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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 adviser.

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

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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)

**MAJOR TRANSACTION CONCERNING
THE PROPOSED THIRD AMENDMENTS TO
THE TERMS AND CONDITIONS OF
THE CONVERTIBLE BONDS ISSUED BY
INNOVATIVE PHARMACEUTICAL BIOTECH LIMITED
AND
NOTICE OF SPECIAL GENERAL MEETING**

Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as defined under the section “Definitions” of this circular.

A notice convening the SGM to be held at Room 2, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Wednesday, 28 June 2023 at 3:00 p.m. is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM (or any adjournment thereof) to the Company’s branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish and in such event the relevant form of proxy shall be deemed to be revoked.

* *For identification purpose only*

12 June 2023

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	6
APPENDIX I — FINANCIAL INFORMATION OF THE GROUP	I-1
APPENDIX II — GENERAL INFORMATION	II-1
NOTICE OF SPECIAL GENERAL MEETING	SGM-1

DEFINITIONS

In this circular, the following expression shall have the following meanings unless the context indicates otherwise:

“2014 Announcements”	the joint announcements of the Company and Innovative dated 18 March 2014, 19 March 2014 and 28 July 2014 regarding the Disposal
“2014 Circular”	the circular of the Company dated 27 June 2014 regarding the Disposal
“2019 Announcements”	the announcements of the Company dated 26 July 2019 and 28 October 2019 regarding to the First Amendments
“2019 Circular”	the circular of the Company dated 16 September 2019 regarding the First Amendments
“2019 Interest”	interest of the Convertible Bonds for the period from 28 July 2018 to 27 July 2019 (both dates inclusive)
“2020 Interest”	interest of the Convertible Bonds for the period from 28 July 2019 to 27 July 2020 (both dates inclusive)
“2021 Announcements”	the announcements of the Company dated 12 May 2021 and 16 August 2021 regarding to the Second Amendments
“2021 Circular”	the circular of the Company dated 14 July 2021 regarding the Second Amendments
“2021 Interest”	interest of the Convertible Bonds for the period from 28 July 2020 to 27 July 2021 (both dates inclusive)
“2022 Interest”	interest of the Convertible Bonds for the period from 28 July 2021 to 27 July 2022 (both dates inclusive)
“2023 Interest”	interest of the Convertible Bonds for the period from 28 July 2022 to 27 July 2023 (both dates inclusive)
“2024 Interest”	interest of the Convertible Bonds for the period from 28 July 2023 to 27 July 2024 (both dates inclusive)
“2025 Interest”	interest of the Convertible Bonds for the period from 28 July 2024 to 27 July 2025 (both dates inclusive)

DEFINITIONS

“Additional Interest I”	an additional interest of the Convertible Bonds in the amount of HK\$11,261,250, being the additional interest for two-year extension for payment of 2019 Interest and one-year extension for payment of 2020 Interest, both of which was due on 28 July 2021 as per the First Amendments and was further extended to be due on 28 July 2023 as per the Second Amendments
“Additional Interest II”	an additional interest of the Convertible Bonds in the amount of HK\$29,654,625, being the additional interest for two-year further extension for payment of 2019 Interest, 2020 Interest, 2021 Interest and Additional Interest I and one-year extension for the payment of 2022 Interest, all of which is to be due on 28 July 2023 as per the Second Amendments
“Additional Interest III”	as proposed in the Proposed Third Amendments, an additional interest of the Convertible Bonds in the amount of HK\$4,826,250, being the additional interest for one-year extension for payment of 2024 Interest
“Additional Interest IV”	as proposed in the Proposed Third Amendments, an additional interest of the Convertible Bonds in the amount of HK\$49,812,263, being the additional interest for two-year extension for payment of the Outstanding Interest, Additional Interest I and Additional Interest II
“Announcement”	The announcement of the Company dated 28 April 2023 in respect of the Proposed Third Amendments
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday and other general holidays in Hong Kong and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business

DEFINITIONS

“Company”	Extrawell Pharmaceutical Holdings Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 858)
“Conditions Precedent”	conditions precedent to the Proposed Third Amendments as set forth in the Third Amendment Deed
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Conversion Price”	HK\$2.5 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds
“Conversion Share(s)”	new Innovative Share(s) to be allotted and issued by Innovative upon the exercise of the conversion rights attaching to the Convertible Bonds at the Conversion Price
“Convertible Bonds”	the convertible bonds created and constituted by the Convertible Bonds Instrument and any deed poll supplemental thereto and issued with the benefit of and subject to the provision of the Convertible Bonds Instrument in the aggregate principal amount of HK\$715,000,000 due in 2021 issued by Innovative to the Company on 28 July 2014 with the interest of 3.5% per annum for a conversion period of 7 years from the date of issue, further details of which are set out in the 2014 Circular
“Convertible Bonds Instrument”	the instrument by way of deed poll executed by Innovative on 28 July 2014 creating and constituting the Convertible Bonds
“Deed of Waiver”	the deed of waiver dated 28 April 2023 executed by the Parties in respect of waiving certain obligations of Innovative to the extent to effect the Proposed Third Amendments
“Director(s)”	the director(s) of the Company
“Disposal”	the sale of 51% interest in the share capital of Smart Ascent by the Vendor to the Purchaser
“First Amendments”	the amendments to certain terms and conditions of the Convertible Bonds made in 2019 as set forth in the First Amendment Deed

