Kong dollars	31,951,682	31,959,682	31,950,682	43,241,271
	40,064,758	40,067,650	46,923,315	43,241,271

Note:

(a) In connection with the acquisition of the 51% interest in Fosse Bio in the year ended 31 March 2004, the Target Company owed the vendor of the 51% interest in Fosse Bio ("Fosse Bio Vendor") in amount of HK$31,780,000 being the third and fourth installment payments for the acquisition and according to the agreement for sale and purchase of shares in relation thereon, the repayment of these two installments is to be made upon the issuance of certain certificates of the clinical trials and of the Product by the State Food and Drug Administration of the PRC. When the Company acquired the 51% interest in the Target Company in the year ended 31 March 2004, the balance remained outstanding in the books of the Target Company and remained outstanding as at 31 March 2010, 2011, 2012 and 28 February 2013. The vendors of the 51% interest of the Target Company (the "Smart Ascent Vendors") undertook that they would pay this balance of HK$31,780,000 in full as and when the amount becomes due and payable. As the security for this undertaking, Smart Ascent Vendors pledged to the Group the remaining 49% interest in the Target Company still owned by them. There is no assurance that the Smart Ascent Vendors are capable of repaying the HK$31,780,000 in full. While this risk of recoverability is mitigated by the shares representing the 49% interest in the Target Company pledged to the Group, the risk continues to exist in the event that the outcome of the clinical trials and the launching of the Product are unsuccessful. The Target Group may suffer a further loss, in addition to any adjustments to the carrying value of the Know-how mentioned above, in respect of this balance of HK$31,780,000 undertaken to be paid by Smart Ascent Vendors.

14. CASH AND CASH EQUIVALENTS

	At 28/2/2013	At 31/3/2012	At 31/3/2011	At 31/3/2010
	HK$	*HK$*	*HK$*	*HK$*
Cash and bank balances	88,797	116,309	12,474	25,733
Maximum exposure to credit risk	84,379	113,426	10,077	25,733

The carrying amounts of the cash and cash equivalents are denominated in Hong Kong dollars.

15. ACCRUALS AND OTHER PAYABLES

	At 28/2/2013	At 31/3/2012	At 31/3/2011	At 31/3/2010
	HK$	*HK$*	*HK$*	*HK$*
Accruals and other payables	341,408	244,657	455,479	1,356,600

The carrying amounts of the accruals and other payables approximated their fair values and were denominated in the following currencies:

	At 28/2/2013	At 31/3/2012	At 31/3/2011	At 31/3/2010
	HK$	*HK$*	*HK$*	*HK$*
Renminbi	146,751	—	48,769	988,634
Hong Kong dollars	194,657	244,657	406,710	367,966
	341,408	244,657	455,479	1,356,600

16. AMOUNT DUE TO A FELLOW SUBSIDIARY

The amount due is unsecured, interest free, repayable on demand and is denominated in Hong Kong dollars.

The carrying amount of the amount due to a fellow subsidiary approximated its fair values as at 31 March 2012.

17. AMOUNTS DUE TO NON-CONTROLLING INTERESTS, AMOUNTS DUE TO SHAREHOLDERS, AMOUNT DUE TO A NON-CONTROLLING INTEREST AND LOAN FROM A NON-CONTROLLING INTEREST

	At 28/2/2013	At 31/3/2012	At 31/3/2011	At 31/3/2010
	HK$	*HK$*	*HK$*	*HK$*
Amounts due to non-controlling interests				
Non-current portion:				
Fordnew Industrial Limited *(notes b, c and e)*	5,532,207	5,032,320	8,564,481	5,680,510
Zheng Chang Xue *(notes b, c and e)*	1,589,079	1,445,490	2,460,073	1,631,678
Groupmark Investment Group Limited *(notes b, c and e)*	1,478,434	1,344,844	2,288,784	1,518,067
Feel So Good Limited *(notes b, c and e)*	467,377	425,144	723,551	479,905
Hou Shi Chang *(notes b, c, and e)*	280,425	255,087	434,131	287,943
	9,347,522	8,502,885	14,471,020	9,598,103
Amounts due to shareholders				
Non-current portion:				
Ong Cheng Heang *(notes d and f)*	8,354,451	6,691,670	7,380,220	4,895,033
Extrawell (BVI) Limited *(note d)*	8,695,449	6,964,800	7,681,453	5,094,830
	17,049,900	13,656,470	15,061,673	9,989,863
Current portion:				
Ong Cheng Heang *(notes a and e)*	7,065,673	6,985,362	4,973,929	166,265
Extrawell (BVI) Limited *(notes a and e)*	7,498,779	7,416,603	8,847,714	4,579,486
	14,564,452	14,401,965	13,821,643	4,745,751
Amount due to a non-controlling interest				
Current portion:				
Fordnew Industrial Limited *(notes a and d)*	32,403,892	32,403,892	32,403,892	32,403,892
Loan from a non-controlling interest				
Non-current portion:				
Fordnew Industrial Limited *(note g)*	5,997,584	4,806,529	—	—

Notes:

(a) The amounts due are unsecured, interest-free and repayable on demand.

(b) The amounts due are unsecured, interest-free and have no fixed terms of repayment.

(c) The amounts represent contributions made by non-controlling interests of Fosse Bio in respect of working capital and operation funds for the further clinical trial of the oral insulin project, and the corresponding outstanding contributions receivable from them are recorded as amounts due from non-controlling interests in note 12.

(d) The amounts due are denominated in the following currencies:

	At 28/2/2013	At 31/3/2012	At 31/3/2011	At 31/3/2010
	HK$	*HK$*	*HK$*	*HK$*
Amounts due to shareholders				
— non-current portions:				
Renminbi	11,052,316	8,849,941	—	—
Hong Kong dollars	5,997,584	4,806,529	15,061,673	9,989,863
	17,049,900	13,656,470	15,061,673	9,989,863
Amount due to a non-controlling interest				
— current portion:				
Hong Kong dollars	32,403,892	32,403,892	32,403,892	32,403,892

(e) The amounts due are denominated in Renminbi.

(f) Ong Cheng Heang is a shareholder of Target Company which owns 51% equity interest in Fosse Bio.

(g) This represents a loan made by Fordnew Industrial Limited ("Fordnew") to Fosse Bio pursuant to the loan agreement entered into between the Target Company and Fordnew on 25 May 2011. The loan is denominated in Hong Kong dollars, which is unsecured and non-interest bearing. Details of the loan are disclosed in note 12 and note 25 to this Consolidated Financial Information.

18. DEFERRED TAX ASSETS

No provision for deferred taxation has been made in the Consolidated Financial Information as the tax effect of taxable temporary differences is immaterial to the Target Group.

19. SHARE CAPITAL

	At 28/2/2013	At 31/3/2012	At 31/3/2011	At 31/3/2010
	HK$	*HK$*	*HK$*	*HK$*
Authorised, issued and fully paid:				
10,000 ordinary shares of HK$1 each	10,000	10,000	10,000	10,000

20. CAPITAL RISK MANAGEMENT

The Target Group's objectives on managing capital are to safeguard the Target Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing services commensurate with the level of risk.

The Target Group manages the capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Target Group is not subject to any externally imposed capital requirement.

21. DETAILS OF SUBSIDIARIES

Particulars of the Target Company's principal subsidiaries as at 31 March 2010, 2011, 2012 and 28 February 2013 are as follows:

Name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Effective interest directly held by the Target Company	Principal activities
Fosse Bio-Engineering Development Limited ("Fosse Bio") *(note a)*	Hong Kong/ The PRC	10,000 ordinary shares of HK$10 each	51%	Development and commercialisation of oral insulin products
Welly Surplus Development Limited ("Welly Surplus")	Hong Kong	100 ordinary shares of HK$1 each	51%	Inactive

Note:

(a) The interest in Fosse Bio was acquired by the Target Company in the year ended 31 March 2004. In connection to the acquisition, the Target Company owed the vendor of the 51% interest in Fosse Bio ("Fosse Bio Vendor") in amount of HK$31,780,000 being the third and fourth installment payments for the acquisition and according to the agreement for sale and purchase of shares in relation thereon, the repayment of these two installments is to be made upon the issuance of certain certificates of the clinical trials and of the Product by the State Food and Drug Administration of the PRC.

When the Company acquired the 51% interest in the Target Company in the year ended 31 March 2004, the balance remained outstanding in the books of the Target Company and remained outstanding as at 31 March 2010, 2011, 2012 and 28 February 2013. The vendors of the 51% interest of the Target Company (the "Smart Ascent Vendors") undertook that they would pay this balance of HK$31,780,000 in full as and when the amount becomes due and payable. As the security for this undertaking, Smart Ascent Vendors pledged to the Group the remaining 49% interest in the Target Company still owned by them.

At the time when the Company acquired the 51% interest in the Target Company, the Company without knowing the relationship, failed to disclose that the Smart Ascent Vendors are the respective son-in-law and daughter-in-law of Mr. Ho Chin Hou, a former executive director of the Company who had resigned as director with effect from 12 March 2009, and that the acquisition of the 51% interest in Target Company constituted a connected transaction under the Listing Rules. Pursuant to a special general meeting of the Company held on 8 June 2009, an ordinary resolution was passed to ratify and approve this acquisition.

22. SEGMENT INFORMATION

The Target Group is principally engaged in development and commercialisation of oral insulin products. The directors consider that there is only one business segment significant enough for disclosure. Information reported to the Target Group's chief operating decision maker, for the purpose of resources allocation and assessment performance is focused on the operating results of the Target Group as a whole as the Target Group's resources are integrated and no discrete financial information is available. Accordingly, no segment analysis is presented.

The Target Group's operations are principally located in Hong Kong. Accordingly, no geographical segment information is presented.

