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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 licensed securities dealer, 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(s) or the transferee(s) or to the bank, stockbroker or licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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**EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED**

**精優藥業控股有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock code: 00858)**

**CONNECTED TRANSACTION  
PROVISION OF FINANCIAL ASSISTANCE TO A CONNECTED PERSON  
AND  
NOTICE OF SPECIAL GENERAL MEETING**

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



A letter from the Board is set out on pages 4 to 11 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 12 of this circular. A letter from Quam Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 22 of this circular.

A notice convening the SGM to be held at Plaza 1–2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong at 11:00 a.m. on Tuesday, 19 July 2011 is set out on pages 28 to 29 of this circular. Whether or not you intend to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon 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 of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

\* For identification purpose only

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## DEFINITIONS

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

“2009 Circular”	the circular issued by the Company dated 21 May 2009 regarding the ratification actions for the Group’s acquisition of 51% interest in Smart Ascent in 2004
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	board of Directors
“Company”	Extrawell Pharmaceutical Holdings Limited, a company incorporated in Bermuda with limited liability and whose shares are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Deed”	the deed of transfer dated 21 February 2004 entered into between Fordnew and Smart Ascent pursuant to which Smart Ascent acquired from Fordnew 51% of the issued share capital of Fosse Bio
“Directors”	the directors of the Company
“Extrawell BVI”	Extrawell (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Fordnew”	Fordnew Industrial Limited, a company incorporated in Hong Kong with limited liability, and a substantial shareholder of a subsidiary of the Company by virtue of its 29% interest in the issued share capital of Fosse Bio
“Fosse Bio”	Fosse Bio-Engineering Development Limited, a company incorporated in Hong Kong with limited liability, an indirect non-wholly owned subsidiary of the Company which is owned as to 51% by Smart Ascent
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of the Board, comprising all independent non-executive Directors, namely Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jin Song, established for the purpose of advising the Independent Shareholders on the grant of the Loan, the Loan Agreement and the transactions contemplated thereunder

## DEFINITIONS

“Independent Shareholders”	Shareholders, other than Fordnew and its associates and any connected persons who have material interests in the grant of the Loan, the Loan Agreement and the transactions contemplated thereunder
“Latest Practicable Date”	27 June 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the unsecured, non-interest bearing loan for the aggregate principal amount of up to HK\$30 million to be advanced by Smart Ascent to Fordnew subject to and in accordance with the terms and conditions of the Loan Agreement
“Loan Agreement”	the loan agreement dated 25 May 2011 and entered into between Smart Ascent as lender and Fordnew as borrower for the grant of the Loan
“Medicine”	Oral Insulin Enteric-Coated Soft Capsules (口服胰島素腸溶膠丸), one of the oral insulin products developed by Fosse Bio in collaboration with Tsinghua University, Beijing
“PRC”	the People’s Republic of China, excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region and Taiwan
“Quam Capital”	Quam Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder
“RMB”	Renminbi, the lawful currency of the PRC
“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 Plaza 1-2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 19 July 2011 at 11:00 a.m. for the purpose of approving the grant of the Loan, the Loan Agreement and the transactions contemplated thereunder

## DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Smart Ascent”	Smart Ascent Limited, a company incorporated in Hong Kong with limited liability and is owned as to 51% by Extrawell BVI
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“THU Collaboration Arrangement”	the agreements dated 14 October 1998, 9 November 1998 and 15 October 1998 entered into between, among others, Fosse Bio and Tsinghua University, Beijing, the PRC regarding, among other matters, research and development of the use of oral insulin products
“Welly Surplus”	Welly Surplus Development Limited, a company incorporated in Hong Kong with limited liability, an indirect non-wholly owned subsidiary of the Company which is owned as to 51% 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\$1.19. 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.*

**LETTER FROM THE BOARD**



**EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED**

**精優藥業控股有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock code: 00858)**

*Executive Directors:*

Dr. Mao Yu Min  
Dr. Xie Yi  
Dr. Lou Yi  
Ms. Wong Sau Kuen

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Independent non-executive Directors:*

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

*Head office and principal place*

*of business in Hong Kong:*  
Room 3409–10, 34/F  
China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong

30 June 2011

*To the Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION  
PROVISION OF FINANCIAL ASSISTANCE TO A CONNECTED PERSON**

**1. INTRODUCTION**

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

\* For identification purpose only

## **LETTER FROM THE BOARD**

The Independent Board Committee has been formed to make recommendation to the Independent Shareholders in relation to the Loan Agreement, and Quam Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Loan Agreement.

The purpose of this circular is to provide you with, among others:

- (1) information regarding the grant of the Loan, the Loan Agreement and the transactions contemplated thereunder;
- (2) the letter of advice of the Independent Board Committee to the Independent Shareholders in respect of the fairness and reasonableness of the terms of the Loan Agreement and whether the transactions contemplated thereunder are in the interests of the Company and its Shareholders as a whole, and its recommendation on how to vote in relation to the resolutions approving the grant of the Loan, the Loan Agreement and the transactions contemplated thereunder to be proposed at the SGM;
- (3) the letter of advice from Quam Capital to the Independent Board Committee and the Independent Shareholders on its recommendations on the fairness and reasonableness of the terms of the Loan Agreement and whether the transactions contemplated thereunder are in the interests of the Company and its Shareholders as a whole, and its advice to the Independent Shareholders on how to vote in relation to the resolutions approving the Loan Agreement and the transactions contemplated thereunder to be proposed at the SGM;
- (4) other information of the Group; and
- (5) the notice of the SGM.