DEFINITIONS

“First Amendment Deed”	the deed of amendment dated 26 July 2019 executed by the Parties in relation to the First Amendments
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, PRC
“Innovative”	Innovative Pharmaceutical Biotech Limited (formerly known as United Gene High-Tech Group Limited), a limited liability company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 399)
“Innovative Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of Innovative
“Latest Practicable Date”	8 June 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Outstanding Interest”	collectively, 2019 Interest, 2020 Interest, 2021 Interest, 2022 Interest and 2023 Interest to be payable by Innovative to the Company under the Convertible Bonds, in the amount of HK\$125,125,000
“Parties”	parties to the First Amendment Deed, the Second Amendment Deed, the Third Amendment Deed and the Deed of Waiver, being the Company and Innovative
“PRC”	the People’s Republic of China
“Proposed Third Amendments”	the proposed amendments to be made to the terms and conditions of the Convertible Bonds as set forth in the Third Amendment Deed
“Purchaser”	Clear Rich International Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Innovative

DEFINITIONS

“Second Amendments”	the amendments to certain terms and conditions of the Convertible Bonds made in 2021 as set forth in the Second Amendment Deed
“Second Amendment Deed”	the second deed of amendment dated 12 May 2021 executed by the Parties in relation to the Second Amendments
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“SGM”	a special general meeting of the Company to be convened and held to consider and, if thought fit, to approve the Third Amendment Deed and the transactions contemplated thereunder, including the Proposed Third Amendments, and the Deed of Waiver
“Share(s)”	ordinary share(s) of HK\$ 0.01 each in the share capital of the Company
“Shareholder(s)”	registered holder(s) of Shares
“Smart Ascent”	Smart Ascent Limited, a company incorporated in Hong Kong with limited liability, the entire issued share capital of which was owned by the Vendor prior to the Disposal
“Smart Ascent Group”	Smart Ascent and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission of Hong Kong
“Third Amendment Deed”	the deed of amendments dated 28 April 2023 executed by the Parties in relation to the Proposed Third Amendments
“Vendor”	Extrawell (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
“%”	per cent.

Note: Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, amounts or percentage in this circular may not be an arithmetic sum of such figures. Any discrepancy in any table between totals and sums of amounts listed in this circular is due to rounding.

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:

Xie Yi (*Chairman and Chief Executive Officer*)

Cheng Yong (*Deputy Chief Executive Officer*)

Lou Yi

Wong Sau Kuen

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent non-executive Directors

Fang Lin Hu

Jin Song

Guo Yi

Head office and principal place

of business in Hong Kong

Suites 2206–08, 22nd Floor,

Devon House, Taikoo Place,

979 King's Road, Quarry Bay,

Hong Kong

12 June 2023

To the Shareholders

Dear Sir/Madam,

**MAJOR TRANSACTION CONCERNING
THE PROPOSED THIRD AMENDMENTS TO
THE TERMS AND CONDITIONS OF
THE CONVERTIBLE BONDS ISSUED BY
INNOVATIVE PHARMACEUTICAL BIOTECH LIMITED
AND
NOTICE OF SPECIAL GENERAL MEETING**

BACKGROUND

Reference is made to the 2014 Announcements and 2014 Circular in relation to, among others, the Disposal. Completion of the Disposal took place on 28 July 2014 and on the same day, Innovative issued to the Company the Convertible Bonds with principal amount of HK\$715,000,000 due on 28 July 2021 with interest at 3.5% per annum. Please refer to the 2014 Circular for the details of the Convertible Bonds.

* *For identification purpose only*

LETTER FROM THE BOARD

Reference is also made to the 2019 Announcements and 2019 Circular in relation to, among other things, the First Amendment Deed and the First Amendments. On 26 July 2019, the Parties executed the First Amendment Deed pursuant to which the Parties amended certain terms and conditions of the Convertible Bonds to, *inter alia*, extend the interest payment dates for 2019 Interest and 2020 Interest. It was also stipulated in the First Amendment Deed that Innovative should pay to the Company the Additional Interest I on 28 July 2021 for such extension. The Additional Interest I was derived from: $[(2019 \text{ Interest} \times 2) + 2020 \text{ Interest}] \times 15\%$. For the details of the First Amendments, please refer to the 2019 Circular.