23. FINANCIAL INSTRUMENT BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of reporting periods are as follows:

Financial assets — Loan and receivables

	At 28/2/2013	At 31/3/2012	At 31/3/2011	At 31/3/2010
	HK$	*HK$*	*HK$*	*HK$*
Amounts due from non-controlling interests	6,060,483	6,139,996	12,969,890	9,598,103
Loan to a non-controlling interest	5,997,584	4,806,529	—	—
Deposits and other receivables	33,999,200	34,006,190	46,923,315	43,241,271
Cash and cash equivalents	88,797	116,309	12,474	25,733
	46,146,064	45,069,024	59,905,679	52,865,107

Financial liabilities — Other liabilities

	At 28/2/2013	At 31/3/2012	At 31/3/2011	At 31/3/2010
	HK$	*HK$*	*HK$*	*HK$*
Accruals and other payables	341,408	244,657	455,479	1,356,600
Amount due to a fellow subsidiary	—	69,348	—	—
Amounts due to shareholders	31,614,352	28,058,435	28,883,316	14,735,614
Loan from a non-controlling interest	5,997,584	4,806,529	—	—
Amounts due to non-controlling interests	41,751,414	40,906,777	46,874,912	42,001,995
	79,704,758	74,085,746	76,213,707	58,094,209

24. COMMITMENTS

(i) In connection with the acquisition of the interest in Fosse Bio as disclosed in this Consolidated Financial Information, the Target Company had a commitment to advance an interest-free loan to Fosse Bio Vendor and/or other shareholders of Fosse Bio to cover expenses relating to clinical trials of the Product.

On 25 May 2011, the Target Company has conditionally agreed to grant an unsecured, non-interest bearing loan in the aggregate amount of up to HK$30,000,000 to Fordnew Industrial Limited ("Fordnew") for its onward lending to Fosse Bio, for payment of expenses relating to the clinical trial of the Product.

As Fordnew owns 29% interest in the issued share capital of Fosse Bio and is a substantial shareholder of Fosse Bio, the grant of the loan by the Target Company to Fordnew constitutes a connected transaction for the Company, which is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Further details regarding the transaction are set out in the Company's announcement and circular dated 25 May 2011 and 30 June 2011 respectively.

Independent shareholders' approval for the provision of financial assistance to Fordnew had been obtained at the special general meeting of the Company held on 19 July 2011.

On 22 July 2011 and 6 August 2012, Fordnew drew down approximately HK$4,807,000 and HK$1,191,000 respectively, and as such the remaining unutilised balance available for Fordnew is HK$24,002,000 as at the date of this report.

(ii) On 19 October 2006, Sea Ascent Investment Limited ("Sea Ascent"), Welly Surplus, and Fosse Bio, entered into a cooperation agreement (the "Cooperation Agreement") in connection with the cooperation (the "Cooperation") between Sea Ascent and Welly Surplus in respect of the following:

(1) Sea Ascent shall procure its wholly owned subsidiary, Joy Kingdom Industrial Limited ("Joy Kingdom"), to establish a wholly foreign owned enterprise in the PRC in the name of 江蘇派樂施藥業有限公司 (Jiangsu Prevalence Pharmaceutical Limited) ("Jiangsu Prevalence");

(2) Sea Ascent shall advance a sum equivalent to RMB40 million to Joy Kingdom by way of an unsecured, non-interest bearing shareholder's loan ("Shareholder's Loan") for the payment of the registered capital of Jiangsu Prevalence and the acquisition of land and construction of a factory (the "Plant") at Pi Zhou City, Jiangsu, the PRC for the production of the Group's Oral Insulin Enteric-Coated Soft Capsules (the "Medicine");

(3) Subject to Sea Ascent's performance of its obligations as aforesaid and completion of the acquisition of Joy Kingdom by Welly Surplus as mentioned below, Welly Surplus shall procure Joy Kingdom or Jiangsu Prevalence, if so agreed, to pay to Sea Ascent, during a period of six years from the date on which the Medicine is launched for sales in open market (the "Initial Operating Period"), a fee at RMB6 cents for each capsule of the Medicine produced (subject to a maximum fee of RMB180 million for each year and deduction as specified in the Cooperation Agreement); and

(4) Unless the New Medicine Certificate in respect of the Medicine has not been granted by the relevant PRC authorities, Welly Surplus shall procure Fosse Bio to allow the manufacturing of the Medicine by Jiangsu Prevalence and to assist Jiangsu Prevalence to obtain the relevant Pharmaceutical Manufacturing Permit (藥品生產許可證) for the manufacture of the Medicine during the Initial Operating Period.

Under the Cooperation Agreement, Fosse Bio has agreed to guarantee the due performance by Welly Surplus of its obligations and liabilities ("Secured Liabilities") as mentioned in the above paragraphs, provided that the maximum liability of Fosse Bio under such guarantee shall not exceed 51% of the Secured Liabilities. The Cooperation Agreement became effective upon the shareholders' approval in the special general meeting of the Company held on 3 January 2007, until the expiry of the Initial Operating Period.

On 19 October 2006, Sea Ascent and Welly Surplus also entered into a sale and purchase agreement (the "SP Agreement") pursuant to which Sea Ascent agreed to sell and Welly Surplus agreed to acquire (i) the entire share capital (the "Sale Share") in Joy Kingdom and (ii) the Shareholder's Loan at considerations of RMB40 million and HK$1 respectively (the "Consideration"). The completion of the SP Agreement was subject to, among other conditions, approval of the SP Agreement by the Company's shareholders, the Cooperation Agreement becoming effective and the completion of the construction of the Plant by Jiangsu Prevalence in accordance with the terms of the Cooperation Agreement. The SP Agreement was approved in the special general meeting of the Company held on 3 January 2007. On 8 April 2009, Welly Surplus and Sea Ascent signed a confirmation whereby both parties agreed to extend the long stop date of the SP Agreement from 30 November 2007 to 30 June 2010. In light of the progress of the further clinical trial, Welly Surplus and Sea Ascent have not yet concluded the revised completion timetable in relation to the construction of the Plant by 30 June 2010, and therefore the extension of the long stop date of SP Agreement is yet to be concluded. The SP Agreement has not yet become unconditional and the Consideration has not yet been due and paid up to the date of approval of this Consolidated Financial Information.

As at the date of this report, Welly Surplus and Sea Ascent have not extended the long stop date of the SP Agreement. Based on the progress of the clinical trial and approval process of the Medicine by the SFDA, Welly Surplus would decide the date for extension of the SP Agreement and completion of the construction of the Plant. In the case that the construction is not completed as scheduled, there could be adverse impact on the commencement of production and commercialisation of the Medicine.

(iii) Pursuant to clinical trial of the oral insulin project, Fosse Bio has entered into service contracts with 瀋陽鑫泰格爾醫藥科技開發有限公司 (the "Project Administrator") dated 16 December 2009 with value in total of RMB12,080,000 for provision of clinical trial management services and the related clinical studies.

The amounts paid to the Project Administrator and the aggregate authorised contract values not provided for in this Consolidated Financial Information are as follows:

	Amount paid	Contract value not provided
	RMB	*RMB*
As at 28 February 2013	9,475,000	2,605,000
As at 31 March 2012	9,475,000	2,605,000
As at 31 March 2011	5,500,000	6,580,000
As at 31 March 2010	—	12,080,000

25. RELATED PARTY TRANSACTIONS

In addition to those already disclosed in the notes to the Consolidated Financial Information, the Group had the following related party transactions during the three years ended 31 March 2010, 2011, 2012 and the eleven months ended 28 February 2013:

On 25 May 2011, the Target Company 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 the Target Company, for payment of expenses relating to clinical trial of the Product. As Fordnew owns 29% interest in the issued share capital of Fosse Bio and is a substantial shareholder of Fosse Bio, the grant of the loan by the Target Company to Fordnew constitutes a connected transaction for the Company. Details regarding the transaction are set out respectively in the Company's announcement and circular dated 25 May 2011 and 30 June 2011, and the approval of which by the Company's independent shareholders at the special general meeting is disclosed in the Company's announcement dated 19 July 2011.

On 22 July 2011 and 6 August 2012, Fordnew drew down approximately HK$4,807,000 and HK$1,191,000 respectively so that it could on-lend these amounts to Fosse Bio for making progress payment to the Project Administrator in connection with the service contracts for the clinical trial. The aforesaid amounts of the loan to Fordnew were contributed by the shareholders of the Target Company.

26. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any of the companies now comprising the Target Group in respect of any period subsequent to 28 February 2013. No dividends or distributions have been declared, made or paid by the companies now comprising the Target Group in respect of any period subsequent to 28 February 2013.

(B) MANAGEMENT DISCUSSION AND ANALYSIS OF SMART ASCENT GROUP

Unless the context requires, terms used herein shall have the same meanings as those defined in the accountants' report of Smart Ascent Group as set out in this appendix.

Set out below is the management discussion and analysis of the Target Group's business, financial results and position for the Relevant Periods.

1. BUSINESS REVIEW

As the clinical trial for the Product is still in progress, no revenue was generated in the Target Group during the Relevant Periods. Losses incurred during the Relevant Periods were mainly related to expenses for research and development, staff costs, travelling and other expenses incurred for the purpose of clinical trial.

During the year ended 31 March 2010, the Group had engaged XinTaigoler Medical Technology Co. Ltd. (瀋陽鑫泰格爾醫藥科技開發有限公司), a professional institute in the PRC (the "Project Administrator") for provision of services in relation to clinical trial management and related clinical studies.

During the Relevant Periods, the Target Group has prepaid research and development costs amounting to an aggregate of about RMB12,000,000 to the Project Administrator which were recognised as prepayments. The prepayments were recognised as expenses in accordance with the progress of the clinical trial of the Product.

2. FINANCIAL REVIEW

(a) Analysis by business segment

The Target Group represents the primary business segment engaged in the development and commercialisation of the Product, and therefore no further geographical segment information is presented.

(b) Turnover

The Target Group did not generate any turnover in the Relevant Periods.

(c) Administrative expenses and research and development expenses

For the year ended 31 March 2010

Administrative expenses amounted to about HK$1,200,000, and the major expenses included HK$908,000 for staff cost and HK$100,000 for audit fees.