### **2. BACKGROUND**

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

### **3. LOAN AGREEMENT**

Date: 25 May 2011

Lender: Smart Ascent

## LETTER FROM THE BOARD

Borrower: Fordnew

Fordnew is one of the minority shareholders of Fosse Bio, holding 29% of its issued share capital as at the Latest Practicable Date, and therefore is a connected person of the Company. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, the ultimate beneficial owners of Fordnew comprised Ms. Mak Mei Lin, Mr. Siu Yeung Ping, Mr. Zheng Zhi Wei and Mr. Hou Sai Chang, who owned 28.5%, 28.5%, 38% and 5% of the entire issued share capital of Fordnew, respectively.

Mr. Siu Yeung Ping, Mr. Zheng Zhi Wei are also the directors of Fosse Bio and Welly Surplus. Mr. Siu Yan Ching, the elder brother of Mr. Siu Yeung Ping, is the spouse of Ms. Mak Mei Lin and the director of Fosse Bio and Welly Surplus.

### **Terms of the loan agreement**

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

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



## LETTER FROM THE BOARD

### Repayment and set-off arrangements

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

Notwithstanding the foregoing:

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

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

## LETTER FROM THE BOARD

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

### Conditions precedent

The Loan Agreement is conditional upon the approval by the Shareholders (with such Shareholders as required under the Listing Rules abstaining from voting on the relevant resolution(s)) of the Loan Agreement and the transactions contemplated thereby and all other consents and acts required under the Listing Rules being obtained and completed or, as the case may be, the waiver from compliance with any of such rules being obtained from the Stock Exchange.

#### 4. REASONS FOR THE CONNECTED TRANSACTION

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

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

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

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

## LETTER FROM THE BOARD

The Directors expect that next phase of the clinical trial will commence in July 2011 which will be conducted in clinical trial centres located in reputable hospitals in the PRC. Fosse Bio, through an independent project administrator, is currently negotiating with the participating hospitals as regards details of the next phase of the clinical trial. The Directors expect the next phase of the clinical trial, together with the gathering and analysing of data, will take approximately nine months to complete. The certificate of new medicine (新藥證書) for the Medicine can be obtained following the satisfactory assessment by SFDA. The production and marketing of the Medicine will commence upon final approval from SFDA, after which the Medicine can be sold as a prescription drug in the PRC market. The Directors consider that the Group can utilise its existing marketing and distribution channels in the PRC for the marketing of the Medicine and also plans to approach two distributors in each of the 30 major cities in the PRC for distribution of the Medicine.

The Directors believe that it is beneficial to the Group to inject sufficient funding to Fosse Bio to support the development of the Medicine. The Directors estimate that, as at the Latest Practicable Date, as part of the Fosse Bio's capital commitments for the development of the Medicine, the engagement of clinical trial expertise for the management of the clinical trial and related clinical study, and the incidental cost in relation thereof, amounted to approximately of RMB19.5 million, and the Directors expect that additional expenses will need to be incurred by Fosse Bio in this regard. To expedite the progress, the Group, through Smart Ascent, has been and will continue to support the project by way of non-interest bearing shareholders' loan out of its internal resources. Nonetheless, to comply with the requirements under the Deed and the shareholders' agreement of Fosse Bio and in order for the shareholders of Fosse Bio to share the risks associated with their joint investments in the development of the Medicine, including the risks as set out in the 2009 Circular, the Directors consider it appropriate to grant the Loan to Fordnew under the Loan Agreement for the onward lending arrangements so that, should any such risk materialize or Fosse Bio otherwise fails to recoup its investment in the development of the Medicine for whatever reason, the Group will be able to recoup part of its investments from the repayment of the Loan by Fordnew. The amount of the Loan made available to Fordnew under the Loan Agreement, being HK\$30 million, represents the Directors' estimate of the maximum amount of the loans as may be required to be advanced by Fordnew to Fosse Bio during the three-year term of the Loan Agreement to support the development of the Medicine.

Smart Ascent is obliged to grant non-interest bearing loan to Fordnew under the Deed. The purpose of the Loan is for onward lending to Fosse Bio which will also be made by way of a non-interest bearing loan. As the Medicine is still at its developing stage and therefore Fosse Bio has not yet been able to generate revenue from it, it is difficult for Fosse Bio to obtain external financing to finance the development of the Medicine, and Fosse Bio has limited fixed assets which can be used as security for obtaining external financing. As such, the Directors considered it to be in the interests of the Group to make the Loan to Fosse Bio indirectly without aggravating the financial burdens of Fosse Bio by charging any interests over the Loan on one hand, and to shift part of the investment risk to Fordnew as aforesaid on the other hand.