Reference is further made to the 2021 Announcements and 2021 Circular in relation to, among other things, the Second Amendment Deed and the Second Amendments. On 12 May 2021, the Parties executed the Second Amendment Deed pursuant to which the Parties further amended the terms and conditions of the Convertible Bonds to, *inter alia*, (i) extend the maturity date to 28 July 2023; and (ii) extend the interest payment dates for those Outstanding Interest and Additional Interest I to 28 July 2023. It was also stipulated in the Second Amendment Deed that, in addition to those Outstanding Interest and Additional Interest I, Innovative should pay to the Company the Additional Interest II on 28 July 2023 for extension of interest payment dates. The Additional Interest II was derived from: $\{[(2019 \text{ Interest} + 2020 \text{ Interest} + 2021 \text{ Interest} + \text{Additional Interest I}) \times 2] + 2022 \text{ Interest}\} \times 15\%$. For the details of the Second Amendments, please refer to the 2021 Circular.

Following the First Amendments and the Second Amendments, as at the Latest Practicable Date, the major particulars of the Convertible Bonds are as follows:

- (i) Principal Amount : HK\$715,000,000
- (ii) Holder : the Company
- (iii) Interest Rate : 3.5% per annum on the principal amount of the Convertible Bonds

LETTER FROM THE BOARD

(iv) Interest due from Innovative : HK\$166,040,875 which comprised of:
to the Company

- (a) 2019 Interest;
- (b) 2020 Interest;
- (c) 2021 Interest;
- (d) 2022 Interest;
- (e) 2023 Interest;
- (f) Additional Interest I; and
- (g) Additional Interest II

(v) Maturity Date : 28 July 2023

INTRODUCTION

This main purpose of this circular is to provide you with, among other things, (i) further details of the Third Amendment Deed and the transactions contemplated thereunder, including the Proposed Third Amendments; (ii) the details of the Deed of Waiver; and (iii) a notice of the SGM.

THE PROPOSED THIRD AMENDMENTS

On 28 April 2023 (after trading hours), the Parties entered into the Third Amendment Deed in respect of the Proposed Third Amendments, pursuant to which the Company agreed with Innovative to further amend certain terms and conditions of the Convertibles Bonds as follows:

- (a) the maturity date of the Convertible Bonds shall be extended for further two (2) years to 28 July 2025;
- (b) the interest payment dates for the Outstanding Interest, Additional Interest I and Additional Interest II shall be further extended to 28 July 2025;
- (c) the interest rate for 2024 Interest and 2025 Interest shall be 4.5% per annum on the principal amount of the Convertible Bonds and both of which shall be paid on 28 July 2025;
- (d) Innovative shall pay to the Company the Additional Interest III and Additional Interest IV on 28 July 2025 being the additional interest for the aforesaid extension.

The Additional Interest III was derived from: 2024 Interest \times 15%.

LETTER FROM THE BOARD

The Additional Interest IV was derived from: $[(\text{Outstanding Interest} + \text{Additional Interest I} + \text{Additional Interest II}) \times 2] \times 15\%$.

The Proposed Third Amendments were initiated by Innovative. Below is the brief comparison of the First Amendments, the Second Amendments and the Proposed Third Amendments:

	First Amendments			Second Amendments			Proposed Third Amendments		
Maturity Date	28 July 2021			28 July 2023			28 July 2025		
Interest/ Additional Interest Payment Due Date	Interest	Interest Rate	Payment Due Date	Interest	Interest Rate	Payment Due Date	Interest	Interest Rate	Payment Due Date
	2019 Interest	3.5% per annum	28 July 2021	2019 Interest	3.5% per annum	28 July 2023	2019 Interest	3.5% per annum	28 July 2025
	2020 Interest	3.5% per annum	28 July 2021	2020 Interest	3.5% per annum	28 July 2023	2020 Interest	3.5% per annum	28 July 2025
	2021 Interest	3.5% per annum	28 July 2021	2021 Interest	3.5% per annum	28 July 2023	2021 Interest	3.5% per annum	28 July 2025
	Additional Interest I		28 July 2021	2022 Interest	3.5% per annum	28 July 2023	2022 Interest	3.5% per annum	28 July 2025
				2023 Interest	3.5% per annum	28 July 2023	2023 Interest	3.5% per annum	28 July 2025
				Additional Interest I		28 July 2023	2024 Interest	4.5% per annum	28 July 2025
				Additional Interest II		28 July 2023	2025 Interest	4.5% per annum	28 July 2025
							Additional Interest I		28 July 2025
							Additional Interest II		28 July 2025
							Additional Interest III		28 July 2025
							Additional Interest IV		28 July 2025

Save as disclosed above, the principal terms of the Convertible Bonds remain unchanged and are still in full force and effect.