No research and development expense was incurred in the year under review.

For the year ended 31 March 2011

Administrative expenses increased by about HK$1,750,000 to HK$2,950,000 when compared to the year ended 31 March 2010, which was mainly attributable to the increase in travelling expenses and staff cost in progressing the clinical trial and the impairment provision for other receivable.

Research and development expenses of about HK$8,100,000 as a result of clinical trial were recognised in the year under review.

For the year ended 31 March 2012

Administrative expenses decreased by about HK$550,000 to HK$2,400,000 when compared to the year ended 31 March 2011. The administrative expenses were maintained at similar level of about HK$1,800,000 when taking into account of the impairment provision for other receivable made in the year ended 31 March 2011 and the increase in exchange loss arising from re-translation as at 31 March 2012.

Research and development expenses of about HK$4,400,000 in accordance with the progress of clinical trial were recognised in the year under review, representing a decrease of about HK$3,700,000 when compared to the year ended 31 March 2011.

For the eleven months ended 28 February 2013

Administrative expenses increased by about HK$500,000 to HK$2,100,000 when compared to the corresponding period ended 29 February 2012, which was mainly due to increase in travelling expenses.

Research and development expenses of about HK$2,400,000 in accordance with the progress of clinical trial were recognised in the period under review, representing a decrease of about HK$1,800,000 when compared to the corresponding period ended 29 February 2012.

(d) Deposits, prepayments and other receivables

The aggregate balances of deposits, prepayments and other receivables were about HK$43,240,000, HK$46,920,000, HK$40,070,000 and HK$40,060,000 as at 31 March 2010, 31 March 2011, 31 March 2012 and 28 February 2013 respectively, and as at the respective dates, these balances included other receivables of HK$31,780,000 due from Smart Ascent Vendors for which the shares representing the 49% interest in the Target Company were pledged to the Group as security.

The Group had deposits of about HK$5,306,000 as at 31 March 2011, and had prepayments of about HK$6,060,000 and HK$6,066,000 as at 31 March 2012 and 28 February 2013 respectively. These balances represented payments made to the Project Administrator for clinical trial purpose and would be recognised as research and development expenses in accordance with the progress of clinical trial.

The Group had other receivables of about HK$11,460,000, HK$9,840,000, HK$2,230,000 and HK$2,220,000 as at 31 March 2010, 31 March 2011, 31 March 2012 and 28 February 2013 respectively. The decrease in the year ended 31 March 2011 was mainly due to an impairment provision of about HK$990,000, whilst the decrease of about HK$7,600,000 in the year ended 31 March 2012 related to the return of funds originally designated for costs of clinical trial, which was no longer required after the engagement with the Project Administrator and in light of the progress of clinical trial.

Save as disclosed above, there was no impairment provision made in respect of the aggregate balances of deposits, prepayments and other receivables during the Relevant Periods.

(e) Liquidity and financial resources

The Target Group generally finances its operations by shareholders' contributions.

The total amounts of liabilities due to shareholders of the Target Group were about HK$56,700,000, HK$75,800,000, HK$73,800,000, HK$79,400,000 as at 31 March 2010, 2011 and 2012, and 28 February 2013 respectively. These amounts due to shareholders were unsecured and interest-free.

The Target Group had total cash and bank balances of about HK$26,000, HK$12,000, HK$116,000, HK$89,000 as at 31 March 2010, 2011 and 2012, and 28 February 2013 respectively.

The Target Group did not have any banking facilities and borrowings and provision of corporate guarantees as at 31 March 2010, 2011 and 2012, and 28 February 2013.

(f) Capital structure

The authorised, issued and fully paid share capital of the Target Company was 10,000 ordinary shares of HK$1.00 each as at 31 March 2010, 2011 and 2012, and 28 February 2013 respectively. There was no movement during the Relevant Periods.

The Target Company's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing services commensurate with the level of risk.

The Target Group monitors capital using a gearing ratio, which is the Target Group's total liabilities due to shareholders over its total assets, and its policy is to keep the gearing ratio at a reasonable level. The ratio was 0.17, 0.22, 0.22, 0.24 as at 31 March 2010, 2011 and 2012, and 28 February 2013 respectively.

(g) Significant investment held

The Target Group had intangible assets of HK$281,473,437 as at 31 March 2010, 2011 and 2012, and 28 February 2013, which represents the technological know-how in relation to the Product and the exclusive right for the commercialisation of the Product.

The Product is still at the stage of further clinical trial in the PRC.

(h) Material acquisitions and disposals

During the Relevant Periods, the Target Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

(i) Contingent liabilities and charged assets

The Target Group did not have contingent liabilities and charged assets as at 31 March 2010, 2011 and 2012, and 28 February 2013.

(j) Employees and remuneration policy

The Target Group had 7, 8, 7 and 7 employees as at 31 March 2010, 2011 and 2012, and 28 February 2013 respectively. Staff cost was about HK$908,000, HK$1,199,000, HK$1,223,000 and HK$1,232,000 in the years ended 31 March 2010, 2011 and 2012, and the eleven months ended 28 February 2013.

Employees are remunerated based on industry practices and are determined with reference to individual performance.

(k) Foreign exchange risk

The Target Group operates mainly in Hong Kong and the PRC, and is exposed to foreign currency exchange rate risk arising from foreign currency exposures, primarily with respect to United States dollars.

The Target Group considers that the Hong Kong dollars are reasonably stable with the United States dollars under the Linked Exchange Rate System, and accordingly did not use any derivative financial instruments to hedge for its foreign exchange risk exposure during the Relevant Periods.

(l) Future plans on material investment

As at 31 March 2010, 2011 and 2012, and 28 February 2013, the Target Group had no plans on material investment or capital assets.

(A) ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the text of the accountants' report dated 18 June 2013 from the Company's auditors, East Asia Sentinel Limited, on the unaudited pro forma financial information of the Group for the six months ended 30 September 2012 in connection with the acquisition of the minority interest in Smart Ascent, prepared for the purpose of incorporation in this circular.

East Asia Sentinel Limited
衛亞會計師事務所有限公司
Certified Public Accountants

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18 June 2013

The Board of Directors
Extrawell Pharmaceutical Holdings Limited
Room 3409–10, 34/F.
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED

Dear Sirs,

We report on the unaudited pro forma financial information of Extrawell Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the acquisition (the "Acquisition") of the remaining minority interest in Smart Ascent Limited ("Target Company", together with its subsidiaries hereinafter referred to as the "Target Group") by the Group (together with the Target Group hereinafter referred to as the "Enlarged Group") might have affected the financial information presented, as set out on pages III-4 to III-10 in Appendix III of the Company's circular dated 18 June 2013 (the "Circular"). The basis of preparation of the unaudited pro forma financial information of the Enlarged Group is set out in the section headed "Unaudited Pro Forma Financial Information of the Group" on page III-4 in Appendix III of the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the sole responsibility of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forms financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments, if any, are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and because of its hypothetical nature, does not give any assurance or indication that any event will take place in the future and may not be indicative of:

— the financial position of the Enlarged Group as at 30 September 2012 or any future date; or

— the results and cash flows of the Enlarged Group for the six months period ended 30 September 2012 or any future period.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments, if any, are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
East Asia Sentinel Limited
Certified Public Accountants
Hong Kong

(B) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

I. Introduction

The following is the illustrative financial information comprising the unaudited pro forma consolidated statement of financial position, the consolidated statement of comprehensive income and the consolidated statement of cash flows of the Enlarged Group, which have been prepared on the basis as set out in the notes below for the purpose of illustrating the effects of the Acquisition as if it had taken place on 30 September 2012 for the unaudited pro forma consolidated statement of financial position and as if it had taken place on 1 April 2012 for the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows.

This Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared using the accounting policies consistent with that of the Group as set out in the published interim report of the Group for the period ended 30 September 2012 after making certain pro forma adjustments as set out in the notes below.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and is based on a number of assumptions, estimates, uncertainties and currently available information. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed on 30 September 2012, nor purport to predict the future financial position, results and cash flows of the Enlarged Group.

II. Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group for the Six Months ended 30 September 2012

	The Group	Pro-Forma adjustments	Notes	The Enlarged Group
	HK$'000	*HK$'000*		*HK$'000*
	(Note 1)			
Turnover	82,944			82,944
Cost of sales	(57,518)			(57,518)
Gross profit	25,426			25,426
Other revenues	1,050	2,000	7	3,050
Selling and distribution expenses	(3,313)			(3,313)
Administrative expenses	(13,060)	(1,100)	5	(14,160)
Research and development expenses	(644)			(644)
Finance cost	—	(5,641)	6	(5,641)
Share of results of an associate	(2,142)			(2,142)
Profit before taxation	7,317			2,576
Taxation	(716)			(716)
Profit for the period	6,601			1,860
Other comprehensive income	—			—
Total comprehensive income	6,601			1,860
Profit for the period attributable to:				
— Equity holders of the Company	6,987	(1,100)	5	
		(5,641)	6	
		2,000	7	2,246
— Non-controlling interests	(386)			(386)
	6,601			1,860
Total comprehensive income for the period attributable to:				
— Equity holders of the Company	6,987	(1,100)	5	
		(5,641)	6	
		2,000	7	2,246
— Non-controlling interests	(386)			(386)
	6,601			1,860

III. Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group as at 30 September 2012