According to the relevant annual reports and interim reports of the Group, the non-current assets of the Group as at 30 September 2010 were mainly comprised of the carrying value of the technological know-how of approximately HK\$284.3 million related to the Medicine and the exclusive right for the commercialization of the Medicine (“**Know-how**”). In addition, it is noted that the Group recorded HK\$31.78 million payable to the vendor of Fosse Bio and HK\$31.78 million receivable from the

## LETTER FROM THE BOARD

vendors of Smart Ascent (“**Receivable**”) arose from the acquisition of 51% equity interest in Fosse Bio made by Smart Ascent pursuant to the Deed, of which part of the consideration remained outstanding as liability of the Group as at the Latest Practicable Date.

The recoverability of the Know-how and the Receivable is dependent upon the result of the clinical trials and the successful launching of the Medicine. Considering the economic benefit expected to be generated from the Medicine if the clinical trial is passed and mass production of the Medicine commences, the Directors consider that the recoverability of the Know-how and the Receivable should be justified in this regard.

The Directors, including the independent non-executive Directors having taken into account the advice of Quam Capital, are of the view that the provision of the Loan, which is to be used to finance the clinical trial or clinical study expenses of the research and development project in respect of the Medicine, will expedite its progress and is in the interests of the Company and its Shareholders as a whole.

### 5. REQUIREMENTS UNDER THE LISTING RULES

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

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

### 6. SGM

The Company will convene the SGM at Plaza 1–2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 19 July 2011 at 11:00 a.m. to consider and, if thought fit, approve the grant of the Loan, the Loan Agreement and the transactions contemplated thereunder. A notice of the SGM is set out on pages 28 to 29 of this circular.

Pursuant to Rule 13.39(4) of the Listing Rules, the resolution to be proposed at the SGM will be taken by poll, the result of which will be announced after the SGM.

Fordnew and its associates, and any connected persons of the Company and any Shareholder and its associate who are materially interested in the grant of the Loan, the Loan Agreement and the transactions contemplated thereunder, are therefore required to abstain from voting on the resolution

## LETTER FROM THE BOARD

proposed to be passed at the SGM for approving the Loan Agreement and any matters relating thereto. So far as the Directors are aware of having made all reasonable enquiries, Fordnew did not have interests in any Shares as at the Latest Practicable Date.

To the best knowledge of the Directors after making all reasonable enquiries, as at the Latest Practicable Date, Fordnew was a substantial shareholder of a subsidiary of the Company by virtue of its 29% interest in the issued share capital of Fosse Bio.

A form of proxy for use at the SGM is also enclosed with this circular. Whether or not you intend to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and, in any event no later than 48 hours before the time for the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

### 7. RECOMMENDATION

None of the Directors has a material interest in the transactions contemplated under the Loan Agreement. The Directors (including the independent non-executive Directors having taken into account the advice of Quam Capital) consider that the terms of the Loan Agreement are fair and reasonable and in the best interests of the Company and the Shareholders. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolution in the terms as set out in the notice of the SGM to approve the grant of the Loan, the Loan Agreement and the transactions contemplated thereunder.

### 8. ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee set out in page 12 of this circular which contains its advice to the Independent Shareholders, the letter from Quam Capital set out in pages 13 to 22 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons taken into consideration in arriving at its advice, the additional information set out in the appendix to this circular and the notice of the SGM.

Yours faithfully,  
By order of the Board  
**Extrawell Pharmaceutical Holdings Limited**  
**Xie Yi**  
*Director*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**



**EXTRAWELL PHARMACEUTICAL HOLDINGS LIMITED**

**精優藥業控股有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock code: 00858)**

30 June 2011

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION  
PROVISION OF FINANCIAL ASSISTANCE TO A CONNECTED PERSON**

We refer to the circular issued by the Company to its Shareholders dated 30 June 2011 (“**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 terms of the Loan Agreement and to advise the Independent Shareholders in connection with the Loan Agreement as to whether, in our opinion, the Loan, the terms of the Loan Agreement and the transactions contemplated thereunder are fair and reasonable and whether such transactions are in the interests of the Company and its Shareholders as a whole. Quam Capital 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 as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Quam Capital as set out in its letter of advice, we consider that the Loan, the terms of the Loan Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the grant of the Loan, the Loan Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

Independent Board Committee

**Fang Lin Hu    Xue Jing Lun    Jin Song**

*Independent non-executive Directors*

\* *For identification purpose only*

## LETTER FROM QUAM CAPITAL

*The following is the full text of a letter of advice from Quam Capital setting out the advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder.*



**Quam Capital Limited**  
A Member of The Quam Group

30 June 2011

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

Dear Sir or Madam,

### **CONNECTED TRANSACTION PROVISION OF FINANCIAL ASSISTANCE TO A CONNECTED PERSON**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee in relation to the Loan Agreement, details of which are set out in the “Letter from the Board” contained in the circular of the Company dated 30 June 2011 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meaning as defined in the Circular unless the context otherwise requires.