	The Group *HK$'000* *(Note 1)*	Pro-Forma adjustments *HK$'000*	Notes	The Enlarged Group *HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	65,332			65,332
Prepaid land lease payments	23,103			23,103
Investment property	1,763			1,763
Investment in subsidiaries	—	660,000	2, 3	—
		(660,000)	4	—
Goodwill	—	596,861	4	596,861
Interest in an associate	10,377			10,377
Intangible assets	286,524			286,524
Amounts due from non-controlling interests	6,430			6,430
Loan to a non-controlling interest	5,998			5,998
	399,527			996,388
CURRENT ASSETS				
Inventories	12,063			12,063
Trade receivables	83,013			83,013
Deposits, prepayments and other receivables	87,577	(31,780)	8	55,797
Pledged bank deposits	19,648	31,780	8	51,428
Cash and cash equivalents	126,005	(18,700)	2	
		(13,133)	7	94,172
	328,306			296,473
CURRENT LIABILITIES				
Trade and bills payables	17,897			17,897
Accruals and other payables	27,207	1,100	5	28,307
Amount due to non-controlling interest	39,495	(7,091)	7	32,404
Tax payables	1,583			1,583
	86,182			80,191
NET CURRENT ASSETS	242,124			216,282
TOTAL ASSETS LESS CURRENT LIABILITIES	641,651			1,212,670
NON-CURRENT LIABILITIES				
Amounts due to non-controlling interests	16,836	(8,042)	7	8,794
Loan from a non-controlling interest	5,998			5,998
Liability component of convertible bonds	—	149,370	3	
		5,641	6	155,011
Deferred income	37,037			37,037
Deferred tax liabilities	102			102
	59,973			206,942
NET ASSETS	581,678			1,005,728
CAPITAL AND RESERVES				
Share capital	22,900	—		22,900
Reserve	357,523	(1,100)	5	
		(5,641)	6	
		2,000	7	352,782
Equity component of convertible bonds	—	491,930	3	491,930
Equity attributable to:				
Equity holders of the Company	380,423			867,612
Non-controlling interests	201,255	(63,139)	4	138,116
TOTAL EQUITY	581,678			1,005,728

IV. Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group for the Six Months ended 30 September 2012

	The Group HK$'000 (Note 1)	Pro-Forma adjustments HK$'000	Notes	The Enlarged Group HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	7,317	(1,100)	5	
		(5,641)	6	
		2,000	7	2,576
Adjustments for:				
Amortisation and depreciation charges	1,981			1,981
Impairment on trade receivables	5,140			5,140
Share of loss an associate	2,142			2,142
Reversal of impairment on trade receivables	(6,755)			(6,755)
Interest income	(772)			(772)
Other income	—	(2,000)	7	(2,000)
Finance cost	—	5,641	6	5,641
Operating profit before changes in working capital	9,053			7,953
Decrease in inventories	917			917
(Increase) in trade receivables	(7,805)			(7,805)
(Increase)/decrease in deposits, prepayments and other receivables	(18,395)	31,780	8	13,385
Increase in trade and bills payables	7,370			7,370
Increase in accruals and other payables	4,323	1,100	5	5,423
Increase in deferred income	18,518			18,518
Cash generated from operations	13,981			45,761
Income tax paid	(444)			(444)
NET CASH GENERATED FROM OPERATING ACTIVITIES	13,537			45,317
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	772			772
Investments in an associate	(12,512)			(12,512)
Net cash outflow for acquisition of a subsidiary	—	(18,700)	2	(18,700)
Purchase of property, plant and equipment	(17,272)			(17,272)
(Increase)/decrease in pledged bank deposits	(48)	(31,780)	8	(31,828)
NET CASH (USED IN) INVESTING ACTIVITIES	(29,060)			(79,540)
CASH FLOWS FROM FINANCING ACTIVITIES				
Decrease in amounts due from non-controlling interests	(290)			(290)
Increase/(decrease) in amounts due to non-controlling interests	1,747	(13,133)	7	(11,386)
Loan to a non-controlling interest	(1,191)			(1,191)
Loan from a non-controlling interest	1,191			1,191
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	1,457			(11,676)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(14,066)			(45,899)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	140,071			140,071
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	126,005			94,172

V. Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The unadjusted consolidated statement of financial position, unadjusted consolidated statement of comprehensive income and unadjusted consolidated statement of cash flows of the Group are extracted from the published interim report of the Group for the six months ended 30 September 2012 dated 28 November 2012.

2. On 23 February 2013, the Company entered into a supplemental agreement (the "Supplemental Agreement") to amend certain terms and conditions on the conditional sale and purchase agreement in connection to the acquisition of 4,900 ordinary shares of HK$1 each in the issued share capital of the Target Company ("Acquisition Agreement").

   The consideration for acquisition of the Target Company shall be HK$660,000,000 which shall be payable upon the completion of the Acquisition in accordance with the Acquisition Agreement and shall be satisfied by the issue of zero coupon convertible bonds due on the 20th anniversary of the date of the completion for an aggregate principal amount of HK$641,300,000 to be issued by the Company and the cash payment of HK$18,700,000.

   In accordance with the Supplemental Agreement, the conversion price for the convertible bonds shall initially be HK$0.6413 and subject to following adjustment:

   (i) alteration of the nominal amount of the ordinary share of the Company by reason of any consolidation, sub-division or reclassification;

   (ii) issue (other than in lieu of a cash dividend) by the Company of any ordinary share of the Company credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or, if any, capital redemption reserve fund);

   (iii) capital distribution made by the Company to bondholders (in their capacity as such) of the ordinary share of the Company (whether on a reduction of capital or otherwise), or grant by the Company to bondholder of rights to acquire for cash assets of the Company or any of its subsidiaries; and

   (iv) offer by the Company to holders of the ordinary share of the Company for subscription by way of right, or grant by the Company to holders of the ordinary share of the Company any options, warrants or other rights to subscribe for or purchase any ordinary share of the Company.

   The adjustment represents the settlement of consideration for the acquisition by cash payment of HK$18,700,000 plus the issuance of HK$641,300,000 zero coupon convertible bonds.

   For the purposes of this Unaudited Pro Forma Financial Information, the directors of the Company had assumed that no convertible bonds would be converted by any bondholders.

3. The fair value of the convertible bonds comprises liability component and equity component. In accordance with Hong Kong Accounting Standard 32 "Financial Instruments: Presentation", the liability component and the equity component are separately accounted in non-current liability and equity respectively, for the purpose of preparing these unaudited pro-forma consolidated statements of financial position of the Enlarged Group.

4. The adjustment represents a consolidation entry for the elimination of the investment costs by the Company of HK$660,000,000 and the carrying value of the non-controlling interest representing 49% equity interest held by the minority shareholder in an amount of approximately HK$63,139,000.

   For the purpose of the Unaudited Pro Forma Financial Information, the directors have estimated the fair values of the identifiable assets and liabilities of the Target Group as at 30 September 2012. The directors consider that the book values of all identifiable assets and liabilities approximate their respective fair values.

   Since the fair values of the identifiable assets and liabilities of the Target Group at the date of completion of the acquisition may be substantially different from their fair values used in preparing this Unaudited Pro Forma Financial Information, the amounts of the fair values of the identifiable assets and liabilities at the date of completion of the acquisition may be different from the amounts presented above and the difference may be significant.

   In accordance with Hong Kong Financial Reporting Standard 3: Business Combination, a positive goodwill in the amount of approximately HK$596,861,000 being the excess of the Consideration of HK$660,000,000 over the Group's share of 49% of the fair value of the consolidated net asset value of Target Company will be recognised upon completion of the Acquisition.

   The directors of the Company have assessed the recoverable amount of the goodwill and are in the opinion that there is no impairment. The recoverable amount of the goodwill has been determined on the basis of its value in use.

   We, East Asia Sentinel Limited, based on the information currently available, have assessed and agree with the directors' current assessment that no impairment on the goodwill will be recognised in the first set of financial statement of the Enlarged Group after the Completion. We will adopt consistent accounting policies and principal assumptions in the treatment of the goodwill in the financial statements of the Enlarged Group.

5. This adjustment represents the expected direct costs, which includes legal and professional fees, to be incurred in relation to the Acquisition.

6. This adjustment represents the finance cost of the liability component of the convertible bonds for the purpose of the pro forma consolidated statement of comprehensive income.

7. In accordance with the Supplemental Agreement, the Group agreed to pay to the non-controlling interest of the Target Company: (i) the total amount of the outstanding amount due to the non-controlling interest, which is amounting to approximately HK$15,133,000, less (ii) HK$2,000,000. The non-controlling interest agreed no further claims or rights in respect of the outstanding amount due to him after the Acquisition is completed.

   Accordingly, approximately HK$13,133,000 will be paid to the non-controlling interest and HK$2,000,000 will be recognised as other revenue upon the settlement of the outstanding amount due to the non-controlling interest.

8. In connection with the acquisition of the 51% interest in Fosse Bio in the year ended 31 March 2004, the Target Company owed the vendor of the 51% interest in Fosse Bio (''Fosse Bio Vendor'') in amount of HK$31,780,000 being the third and fourth instalment payments for the acquisition and according to the agreement for sale and purchase of shares in relation thereon, the repayment of these two installments is to be made upon the issuance of certain certificates of the clinical trials and of the oral insulin product by the State Food and Drug Administration of the PRC. When the Company acquired the 51% interest in the Target Company in the year ended 31 March 2004, the balance remained outstanding in the books of the Target Company. The vendors of the 51% interest of the Target Company (the ''Smart Ascent Vendors'') undertook that they would pay this balance of HK$31,780,000 in full as and when the amount becomes due and payable. As the security for this undertaking, Smart Ascent Vendors pledged to the Group the remaining 49% interest in the Target Company still owned by the Vendor. This balance of HK$31,780,000 remained outstanding in the books of the Target Company as at 30 September 2012.

   Upon the completion of the Acquisition, the security of the undertaking will be released and the directors of the Company assumed that the Smart Ascent Vendors will provide cash deposit of HK$31,780,000 for the undertaking of the amount due to the Fosse Bio Vendor.

9. Apart from the Acquisition, no other adjustment has been made to the Unaudited Pro Forma Financial Information to reflect the trading results or other transactions entered into by the Group and the Target Group subsequent to 30 September 2012.

10. The Group's business operations have not been significantly affected by any seasonal and cyclical factors. The directors of the Company consider that it is appropriate to present the pro forma consolidated statement of comprehensive income and consolidated statement of cash flows of the Enlarged Group based on the six months ended 30 September 2012, being the date to which the latest published financial statements of the Group were made up.