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

As Fordnew is a substantial shareholder of a subsidiary of the Company by virtue of its 29% interest in the issued share capital of Fosse Bio, the grant of the Loan by Smart Ascent to Fordnew under the Loan Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the requirement of the reporting, announcement and independent shareholders’ approval. Fordnew and its associates, and any connected persons of the Company who are materially interested in the Loan Agreement and the transactions contemplated thereunder, are therefore required to abstain from voting on the resolution proposed to be passed at the SGM for approving the Loan Agreement and any matters relating thereto. So far as the Directors are aware, Fordnew does not have interests in any shares of the Company as at the Latest Practicable Date.

## LETTER FROM QUAM CAPITAL

Mr. Fang Lin Hu, Mr. Xue Jing Lun and Ms. Jin Song being the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Loan Agreement are in the interests of the Company and the Shareholders as a whole, and are fair and reasonable so far as the Company and the Shareholders are concerned; and to advise the Independent Shareholders as to whether to vote in favour of the Loan Agreement and the transactions contemplated thereunder. In our capacity 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 Capital 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 Loan Agreement and the transactions contemplated thereunder.

### **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 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 provided 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 date thereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the management of the Group, the Directors and the advisers of the Company. 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 Loan 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 consider that we have reviewed sufficient 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 not, however, carried out any independent verification of the information, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, Fordnew or any of their respective subsidiaries and associates.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion and recommendation in respect of the Loan Agreement and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

#### **1. Background of the Loan Agreement**

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



## LETTER FROM QUAM CAPITAL

As disclosed in the 2009 Circular, Smart Ascent acquired its 51% interests in the issued share capital of Fosse Bio from one of its existing shareholders, Fordnew, pursuant to the Deed. Fosse Bio has entered into THU Collaboration Arrangement with Tsinghua University, Beijing, the PRC for the research and development of the use of oral insulin and related technologies. Under the Deed and the shareholders' agreement of Fosse Bio dated 6 March 2004 entered into among shareholders of Fosse Bio, including Smart Ascent and Fordnew (the "**Shareholders' Agreement**"), for the purpose of clinical trial of the Medicine and upon request of Fordnew, Smart Ascent shall provide non-interest bearing loan to Fosse Bio in proportion to its shareholding in Fosse Bio and/or to provide non-interest bearing loan to the other shareholders of Fosse Bio for onward lending to Fosse Bio for payment of expenses relating to clinical trial of the Medicine.

Accordingly, on 25 May 2011, Smart Ascent and Fordnew entered into the Loan Agreement pursuant to which Smart Ascent has conditionally agreed to grant an unsecured, non-interest bearing loan in the aggregate amount of up to HK\$30 million to Fordnew for onward lending to Fosse Bio for payment of expenses relating to clinical trial of the Medicine.

### **2. Business and financial information of the Group**

The Group is principally engaged in the development, manufacture, marketing and distribution of pharmaceutical products in the PRC, commercial exploitation and development of genome-related technology, and the development and commercialisation of oral insulin products, i.e. the Medicine. As the development of the Medicine is still in progress, no revenue was generated from the development and commercialisation of the oral insulin products segment.

Smart Ascent is an investment holding company owned as to 51% by Extrawell (BVI) Limited, a wholly owned subsidiary of the Company. As at the Latest Practicable Date, Smart Ascent owns 51% of the issued share capital of Fosse Bio. Fosse Bio is principally engaged in the research and development of the Medicine. Fordnew is a private company incorporated in Hong Kong with limited liability. Fordnew owns 29% of the issued share capital of Fosse Bio.

## LETTER FROM QUAM CAPITAL

The following table summarises the consolidated statement of financial position of the Group as at 31 March 2010, 2009 and 2008 and 30 September 2010 and 2009 as extracted from the Company's respective annual reports and interim reports.

	<b>As at 30 September</b>		<b>As at 31 March</b>		
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
<b>Non-current assets</b>					
Property, plant and equipment	47,511	50,762	50,045	53,252	53,854
Prepaid land lease payments	13,368	14,162	13,634	14,428	14,251
Intangible assets	287,046	285,398	287,186	285,676	285,782
Amounts due from minority shareholders	9,598	9,417	9,598	9,054	—
	<u>357,523</u>	<u>359,739</u>	<u>360,463</u>	<u>362,410</u>	<u>353,887</u>
<b>Current assets</b>					
Inventories	18,854	22,595	23,121	28,291	18,639
Trade receivables	109,432	89,103	84,756	89,675	97,948
Deposits, prepayments and other receivables	63,964	61,630	60,304	64,455	58,697
Amount due from a minority shareholder	3	3	3	3	8
Pledged bank deposits	20,667	20,546	20,579	20,498	18,160
Cash and cash equivalents	<u>116,252</u>	<u>101,965</u>	<u>104,987</u>	<u>80,718</u>	<u>72,234</u>
	<u>329,172</u>	<u>295,842</u>	<u>293,750</u>	<u>283,640</u>	<u>265,686</u>
<b>Current liabilities</b>					
Trade and bills payables	13,055	11,754	8,479	10,401	13,023
Accruals and other payables	59,160	42,196	46,312	44,563	44,513
Amounts due to minority shareholders	32,531	34,103	32,570	32,847	32,404
Dividend payable to minority shareholders	—	505	—	1,298	—
Tax payables	<u>1,989</u>	<u>7,524</u>	<u>2,171</u>	<u>6,163</u>	<u>16,654</u>
	<u>106,735</u>	<u>96,082</u>	<u>89,532</u>	<u>95,272</u>	<u>106,594</u>
<b>Net current assets</b>	<u>222,437</u>	<u>199,760</u>	<u>204,218</u>	<u>188,368</u>	<u>159,092</u>
<b>Total assets less current liabilities</b>	<u>579,960</u>	<u>559,499</u>	<u>564,681</u>	<u>550,778</u>	<u>512,979</u>