VALUATION REPORT

The following is the text of the valuation report dated 18th June, 2013 from Castores Magi Asia Limited, an independent professional valuer, in respect of its valuation on the business of the Smart Ascent Group as at 28th February, 2013, prepared for the purpose of incorporation in this circular.

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

CASTORES
MAGI

Suite 211
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

18th June, 2013

The Directors
Extrawell Pharmaceutical Holdings Limited
Room 3409–10
34th Floor,
China Resources Building,
26 Harbour Road,
Wanchai,
Hong Kong.

Dear Sirs,

In accordance with the instructions of Extrawell Pharmaceutical Holdings Limited (hereinafter known as "the Company"), we have made an appraisal of the Market Value of a 100% equity interest of Smart Ascent Limited (hereinafter known as "Smart Ascent") and its subsidiaries (altogether hereinafter known as "Smart Ascent Group"), as at 28th February, 2013 (hereinafter known as "the Valuation Date").

The purpose of this appraisal is to formulate and express an independent opinion on the Market Value of Smart Ascent Group as at the Valuation Date on the premise of going concern. The term "Market Value" as used herein is defined as "the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion." Market Value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for associated taxes or potential taxes. We understand that the use of our work product will not supplant other due diligence, which you should conduct in reaching business decisions for Smart Ascent. Our work is designed solely for public disclosure purposes. There are no other purposes intended or should be inferred.

INTRODUCTION

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

Fosse Bio has collaborations with Tsinghua University for the research and development of the use of Oral Insulin, and shall have the exclusive right to commercialize the technologies relating to the use of Oral Insulin, manufacture and sell it on exclusive basis. On the other hand, Welly Surplus will serve as a manufacturing and distribution arm of Smart Ascent in the manufacturing and distribution of Oral Insulin.

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

Fosse Bio has had collaborations with Tsinghua University for the research and development of the use of Oral Insulin since October, 1998. Oral Insulin, an innovative oral insulin, developed by Smart Ascent Group and Tsinghua University, have entered into Phase I/II clinical trials under the State Food and Drug Administration of the People's Republic of China (hereinafter known as "SFDA") and the relevant technologies have been applied for the registration of patent. As at the Valuation Date, Phases I and II clinical trials have already been completed. As advised by Smart Ascent Group, further clinical trial of Oral Insulin in Phase III protocol is comprised of Parts A and B (both are double-blinded and placebo-controlled) of which Part A involves the adoption of Oral Insulin placebo and Part B involves the Oral Insulin placebo and insulin injection placebo.

Fosse Bio has engaged a Clinical Research Organization (hereinafter known as "CRO"), known as XinTaigoler Medical Technology Co. Ltd. (瀋陽鑫泰格爾醫藥科技開發有限公司) in the People's Republic of China (hereinafter known as "PRC"), to organize Phase III clinical trials. Generally speaking, CRO is an organization that provides support to the pharmaceutical, biotechnology, and medical device industries in the form of research services outsourced on a contract basis. A CRO may provide such services as biopharmaceutical development, biologic assay development, commercialization, preclinical research, clinical research, clinical trials management, and pharmacovigilance. Many CROs specifically provide clinical-study and clinical-trial support for drugs and/or medical devices. CROs that specialize in clinical-trials services can offer their clients the expertise of moving a new drug or device from its conception to SFDA marketing approval.

As advised by Smart Ascent Group, CRO has contracted with four hospitals, namely Peking University People's Hospital (北京大學人民醫院), Shengjing Hospital of China Medical University (中國醫科大學附屬盛京醫院), The Second Hospital of Jilin University (吉林大學第二醫院) and The

Second Affiliated Hospital of Harbin Medical University (哈爾濱醫科大學附屬第二醫院), to undertake Part A clinical trial. As at the Valuation Date, such clinical trial has been completed with per-protocol set analysis result.

The potential benefits of Oral Insulin therapy comparing with the traditional injection methods are pain-free, needle-free and it is a non-invasive drug delivery. In accordance with the market research and market estimate carried out by Fosse Bio, in 2015, there will be over 93 million diabetes patients in the PRC and it is expected that the use of Oral Insulin will become an alternative of injection insulin therapy in the treatment of diabetes.

As advised by Smart Ascent Group, upon passing through further clinical trial successfully and obtaining the relevant production approval, the drugs production will commence by the end of 2015.

MARKET OVERVIEW

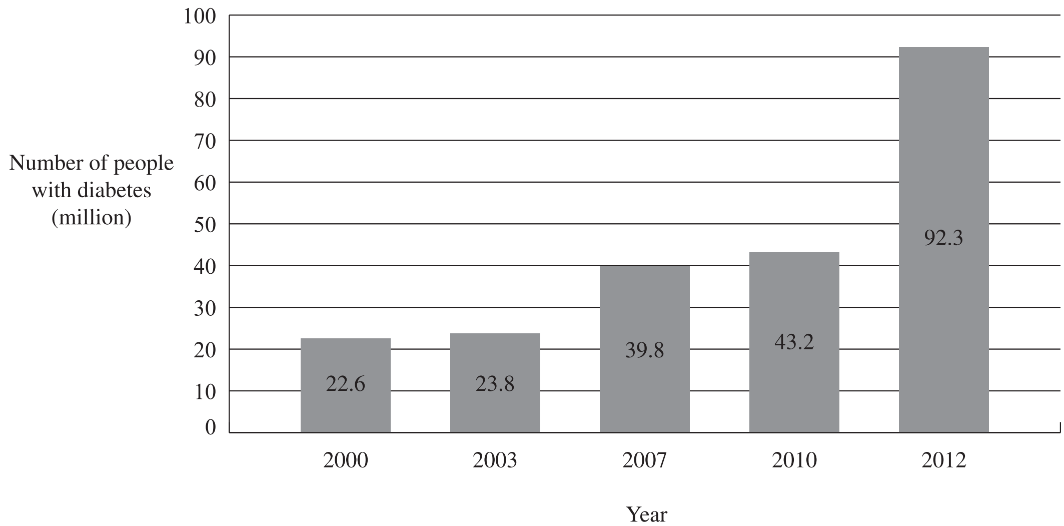
The PRC has the highest rate of diabetes (9.7%) and the largest diabetic population of more than 92 million in 2012. Along with economic growth and a new lifestyle featuring a rich diet and less exercise, the number of diabetics will continue to rise. A diabetic epidemic was prevalent among adults, citing a recently-published study which sampled 46,000 people above 20 from 14 provinces and municipalities.

Some 285 million people around the world now live with the life-threatening disease, which causes almost 3 million deaths each year, according to the International Diabetes Federation (hereinafter known as "IDF"). In the United States, 8 out of 100 people are diabetic. But in the PRC, awareness about the disease is low, with 60 percent of patients undiagnosed. Almost half the patients in the latest study did not know of their condition. Also, another 148 million in the PRC are considered pre-diabetic who display early symptoms of diabetes that can lead to cardiovascular disease, the leading cause of death.

Currently, cases are largely detected in screenings at hospitals, when most are already showing serious symptoms. People who are above 40, overweight, or in well-off urban areas where western fast food chains are common, face a particularly high risk. Overweight children are also prone to the disease. In Beijing, nearly 20% of elementary and middle school students are overweight, according to a health report issued by the municipal government in 2010. A survey conducted by the Chinese Association for Student Nutrition and Health Promotion showed nearly 30% of urban children aged between 6 and 17 eat at fast food restaurants at least once a week. Frequent consumption of high-fat food like hamburgers, fried chicken and colas leads to child obesity and other health risks including diabetes.

The PRC has almost four times as many people with diabetes than the United States, where there are 23.7 million sufferers, according to the IDF. By 2030, 40 million more will have the condition in the PRC, where diabetes causes RMB173.4 billion a year in medical costs. In retrospect, the average growth rate of diabetics in the PRC was 19.56% as from 2000 to 2012 whilst the annual growth rate of the recent two years was surprisingly high. The popularity of diabetes screenings might be the main reason contributing to such rocketing recent growth rate.

Number of people with diabetes in China



Source: IDF

Pursuant to an article — "China Diabetes Triples Creating $3.2 Billion Drug Market" by *Bloomberg* dated 5 November 2012, a Shanghai-based consultant with IMS Health Inc., which is an international medical statistics company, estimated that the PRC's diabetes drugs market will expand 20% annually to reach RMB20 billion by 2016, spurred by guidelines that set higher treatment standards. The PRC's pharmaceuticals market overall will increase 15%–18% a year to reach as much as US$165 billion over the same period.

According to IDF, a key difference is that an average of US$194 a year is spent treating each diabetes patient in the PRC, versus more than US$5,000 in developed countries such as the United States. Even as the PRC's health spending is forecast to almost triple to US$1 trillion over the next eight years, surging rates of diabetes mean the PRC is struggling to detect cases and provide basic care.

Prevalence of Type 2 diabetes, a disease linked to inactivity and excess calories, has more than tripled in the PRC over the past decade, fueling 20 percent-a-year growth in drug sales and straining health services. The older drugs on one hand can raise insulin levels, on the other hand, can cause hypoglycemia. Using the medical term for low-blood sugar that sometimes causes patients to become delirious and to pick fights. It impairs brain function and there's no way to stop it until getting the blood sugar back to normal. It's also stoking need for newer, costlier medications from Merck & Co., Novo Nordisk A/S and Sanofi that help avoid blood-sugar spikes and complications such as heart attack and stroke. However, as most people would prefer a pill to an injection, the potential market for an oral form of insulin is assumed to be enormous.

BASIS OF VALUATION AND ASSUMPTIONS

We have appraised the equity of Smart Ascent on the basis of "Market Value" on the premise of going concern. The going concern premise assumes that 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 equity interest of Smart Ascent appraised than he could reasonably expect to earn in the future from an investment in the equity interest of Smart Ascent.

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

— the history of Smart Ascent Group;

— the economic and industry outlooks affecting 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 Smart Ascent Group and the bases and assumptions for such results;

— the net assets and financial position of 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 Smart Ascent Group in implementing the Oral Insulin project.

The projected future results have been supplied to us by the Company. We have discussed the bases and assumptions for such results with the Directors of Smart Ascent Group and the Company. We consider such bases and assumptions are fair, reasonable and complete and have been made by the Company, whose responsibility they are, after due and careful enquiry.

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

— 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 3 years;

— the financial forecasts of Smart Ascent Group are achievable;

— there will be no material changes from political, legal, economic or financial aspects in the jurisdictions in which 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 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 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 Smart Ascent Group will not make any decision, which is harmful to the revenue generation ability of Smart Ascent Group's business; and

— the assumptions on which the financial forecast of Smart Ascent Group is made will be achievable. The principal assumptions are:

- the estimated diabetic population of the PRC in 2015 will be 93 million and is expected to grow at 0.5 million per annum after 2015;

- the following factors considered in the financial forecast:

	For the financial year ending 31 March				
	2016	**2017**	**2018**	**2019**	**2020**
Number of capsules (50 IU) ('000)	496,400	1,107,410	1,435,180	1,925,740	2,479,080
Unit Price (RMB)	2.70	2.70	2.70	2.70	2.70
Revenue (RMB'000)	1,340,280	2,990,007	3,874,986	5,199,498	6,693,516
Growth Rate of Revenue		123.09%	29.60%	34.18%	28.73%

Note: For details, please refer to APPENDIX IV(A).

- 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.

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

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

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

VALUATION METHODOLOGY

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

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

The formula of FCFE is set out as follows:

Free Cash Flows to Equity	=	Net Income + Depreciation and Amortization – Capital Expenditures – Non-Cash Working Capital Change – Principal Repayments + Proceeds from New Debt Issues

Key: *Net Income = Revenue – Operating Expenses – Tax*

Depreciation and Amortization: non-cash charges

Non-Cash Working Capital = Current Assets (without cash) – Current Liabilities

Principal Repayments & Proceeds from New Debt Issues: only for levered firm which finances some of its capital expenditures and working capital needs with debt

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

The formula of CAPM is set out as follows:

Cost of Equity = Risk-free Rate + Equity Beta x (Expected Market Return – Risk-free Rate)

In estimating the equity return in the pharmaceutical industry relating to diabetes, we have referred to 3 listed companies in the PRC and the United States. These companies, however, might not solely or primarily derive revenues from the selling drugs for diabetes. It is our opinion that the annualized equity return of these listed companies represents the most reliable objective market rate of return to be used in valuing your Smart Ascent's equity, since it captures investors' expectations, prevailing market conditions and the accompanying risks associated with them.

In valuing the equity interest of Smart Ascent, we determined the unlevered Ordinary Least Squares (OLS) beta by deriving a representative industry beta from the guideline companies that approximate Smart Ascent Group's services as mentioned above. An unlevered beta is the beta a company would have if it had no debt. It removes a company's financial decision from the beta calculation and reflects a company's business risks. The OLS betas are estimated by the traditional method of running a simple regression in which excess monthly returns on a company or composite is the dependent variable and the excess return on the market is the independent variable. Three listed companies in the PRC and the United States, namely Tonghua Dongbao Pharmaceutical Co. Ltd. (Stock Code: 600867, SH), Forest Laboratories Inc. (Ticker: FRX, US) and Novo Nordisk A/S (Ticker: NVO, US) have been selected as the guideline companies in our valuation.

The computation of annualized equity return and beta are set out as follows:

Guideline Company#	Ticker	Market Capitalisation (HK$Million) as at the Valuation Date	Unlevered Beta	Equity return (%)
Tonghua Dongbao Pharmaceutical Co. Ltd.	600867 SH	12,076	0.95	2.49
Forest Laboratories Inc.	FRX US	75,933	0.78	13.72
Novo Nordisk A/S	NVO US	741,134	0.55	53.24
	Median:		**0.78**	**13.72**

\# *The guideline companies tabulated below represent the reputable enterprises in researching and producing diabetic drugs. We note that there are some other companies (many of them are non-listed companies) running the similar business or undertaking the relevant clinical trials. However, in view of the information available to us is limited and cannot be verified, we are unable to consider these companies in our valuation. In these circumstances, the aforesaid guideline companies represent an exhaustive list from valuation point of view.*

In order to have a comprehensive and objective analysis of the guideline companies, we have selected three aforesaid guideline companies which are primarily engaged in manufacturing, fabricating, or processing medicinal chemicals and pharmaceutical products pertaining to diabetic drugs. The selection of these guideline companies portrays a developing market vs. developed market and a diabetic drug undergoing clinical trial vs. the diabetic drug being commericalised. Among these guideline companies, Tonghua Dongbao Pharmaceutical Co. Ltd.'s recombinant human insulin bulk drugs and injections are one of its major products which have been commercialized in the PRC. Forest Laboratories Inc. is a listed company in the United States and its newly invented drug, GRT, is under Phase II clinical trials for the treatment of Type II diabetes. Novo Nordisk A/S is another listed company in the United States, its Diabetes Care segment covers insulins, GLP-1 analog, obesity, and oral anti-diabetic drugs, which have been widely sold in various countries.

The equity risk premium of Smart Ascent is reached by multiplying the beta to the difference between the annualized equity return of the representative industry and the risk-free rate, which is the yield of 15 years' Hong Kong Exchange Fund Notes. The cost of equity is thus derived by the summation of the risk-free rate and the equity risk premium.

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

The discount rate adopted in this valuation is 15%, which is generated by applying the risk-free rate of 1.45%, beta of 0.78, risk premium of 12.27% (i.e. equity return (13.72%) less risk-free rate (1.45%)), cost of equity of 11%, country risk of 2% and investment specific risk of 2%. On the other hand, no long-term growth rate is considered in our valuation after the forecast period. The investment specific risk of 2% and country risk of 2% were based on the industry norm and our professional judgment without referring to any research or studies.

Discount Rate (15%) = Cost of Equity (11%) + Investment Specific Risk (2%) + Country Risk (2%)

By definition, the ownership interests in closely held companies are typically not readily marketable, and by definition not as liquid and as easily converted to cash compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. Numerous studies have been made showing that the Lack of Marketability (hereinafter known as "LOM") discount for a closely held stocks compared with a publicly traded counterpart averages between 10% and 50%, and many different researchers have obtained these averages over a wide span of years. We have opted to apply a 35% LOM discount to the value of Smart Ascent pursuant to "A Companion Guide to the FMV Restricted Stock Study" (2013 Edition) prepared by FMV Opinions, Inc. and based on our professional judgment.

General Comments

For the purpose of this appraisal and in arriving at our opinion of value; we have relied to a very considerable extent on the information, statements, opinion and representations provided to us by Smart Ascent Group and the Company. We were furnished with the basic information of Oral Insulin and the relevant technologies, a collaboration agreement between Smart Ascent Group and Tsinghua University, a feasibility study report, financial projections of Smart Ascent Group for a period of eight years ending 31st March, 2020 and relevant publicly available information. These data have been utilized without further verification as correctly representing the results and future prospects of the operation and the financial condition of Smart Ascent Group.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, neither guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

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

In the course of our valuation, we relied on Smart Ascent Group's financial projections during the 8 years' forecast period. We have tested this estimate against relevant data pertaining to the various economies and the replication industry, and find it is fair and reasonable.

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

We have assumed that the appraised equity interest of Smart Ascent is freely disposable and transferable for its existing or alternative uses in the open market disregarding any further tax, fee and charges payable to the government upon disposal.

In the course of our valuation, we have adopted the basis of valuation and made the valuation assumptions in accordance with the International Valuation Standards 2011 published by The International Valuation Standards Council and The HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors.

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

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

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

Opinion of Value

Based on the analysis, reasoning and data outlined as above, and on the appraisal method employed, it is our opinion that as at the Valuation Date, the Market Value of Smart Ascent Group (100% equity interest of Smart Ascent, which owns as to 51% equity interest of Fosse Bio and 51% equity interest of Welly Surplus) is reasonably stated by the amount of **HK$2,519,000,000 (HONG KONG DOLLARS TWO BILLION FIVE HUNDRED AND NINETEEN MILLION ONLY)**.

A sensitivity analysis has been made on the assumption that the discount rate has a fluctuation of ±1% and 2%, the product price has a fluctuation of ± 5% and 10%, the cost of sales has a fluctuation of ±5% and 10% and the production will be postponed up to 2 years. The results of the sensitivity analysis are set out as follows:

Discount Rate	**Valuation Result** *(HK$'000)*	**Difference** *(HK$'000)*
17.00%	2,075,000	(444,000)
16.00%	2,281,000	(238,000)
15.00%	***2,519,000***	—
14.00%	2,795,000	276,000
13.00%	3,119,000	600,000

Product Price	**Valuation Result** *(HK$'000)*	**Difference** *(HK$'000)*
–10%	1,464,000	(1,055,000)
–5%	1,992,000	(527,000)
0%	***2,519,000***	—
5%	3,046,000	527,000
10%	3,573,000	1,054,000

Cost of Sales	Valuation Result *(HK$'000)*	Difference *(HK$'000)*
–10%	2,987,000	468,000
–5%	2,753,000	234,000
0%	***2,519,000***	—
5%	2,284,000	(235,000)
10%	2,050,000	(469,000)

Postponement	Valuation Result *(HK$'000)*	Difference *(HK$'000)*
0 Year	***2,519,000***	—
1 Year	2,190,000	(329,000)
2 Years	1,905,000	(614,000)

Diabetic Population	Valuation Result *(HK$'000)*	Difference *(HK$'000)*
+10 Million	2,782,000	263,000
+5 Million	2,650,000	131,000
—	***2,519,000***	—
–5 Million	2,388,000	(131,000)
–10 Million	2,256,000	(263,000)

In addition, a study basing on 4 scenarios pertaining to a fluctuation of market share has been undertaken. This scenario study is conducted on the assumption that the market share of Oral insulin for both Type 1 and Type 2 diabetics will increase or decrease 0.25% and 0.5% each year during the forecast period. The results of this scenario study are tabulated as follows:

Scenario	Market Share	Valuation Result *(HK$'000)*	Difference *(HK$'000)*
A	+0.50%	2,992,000	473,000
B	+0.25%	2,756,000	237,000
	0%	***2,519,000***	—
C	–0.25%	2,282,000	(237,000)
D	–0.50%	2,045,000	(474,000)

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

We hereby certify that we have neither present nor prospective interest in Smart Ascent Group nor the Company or the value reported.