## LETTER FROM QUAM CAPITAL

	As at 30 September		As at 31 March		
	2010	2009	2010	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
<b>Non-current liabilities</b>					
Amounts due to minority shareholders	16,184	14,597	14,493	13,672	—
Deferred tax liabilities	<u>102</u>	<u>102</u>	<u>102</u>	<u>102</u>	<u>102</u>
	<u>16,286</u>	<u>14,699</u>	<u>14,595</u>	<u>13,774</u>	<u>102</u>
<b>Net assets</b>	<u><u>563,674</u></u>	<u><u>544,800</u></u>	<u><u>550,086</u></u>	<u><u>537,004</u></u>	<u><u>512,877</u></u>
<b>Capital and reserves</b>					
Share capital	22,900	22,900	22,900	22,900	22,900
Reserves	<u>327,158</u>	<u>307,178</u>	<u>313,896</u>	<u>299,272</u>	<u>274,020</u>
Equity attributable to equity holders of the Company	350,058	330,078	336,796	322,172	296,920
Non-controlling interests	<u>213,616</u>	<u>214,722</u>	<u>213,290</u>	<u>214,832</u>	<u>215,957</u>
<b>Total equity</b>	<u><u>563,674</u></u>	<u><u>544,800</u></u>	<u><u>550,086</u></u>	<u><u>537,004</u></u>	<u><u>512,877</u></u>

As disclosed in the annual report of the Company for the financial year ended 31 March 2010 (the “**2010 Annual Report**”) and the interim report for the six months ended 30 September 2010, it is the Group’s strategy to manage its financial resources conservatively by maintaining a healthy level of cash flows to meet all its financial commitments when they fall due. The Group generally finances its operations with internally generated cash flow and banking facilities.

As at 30 September 2010, the Group had total cash and bank balances (including pledged bank deposits) of about HK\$136.9 million, representing an increase by approximately 9.0% from that as at 31 March 2010.

The Group did not have bank borrowings as at 30 September 2010 but it had banking facilities on trade finance, which were supported by the pledge of the Group’s fixed deposits of approximately HK\$20.7 million and corporate guarantees from the Company and certain subsidiaries of the Company. In general, there is no significant seasonality fluctuation on trade finance requirement of the Group.

The Group’s total borrowing over total assets ratio remained at a relatively low level of approximately 0.05 as at 30 September 2010, which is calculated based on the Group’s total debts of about HK\$32.5 million, being amounts due to minority shareholders.

According to the relevant annual reports and interim reports of the Company, the non-current assets of the Group as at 30 September 2010 were mainly comprised of the carrying value of the technological know-how of approximately HK\$284.3 million related to the Medicine and the

## LETTER FROM QUAM CAPITAL

exclusive right for the commercialisation of the Medicine (“**Know-how**”). In addition, it is noted that the Group recorded HK\$31.78 million payable to the vendor of Fosse Bio and HK\$31.78 million receivable from the vendors of Smart Ascent (the “**Receivable**”) arose from acquisition of 51% equity interest in Fosse Bio by Smart Ascent pursuant to the Deed, of which part of the consideration remained outstanding as liability of the Group as at the Latest Practicable Date. At the time when the Group acquired the 51% interest in Smart Ascent, this liability remained but the vendors of the 51% interest of Smart Ascent undertook to pay as and when the amount becomes due and payable. As a result, an amount of HK\$31.78 million was recorded as a receivable by Smart Ascent. As security for this undertaking, Mr. Ong Cheng Heang, a minority shareholder of Smart Ascent pledged to the Group his remaining 49% interest in Smart Ascent.

Shareholders should note that the auditors of the Company have emphasised their concerns on the recoverability of the Know-how and the Receivable in the “Independent Auditors’ Report” as set out in the 2010 Annual Report, which are dependent upon the result of the clinical trials and the successful launch of the Medicine. It is further noted from the 2010 Annual Report that the Know-how is valued at an amount not less than HK\$284,260,000 by an independent professional valuer. Considering the economic benefit expected to be generated from the Medicine if the clinical trial is passed and mass production of the Medicine commences, the Directors consider that the recoverability of the Know-how and the Receivable should be justifiable in this regard.

### 3. Reasons for the Loan Agreement

Under the Deed and the Shareholders’ Agreement, for the purpose of clinical trial of the Medicine and upon request of Fordnew, Smart Ascent shall provide non-interest bearing loan to Fosse Bio in proportion to its shareholding in Fosse Bio and/or to provide non-interest bearing loan to the other shareholders of Fosse Bio for onward lending to Fosse Bio for payment of expenses relating to the clinical trial. As at the Latest Practicable Date, Fosse Bio is in the course of preparing for further clinical trial of the Medicine and has been incurring research and development expenses in relation thereto.

As disclosed in the 2010 Annual Report, the Group remains positive and optimistic towards its success and future development of the Medicine. Despite that there is certain delay in the project due to the forefront but essentially reinforcing work, the Group will continue to progress at high speed with the solid advancement and engagement of the clinical trial expertise. The Group will continue cautiously managing the progress and would be committing more resources in expediting the process as necessary and appropriate.

As advised by the Directors, the Company expects that the next phase of the clinical trial will commence in July 2011 which will be conducted in clinical trial centres located in reputable hospitals in the PRC. Fosse Bio, through an independent project administrator, is currently negotiating with the participating hospitals as regards details of the next phase of the clinical trial. The Company expects that the next phase of the clinical trial, together with the gathering and analysing of data, will take approximately nine months to complete. The certificate of new medicine (新藥證書) for the Medicine can be obtained following the satisfactory assessment by SFDA. The production and marketing of the Medicine will commence upon final approval from SFDA, after which the Medicine can then be sold as a prescription drug in the PRC market. The

## LETTER FROM QUAM CAPITAL

Directors consider that the Group can utilise its existing marketing and distribution channels in the PRC for the marketing of the Medicine and also plans to approach two distributors in each of 30 major cities in the PRC for distribution of the Medicine.

In order to expedite the progress of the development of Medicine and to comply with the requirements under the Deed and the Shareholders' Agreement, the Group, through Smart Ascent, will continue to support the project by way of non-interest bearing shareholders' loan financing by its internal resources.

The Directors believe that it is beneficial to the Group to inject sufficient funding to Fosse Bio to support the development of the Medicine. The amount of the Loan made available to Fordnew under the Loan Agreement, being HK\$30 million, represents the Directors' estimate of the maximum amount of loans as may be required to be advanced by Fordnew to Fosse Bio during the three-year term of the Loan Agreement to support the development of the Medicine. The Directors estimate that, as at the Latest Practicable Date, as part of the Fosse Bio's capital commitments for the development of the Medicine, the engagement of clinical trial expertise for the management of the clinical trial and related clinical study, together with the incidental cost in relation thereto, amount to approximately RMB19.5 million (equivalent to approximately HK\$23.2 million). The Directors expect that additional expenses including the pre-marketing efforts before the commencement of commercial production and distribution of the Medicine of approximately HK\$6 million will be required by Fosse Bio.

Nonetheless, the Directors consider that the grant of the Loan to Fordnew under the Loan Agreement for onward lending to Fosse Bio can share the risks associated with the joint investments in the development of the Medicine with the substantial shareholder of Fosse Bio. In case of any risk regarding the development of the Medicine materialises or Fosse Bio otherwise fails to recoup its investment in the development of the Medicine for whatever reasons, the Group will still be able to recoup part of its investments from the repayment of the Loan by Fordnew.

In light of the aforesaid, considering (i) the prospect of the Medicine and the economic benefit to be generated from the Medicine if the clinical trial is passed and mass production of the Medicine commences; (ii) the cashflow requirement of Fosse Bio, in particular the estimated capital commitments and aggregate expenses of Fosse Bio in relation to the development and pre-marketing efforts of the Medicine amounted to approximately HK\$29.2 million; (iii) that Fosse Bio is a subsidiary of the Company; (iv) that, under the Deed and the Shareholders' Agreement, the Group is obliged to make available of non-interest bearing loan to Fosse Bio and/or other shareholders of Fosse Bio for onward lending to Fosse Bio; (v) that the investment risk and credit risk on Fosse Bio are shared by Fordnew and the Group is able to demand the repayment of the Loan from Fordnew should any such risk materialise or Fosse Bio otherwise fails to recoup its investment in the development of the Medicine for whatever reason; and (vi) that the recoverability of the Know-how and Receivable is dependent upon the result of the clinical trials and the successful launching of the Medicine which can only be materialised with Fosse Bio continuing with the clinical trial, we concur with the view of the Directors that it is in the interest of the Company to grant the Loan to Fordnew under the Loan Agreement.