Yours faithfully,
For and on behalf of
Castores Magi Asia Limited
Deret Au Chi Chung
Member of China Institute of Real Estate Appraisers and Agents
Registered Business Valuer of Hong Kong Business Valuation Forum
B.Sc. MRICS MHKIS RPS MCIArb AHKIArb
Director

ASSUMPTIONS AND ESTIMATES

(1) Total diabetic population in PRC is about 93 million at Year 1 (operation started at 1 October 2015) and will increase by at least 0.5 million every year in the projection periods.

(2) According to statistics of the World Health Organisation (updated March 2013), type 2 diabetes which may be caused by obesity, physical inactivity is more common than type 1 diabetes, and accounts for approximately 90% of all diabetes worldwide. Childhood and adolescent obesity numbers are serious in the PRC. According to an article "Recommendations from the EGAPP Working Group: does genomic profiling to assess type 2 diabetes risk improve health outcomes?" published by the Evaluation of Genomic Applications in Practice and Prevention Working Group launched by the Centers for Disease Control and Prevention of the United States on 14 March 2013, up to 95% of all diabetes is considered type 2 diabetes. With reference to the above, the Company estimated that among the diabetes patients, about 8% of them belong to type 1 diabetes and 92% of them belong to type 2 diabetes.

(3) The market share of the Medicine on type 1 and type 2 diabetes patients is as follows: *<A>*

Year	Type 1 (%)	Type 2 (%)	For the six months ending	Type 1 (%)	Type 2 (%)
1	0.50	1.50	31.3.2016	0.25	0.75
			30.9.2016	0.25	0.75
2	0.80	1.80	31.3.2017	0.40	0.90
			30.9.2017	0.40	0.90
3	1.20	2.40	31.3.2018	0.60	1.20
			30.9.2018	0.60	1.20
4	1.50	3.20	31.3.2019	0.75	1.60
			30.9.2019	0.75	1.60
5	1.80	4.00	31.3.2020	0.90	2.00
			30.9.2020	0.90	2.00

The percentages of market share of the Medicine were estimated by the management's judgment and experience through exchange between researchers and physicians throughout the years of clinical trial, the management's knowledge of penetration of other new medicines in the PRC, with focus on the type 2 diabetic market and assumption that there is a potential growth trend in the type 2 diabetic population.

The Company considers that oral insulin is an unprecedented new drug and will be a new diabetes treatment method. There is not a comparable medicine having sold by the Group or other suppliers in the current market. Nevertheless, the Group has gained experience from the marketing of drugs newly launched to the PRC market such as GM-1 (a product for re-establishing functional recovery of central nervous system) and noted that a life cycle for a drug in a new market could be longer than ten years depending on the product uniqueness and its growth potential could be affected by, among others, the population size of the target customers. The management also noted that and made reference to the history and development of other medicines for other therapies such as

Cephalosporin antibiotic, which has been developed in the PRC since 1960s and continues to be a widely prescribed class of antibiotics in the market. In view of the above and that diabetes is a chronic disease, which usually requires long term medication with estimated target customers on a rising trend, the Company believes that the estimated market share is reasonable and achievable.

(4) Number of capsules (50 IU) to be taken by each diabetes patient, on average, per year is calculated as follows: ***<B>***

Per Patient	**Per Day no. of capsules**	**Per Year no. of capsules**
Type 1	4	1,460
Type 2	2	730

		Grow at 0.5 million per year				
		Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
		('000)	*('000)*	*('000)*	*('000)*	*('000)*
Total number of diabetes patients in total market PRC *<C>*						
Total market	100%	93,000	93,500	94,000	94,500	95,000
Type 1 diabetes patients	8%	7,440	7,480	7,520	7,560	7,600
Type 2 diabetes patients	92%	85,560	86,020	86,480	86,940	87,400

	FY 2016	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
	('000)	*('000)*	*('000)*	*('000)*	*('000)*
Market Share (number of diabetes patients) *<D>*	From Oct 2015				
<D> = <A> x <C>					
Type 1	19	49	75	102	125
Type 2	642	1,419	1,816	2,434	3,146
Total number of diabetes patients shared	661	1,468	1,891	2,536	3,271

			FY 2016	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
			('000)	*('000)*	*('000)*	*('000)*	*('000)*
Number of capsules (50 IU) to be taken: *<E>*							
Type 1 diabetes patients	<E> = <D> x <B>		27,740	71,540	109,500	148,920	182,500
Type 2 diabetes patients			468,660	1,035,870	1,325,680	1,776,820	2,296,580
			496,400	1,107,410	1,435,180	1,925,740	2,479,080
Gross Profit in RMB		*Unit Price (RMB)*	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000*
Per capsule (50 IU)							
Selling price cum VAT <E> @		2.70	1,340,280	2,990,007	3,874,986	5,199,498	6,693,516
Cost of Sales		1.20	(595,680)	(1,328,892)	(1,722,216)	(2,310,888)	(2,974,896)
VAT (calculated at 17% in accordance with applicable PRC tax policies)			(124,058)	(276,758)	(358,672)	(481,270)	(619,558)
Gross Profit			620,542	1,384,357	1,794,098	2,407,340	3,099,062

LETTER FROM THE REPORTING ACCOUNTANTS ON THE ACCOUNTING POLICIES AND CALCULATION FOR THE VALUATION

The following is the text of the report dated 18 June 2013 from the Company's auditors, East Asia Sentinel Limited, in connection with the valuation of the business of Smart Ascent Group as at 28 February 2013, prepared for the purpose of incorporation in this circular.

East Asia Sentinel Limited
衛亞會計師事務所有限公司
Certified Public Accountants

22/F, Tai Yau Building
181 Johnston Road
Wanchai, Hong Kong

Tel : +852 2521 2328
Fax : +852 2525 9890
Email : letters@EastAsiaSentinel.com
www.EastAsiaSentinel.com

18 June 2013

The Board of Directors
Extrawell Pharmaceutical Holdings Limited
Room 3409–10, 34/F.
China Resources Building
26 Harbour Road, Wanchai
Hong Kong

Dear Sirs,

In accordance with the instructions of the directors of Extrawell Pharmaceutical Holdings Limited ("the Company"), we have examined the principal accounting policies adopted in and the arithmetical accuracy of the calculations for 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 2013 in connection with the circular of Extrawell Pharmaceutical Holdings Limited (the "Company") dated 18 June 2013 (the "Circular").

Respective responsibilities of directors and East Asia Sentinel Limited

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 2012 and to report our opinion solely to you, as a body and for the purpose in connection with the Circular 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 complied, 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 2012.

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 2012; 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 2012.

Yours faithfully,
East Asia Sentinel Limited
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

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

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

Name of Director	Name of the company/ associated corporation	Capacity	Number and class of securities *(Note 1)*	Approximate percentage of interests held
Dr. Mao	The Company	Beneficial owner *(Note 2)*	900,600,000 Shares (L)	39.33%
	The Company	Interest of controlled corporation *(Note 3)*	480,000,000 Shares (L)	20.96%
	Smart Ascent	Beneficial owner *(Note 4)*	2,450 shares (L)	24.50%
Dr. Xie Yi	The Company	Interest of controlled corporation *(Note 3)*	480,000,000 Shares (L)	20.96%

Notes:

(1) The letter "L" represents the Director's interests in the shares and underlying shares of the Company or its associated corporations.

(2) Among these 900,600,000 Shares, (i) 500,000,000 Shares represent the Conversion Shares to be allotted and issued to Dr. Mao upon exercise in full by Dr. Mao at the Conversion Price of the conversion rights attached to the Bonds to be issued to Dr. Mao pursuant to the Acquisition Agreement ; and (ii) 400,000,000 Shares represent the Conversion Shares to be allotted and issued to Dr. Mao upon exercise in full by Dr. Mao at the

Conversion Price of the conversion rights attached to the Bonds to be issued to the Vendor pursuant to the Acquisition Agreement and to be transferred to Dr. Mao upon the exercise in full by Dr. Mao of the Call Option pursuant to the Call Option Agreement.

(3) The entire issued share capital of each of JNJ Investments Limited and Fudan Pharmaceutical Limited is owned by Biowindow Gene Development (Hong Kong) Limited, and the entire issued share capital of Biowindow Gene Development (Hong Kong) Limited is owned by United Gene Group Limited. The issued share capital of United Gene Group Limited is owned as to 33% by United Gene Holdings Limited and as to 33% by Ease Gold Investments Limited. The issued share capital of United Gene Holdings Limited and Ease Gold Investments Limited is wholly owned by Dr. Mao and Dr. Xie Yi respectively. Each of Dr. Mao and Dr. Xie Yi is deemed to be interested in all the Shares in which each of JNJ Investments Limited and Fudan Pharmaceutical Limited is interested by virtue of the SFO.

(4) These 2,450 shares in the share capital of Smart Ascent represent the shares to be transferred to Dr. Mao pursuant to the completion of the Principal Sub-sale Agreement in the event that the Acquisition Agreement shall lapse or otherwise be terminated in accordance with its terms.

(b) Save as disclosed in paragraph 2(a) above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interest and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein; or (c) were required pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(c) Saved as disclosed in this circular, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 March 2012 being the date to which the latest published audited financial statements of the Group were made up.

(d) Saved as disclosed in this circular, as at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting as at the date of this circular which is significant in relation to the business of the Group.