## LETTER FROM QUAM CAPITAL

#### 4. Principal terms of the Loan Agreement

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

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

#### *Repayment and set-off arrangements*

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

Notwithstanding the foregoing:

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

## LETTER FROM QUAM CAPITAL

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

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

Based on the aforesaid, and considering (i) the estimated capital commitments and aggregate expenses of Fosse Bio in relation to the development and pre-marketing efforts of the Medicine of approximately HK\$29.2 million; (ii) that Fosse Bio is a subsidiary of the Company; (iii) that the drawdown of the Loan shall be paid by Smart Ascent (on behalf of Fordnew) directly to Fosse Bio, which will only be applied to the development of the Medicine; (iv) that this arrangement is in accordance with the terms specified in the Deed and the Shareholders' Agreement; and (v) that any outstanding amount of the Loan shall be settled by way of set-off against the 4th Instalment Payment after the receipt of the certificate of new medicine (新藥證書) for the Medicine issued by SFDA which can further reduce credit risks to the Group, the Directors are confident that the repayment obligation of Fordnew can be fulfilled in the event of successful development of the Medicine, we consider that the terms of the Loan Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### **5. Financial effects of the Loan on the Group**

We were advised by the Directors that the grant of the Loan of up to HK\$30 million from the Group to Fordnew will result in the onward lending arrangements to Fosse Bio which is a subsidiary of the Company and its results shall be consolidated into the financial statements of the Group. If principal amount of HK\$30 million is drawn down by Fordnew, the total assets and total liabilities of the Group are expected to increase by HK\$30 million. Given the cash and cash equivalents balance of the Group of approximately HK\$116 million as at 30 September 2010 and the working capital requirement of the Group, the Directors consider that the drawdown of the Loan will not have any material adverse impact on the working capital condition, net assets and profitability of the Group. Considering that any outstanding amount of the Loan shall be settled by way of set-off against the 4th Instalment Payment after the receipt of the certificate of new medicine (新藥證書) for the Medicine issued by SFDA in the event of successful development of the Medicine and the Group is able to demand the repayment of the Loan from Fordnew should any such risk materialise or Fosse Bio otherwise fails to recoup its investment in the development of the Medicine for whatever reason, the Directors are of the view that the credit risk on the Loan has been properly managed.

## LETTER FROM QUAM CAPITAL

### RECOMMENDATION

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

- the background of and reasons for the Loan Agreement;
- the estimated capital commitments and aggregate expenses of Fosse Bio in relation to the development and pre-marketing efforts of the Medicine amounting to approximately HK\$29.2 million;
- that the terms of the Loan Agreement are considered to be fair and reasonable as discussed in section (4) above; and
- that there will be no material adverse impact on the financial position of the Group as a result of the drawdown of the Loan,

we are of the view that the terms of the Loan Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and it is appropriate to grant the Loan to Fordnew under the Loan Agreement for the onward lending arrangements and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the SGM for approving the Loan Agreement and the transactions contemplated thereunder.

Yours faithfully  
For and on behalf of  
**Quam Capital Limited**  
**Gary Mui**  
*Executive Director*



## 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 Group. 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. DISCLOSURE OF INTERESTS BY DIRECTORS AND CHIEF EXECUTIVE

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company 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) (a) which 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 they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required, pursuant to the Model Code (the “**Model Code**”) for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows:

### (i) Interests in Shares

Name of Director	Company/name of associated corporation	Capacity	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mao Yu Min	The Company	Interest of controlled corporations	480,000,000 Shares (L) (Note 2)	20.96%
Xie Yi	The Company	Interest of controlled corporations	480,000,000 Shares (L) (Note 2)	20.96%

#### Notes:

- The letter “L” denotes the Directors’ long position in the Shares, or as the case may be, the underlying Shares of the Company and/or the relevant associated corporations.
- Each of JNJ Investments Ltd. (“**JNJ Investments**”) and Fudan Pharmaceutical Limited (“**FPL**”) held 450,000,000 and 30,000,000 Shares, respectively.

The entire issued share capital of JNJ Investments was owned by Biowindow Gene Development (Hong Kong) Limited (“**HK Biowindow**”), the issued share capital of which was wholly-owned by United Gene Group Ltd..

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

HK Biowindow owned the entire issued share capital of FPL.

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

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been since 31 March 2010, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as at the date hereof and which was significant in relation to the business of the Group.

### 3. SUBSTANTIAL SHAREHOLDERS

- (a) As at the Latest Practicable Date, so far as is known to any Directors or chief executive of the Company, the persons (other than a Director or chief executive of the Company); (a) who had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or (b) 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 the general meetings of the Company, were as follows:

Name of Shareholder	Capacity	Number and class of securities (Note 1)	Approximate percentage of shareholding
Ease Gold Investments Limited	Interested in controlled corporations	480,000,000 Shares (L) (Note 2)	20.96%

Name of Shareholder	Capacity	Number and class of securities (Note 1)	Approximate percentage of shareholding
United Gene-BVI	Interested in controlled corporations	480,000,000 Shares (L) (Note 2)	20.96%
United Gene Group Ltd.	Interested in controlled corporations	480,000,000 Shares (L) (Note 2)	20.96%
HK Biowindow	Interested in controlled corporations	480,000,000 Shares (L) (Note 2)	20.96%
JNJ Investments	Beneficial owner	450,000,000 Shares (L) (Note 2)	19.65%
Mr. Ong Cheng Heang	Beneficial owner	300,000,000 Shares (L) (Note 3)	13.10%

*Notes:*

- The letter "L" denotes the Shareholders' long position in the Shares of the Company and/or the relevant associated corporations.
- Each of JNJ Investments and FPL held 450,000,000 and 30,000,000 Shares, respectively.