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

3. SUBSTANTIAL SHAREHOLDERS

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

Name of Shareholder	Number of Shares *(Note 1)*	Capacity	Approximate percentage of interests held
Ease Gold Investments Limited	480,000,000 Shares (L)	Interest of controlled corporation *(Note 2)*	20.96%
United Gene Holdings Limited	480,000,000 Shares (L)	Interest of controlled corporation *(Note 2)*	20.96%
United Gene Group Ltd.	480,000,000 Shares (L)	Interest of controlled corporation *(Note 2)*	20.96%
Biowindow Gene Development (Hong Kong) Limited	480,000,000 Shares (L)	Interest of controlled corporation *(Note 2)*	20.96%
JNJ Investments Limited	450,000,000 Shares (L)	Beneficial owner *(Note 2)*	19.65%
The Vendor	500,000,000 Shares (L)	Beneficial owner *(Note 3)*	21.83%
	400,000,000 Shares (S)	Beneficial owner *(Note 4)*	17.47%
United Gene	1,350,000,000 Shares (L)	Beneficial owner *(Note 5)*	58.95%

Notes:

(1) The letters "L" and "S" represent the entity's interests in, and short position in, the Shares, respectively.

(2) The entire issued share capital of each of JNJ Investments Limited and Fudan Pharmaceutical Limited is owned by Biowindow Gene Development (Hong Kong) Limited, and the entire issued share capital of Biowindow Gene Development (Hong Kong) Limited is owned by United Gene Group Limited. The issued

share capital of United Gene Group Limited is owned as to 33% by United Gene Holdings Limited and as to 33% by Ease Gold Investments Limited. The issued share capital of United Gene Holdings Limited and Ease Gold Investments Limited is wholly owned by Dr. Mao and Dr. Xie Yi respectively.

(3) These 500,000,000 Shares represent the Conversion Shares to be allotted and issued to the Vendor upon exercise in full of the conversion rights attached to the Bonds to be issued to the Vendor pursuant to the Acquisition Agreement at the Conversion Price.

(4) These 400,000,000 Shares represent the Conversion Shares to be allotted and issued to Dr. Mao upon exercise in full by Dr. Mao at the Conversion Price of the conversion rights attached to the Bonds to be issued to the Vendor pursuant to the Acquisition Agreement and to be transferred to Dr. Mao upon the exercise of the Call Option in full by Dr. Mao pursuant to the Call Option Agreement.

(5) Among these 1,350,000,000 Shares, (i) 450,000,000 Shares represent the Shares to be transferred from JNJ Investments Limited to United Gene pursuant to the UG SP Agreement; (ii) 500,000,000 Shares represent the Conversion Shares to be allotted and issued to United Gene upon exercise in full by United Gene at the Conversion Price of the conversion rights attached to the Bonds to be issued to Dr. Mao pursuant to the Acquisition Agreement and to be transferred to United Gene pursuant to the UG SP Agreement; and (iii) 400,000,000 Shares represent the Conversion Shares to be allotted and issued to United Gene upon exercise in full by United Gene at the Conversion Price of the conversion rights attached to the Bonds to be issued to the Vendor pursuant to the Acquisition Agreement and to be transferred to Dr. Mao pursuant to the Call Option Agreement and to be further transferred to United Gene pursuant to the UG SP Agreement.

(b) As at the Latest Practicable Date, so far as is known to the Directors, the following persons were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group (other than the Company):

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

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

4. DIRECTORS' SERVICE CONTRACTS

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

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2012, being the date to which the latest published audited financial statements of the Group were made up.

6. LITIGATION

As at the Latest Practicable Date, the Directors are not aware of any litigation or claims of material importance pending or threatened against any member of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material:

(a) the resumption and compensation agreement dated 28 December 2011 entered into between the Changchun Economic Technological Development Zone Land Reserve Centre and Changchun Extrawell Pharmaceutical Co., Ltd. ("**Changchun Extrawell**") for surrendering by Changchun Extrawell of its land and production facilities in Changchun in consideration of a cash compensation of RMB47,111,759;

(b) the capital increase agreement dated 13 January 2012 entered into by United Gene HealthCare Limited, 龍脈(上海)健康管理服務有限公司 ("**Shanghai Longmark**") and Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. ("**Jilin Extrawell**") regarding subscription for RMB2,500,000 of the registered capital of Shanghai Longmark by way of capital injection;

(c) the loan agreement dated 16 May 2012 entered into between Jilin Extrawell as lender and Shanghai Longmark as borrower for the grant of the loan for the aggregate principal amount of RMB7,500,000; and

(d) the Supplemental Agreement.

8. QUALIFICATIONS AND CONSENTS OF EXPERTS

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

Name	Qualification
Castores Magi	Registered Professional Surveyors
East Asia Sentinel Limited	Certified Public Accountants
Quam	Licensed corporation under the SFO to carry on type 6 (advising on corporate finance) of the regulated activities and is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition

(b) None of Castores Magi, East Asia Sentinel Limited and Quam has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Each of Castores Magi, East Asia Sentinel Limited and Quam has given and has not withdrawn its written consent to the issue of this circular, with copies of its letter and/or reports and the references to its name included in the forms and contexts in which they are respectively included.

(d) None of Castores Magi, East Asia Sentinel Limited and Quam had any direct or indirect interest in any asset which had been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2012, being the date to which the latest published audited financial statements of the Group were made up.

9. MISCELLANEOUS

(a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(b) The head office and principal place of business of the Company in Hong Kong is at Room 3409–10, 34/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

(c) The company secretary of the Company is Mr. Liu Kwok Wah. Mr. Liu Kwok Wah is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

(d) The branch share registrar and transfer office in Hong Kong of the Company is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong, Room 3409–10, 34/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, up to and including the date of the SGM:

(a) the Principal Acquisition Agreement;

(b) the Supplemental Agreement;

(c) the Principal Sub-sale Agreement;

(d) the supplemental agreement to the Principal Sub-sale Agreement dated 23 February 2013 entered into between the Vendor and Dr. Mao;

(e) the Call Option Agreement;

(f) the memorandum and bye-laws of the Company;

(g) the letter from the Independent Board Committee, the text of which is set out on page 42 of this circular;

(h) the letter from Quam, the text of which is set out on pages 43 to 80 of this circular;

(i) the accountants' report of the Smart Ascent Group, the text of which is set out in Appendix II to this circular;

(j) the report on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix III to this circular;

(k) the valuation report issued by Castores Magi, the text of which is set out in Appendix IV to this circular;

(l) the letter issued by East Asia Sentinel Limited, the text of which is set out in Appendix IV(B) to this circular;

(m) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(n) the letters of consent referred to in the section headed "Qualifications and Consents of Experts" in this appendix;

(o) the annual reports of the Company for the two years ended 31 March 2011 and 2012; and

(p) this circular.

EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED
精 優 藥 業 控 股 有 限 公 司*

(incorporated in Bermuda with limited liability)

(Stock code: 00858)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of Extrawell Pharmaceutical Holdings Limited (the "**Company**") will be held at Harbour View Room I, 3rd Floor, The Excelsior, Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Thursday, 4 July 2013 at 3:00 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

"**THAT**

(a) the supplemental agreement (the "**Supplemental Agreement**") dated 23 February 2013 to the acquisition agreement dated 27 July 2007 (together with the Supplemental Agreement, the "**Acquisition Agreement**") (a copy of which has been produced to the meeting marked "A" and "B" respectively and signed by the chairman of the meeting for the purpose of identification) and entered into between Mr. Ong Cheng Heang as vendor and Extrawell BVI Limited as purchaser in respect of the sale and purchase of 49% interest in the share capital of Smart Ascent Limited and the transactions contemplated thereby, including but not limited to the issue of the zero coupon convertible bonds (the "**Bonds**") for an aggregate principal amount of HK$641,300,000 as part consideration on and subject to the terms of the Acquisition Agreement) be and are hereby approved;

(b) the issue of the Bonds and the allotment and issue of ordinary shares of HK$0.01 each in the share capital of the Company, to be credited as fully paid, upon exercise of the conversion rights attaching to the Bonds in accordance with the terms thereof be and are hereby approved; and

(c) the directors of the Company be and they are hereby authorised to take such steps and execute whether under Common Seal of the Company or otherwise all such acts, matters, deeds, documents, and to do all such acts and things as they may consider necessary, appropriate, desirable or expedient in connection with:

    (i) the closing and implementation of the terms of the Acquisition Agreement or all transactions contemplated thereunder; and

    (ii) the fulfillment of the conditions precedent of completion of the Acquisition Agreement; and

(iii) the approval of any amendments or variations to the Acquisition Agreement or the granting of waivers of any matters contemplated thereby that are, in the directors' opinion, not fundamental to the transactions contemplated thereby and are in the best interests of the Company, including without limitation the signing (under the Common Seal of the Company where required or expedient) of any supplemental or ancillary agreements and instruments and the giving of any undertakings and confirmations for any such purposes."

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

Hong Kong, 18 June 2013

* *For identification purpose only*

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Room 3409–10, 34/F
China Resources Building
26 Harbour Road, Wanchai
Hong Kong

Notes:

(1) A member entitled to attend and vote at the meeting convened by the above notice or any adjournment thereof is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.

(2) A form of proxy for use at the meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the Company's Hong Kong branch share registrar and transfer office, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong no less than 48 hours before the time for holding the meeting or any adjournment thereof.

(3) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.

(4) In the case of joint holders of a Share, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she/it was solely entitled thereto to. If more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

(5) For the purpose of determining members who are qualified for attending the above meeting, the register of members of the Company will be closed from 3 July 2013 to 4 July 2013 (both days inclusive) during which period no transfer of the Shares will be effected. In order to qualify for attending the above meeting or any adjournment thereof, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong by no later than 4:30 p.m. on 2 July 2013.

(6) This notice has been printed in English and Chinese. In the event of any inconsistency, the English text of this notice shall prevail over its Chinese text.

As at the date of this notice, the executive Directors are Dr. Mao Yumin, 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.