The entire issued share capital of JNJ Investments was owned by HK Biowindow, the issued share capital of which was wholly-owned by United Gene Group Ltd..

The issued share capital of United Gene Group Ltd. was owned as to 33% by United Gene-BVI and as to 33% by Ease Gold Investments Limited. The issued share capital of United Gene-BVI and Ease Gold Investments Limited was wholly-owned by Dr. Mao Yu Min and Dr. Xie Yi respectively.

HK Biowindow owned the entire issued share capital of FPL.

Each of Ease Gold Investments Limited, United Gene-BVI, United Gene Group Ltd. and HK Biowindow was taken to be interested in all the Shares in which each of JNJ Investments and FPL was interested by virtue of the SFO.

- Mr. Ong Cheng Heang was interested in the 300,000,000 Shares which were the consideration shares to be allotted and issued to him pursuant to a conditional agreement dated 27 July 2007 entered into between him as vendor and the Group as purchaser in connection with the sale and purchase of the 49% interest in the share capital of Smart Ascent.

- (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集團有限公司	RMB9,140,000	18%
Grand Success Management Limited	Charmtex Investments Limited	10,000 shares of US\$1 each	20%
Smart Ascent	Mr. Ong Cheng Heang	4,900 shares of HK\$1 each	49%
Fosse Bio	Fordnew	2,900 shares of HK\$1 each	29%
Welly Surplus	Smart Allied Holdings Limited	29 shares of HK\$1 each	29%
Welly Surplus	Goachieve Holdings Limited	20 shares of HK\$1 each	20%

Save as disclosed herein, there was no person known to any Directors or chief executive of the Company, who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was 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 the general meetings of the Company or any other member of the Group.

#### 4. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had a service contract with any member of the Group which was not determinable by the Company or the relevant member of the Group within one year without payment of compensation other than statutory compensation.

#### 5. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2010, being the date to which the latest published audited financial statements of the Group were made up.

**6. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors and his associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group which would otherwise be required to be disclosed under Rule 8.10 of the Listing Rules if any of such Directors or his associates was a controlling Shareholder.

**7. LITIGATION**

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

**8. QUALIFICATION AND CONSENT OF EXPERT**

The following are the qualifications of the expert who has given opinion or, advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Quam Capital	a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to the Independent Board Committee

Quam Capital has given and has not withdrawn its written consent to the issue of this circular with the reference to its name and its letter in the form and context in which it appears.

As at the Latest Practicable Date, Quam Capital had no shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

Quam Capital does not have any interest, direct or indirect, in any assets which since 31 March 2010, being the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

A copy of the Loan Agreement will be available for inspection at Room 3409-10, 34/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong during normal business hours from 30 June 2011 up to and including 18 July 2011.

**10. MISCELLANEOUS**

In the event of inconsistency, the English text of this circular shall prevail over its Chinese text.

NOTICE OF SGM



**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 the special general meeting of Extrawell Pharmaceutical Holdings Limited (“**Company**”) will be held at Plaza 1–2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 19 July 2011 at 11:00 a.m. to consider, if thought fit, passing with or without amendments the following resolution as an ordinary resolution of the Company:

**ORDINARY RESOLUTION**

“**THAT** the loan agreement (the “**Loan Agreement**”) dated 25 May 2011 (a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) entered into between Smart Ascent Limited as lender and Fordnew Industrial Limited as borrower in respect of the grant of an unsecured, non-interest bearing loan for the aggregate principal amount of up to HK\$30 million to be advanced by Smart Ascent Limited to Fordnew Industrial Limited subject to and in accordance with the terms and conditions thereof and the transactions contemplated thereby be and are hereby approved, and the directors of the Company be and they are hereby authorized to take such steps as they may consider necessary, appropriate, desirable or expedient to implement or give effect to the terms of the Loan Agreement or all transactions contemplated thereunder.”

By order of the Board of  
**Extrawell Pharmaceutical Holdings Limited**  
**Liu Kwok Wah**  
*Company Secretary*

Hong Kong, 30 June 2011

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

Room 3409–10, 34/F  
China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong

\* *For identification purpose only*

## NOTICE OF SGM

*Notes:*

1. A member of the Company entitled to attend and vote at the meeting above is entitled to appoint in written form one or, if he is the holder of two or more shares (“Shares”) of the Company, more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. In the case of joint holders of Shares, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the above meeting, personally or by proxy, that one of the said persons so present whose name stands first in the register in respect of such share shall alone be entitled to vote in respect thereof.
3. A form of proxy for use at the meeting is enclosed. In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney duly authorised, and must be deposited with the Hong Kong branch share registrar and transfer office (“**Branch Registrar**”) of the Company, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof) not less than 48 hours before the time fixed for holding of the meeting or any adjournment thereof.
4. The register of members of the Company will be closed from 15 July 2011 to 19 July 2011 (both days inclusive), during which period no transfer of Shares will be effected. All transfers of Shares accompanied by the relevant share certificates must be lodged with the Branch Registrar at the above address by no later than 4:30 p.m. on 14 July 2011.
5. 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.