Conditions Precedent to the Proposed Third Amendments

The Proposed Third Amendments shall be conditional upon and subject to the following Conditions Precedent:

- (a) the approval having been obtained from the Stock Exchange in respect of the Proposed Third Amendments;
- (b) all necessary consents and approvals required to be obtained on the part of the Company and Innovative in respect of the Proposed Third Amendments having been obtained and remained in full force and effect;
- (c) the passing of the necessary resolution(s) by the shareholders of each of the Company and Innovative to approve the Third Amendment Deed and the transactions contemplated thereunder; and

LETTER FROM THE BOARD

- (d) (if necessary) the Company having passed a written resolution of the bondholder meeting to approve the Third Amendment Deed and the transactions contemplated thereunder.

The Proposed Third Amendments shall take effect on the next Business Day when all the Conditions Precedent are fulfilled (the “**Effective Date**”). None of the Conditions Precedent can be waived. If any of the Conditions Precedent is not fulfilled on or before 28 June 2023 (or such other date as the Parties may agree) (the “**Long Stop Date**”), the Third Amendment Deed shall automatically lapse and be of no further effect and the Company and Innovative shall be released from all obligations thereunder. If all of the Conditions Precedent have been fulfilled on or before the Long Stop Date, on the Effective Date, Innovative shall execute a deed poll to effect the Proposed Third Amendments to the Convertible Bonds Instrument.

As at the Latest Practicable Date, item (d) of the Conditions Precedent has been fulfilled.

THE DEED OF WAIVER

On 28 April 2023 (after trading hours), the Parties executed the Deed of Waiver pursuant to which the Company during the period from and including 28 April 2023 to the Effective Date or the date the Third Amendment Deed is terminated (whichever is earlier)

- (i) grants to Innovative a waiver in respect of the following obligations when due to the extent necessary and solely to effect the Proposed Third Amendments:
- (a) to redeem 100% of the outstanding principal amount of the Convertible Bonds (“**Outstanding Principal Payment**”) on 28 July 2023; and
 - (b) to pay the Outstanding Interest, the Additional Interest I and Additional Interest II on 28 July 2023.
- (ii) not to take any steps to enforce or make demand for the Outstanding Principal Payment, the Outstanding Interest, the Additional Interest I and the Additional Interest II.

It is also stipulated in the Deed of Waiver that if any of the Conditions Precedent has not been fulfilled on or before the Long Stop Date, the Third Amendment Deed shall automatically terminate and will have no further effect on the Parties, and in such event, Innovative shall within 30 Business Days from the Long Stop Date pay to the Company

- (i) the Outstanding Principal Payment;
- (ii) the Outstanding Interest, the Additional Interest I and Additional Interest II; and
- (iii) the additional interest calculated at 15% per annum on HK\$881,040,875 (being the sum of Outstanding Principal Payment (HK\$715,000,000) and the Outstanding Interest, Additional Interest I and Additional Interest II (HK\$166,040,875)) accrued from 28 July 2023 to the actual date of payment (both dates inclusive) on the basis of a 365-day year.

LETTER FROM THE BOARD

INFORMATION OF THE COMPANY

The Company is an investment holding company and its subsidiaries are principally engaged in the development, manufacture and sales of pharmaceutical products in the PRC, the marketing and distribution of pharmaceutical products to customers in the PRC, and the business of commercial exploitation and development of genome-related technology.

INFORMATION OF INNOVATIVE AND SMART ASCENT

Innovative

Innovative is an investment holding company and its subsidiaries are principally engaged in the trading of beauty products and equipment, and research, development and commercialization of the oral insulin product (the “**Product**”).

Set out below are the audited consolidated financial information of Innovative (together with its subsidiaries, the “**Innovative Group**”) for the years ended 31 March 2022 (“**FY2022**”), 2021 (“**FY2021**”) and 2020 (“**FY2020**”) as extracted from the annual report of Innovative for the FY2022 and FY2021 (the “**2022 Innovative Annual Report**” and “**2021 Innovative Annual Report**”).

	Year ended 31 March		
	2022	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	11,145	15,189	14,580
Gross profit	1,054	1,405	1,620
Profit (Loss) for the year	36,431	(212,155)	(222,462)
	As at 31 March		
	2022	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	1,394,996	1,403,210	1,418,878
Net assets	395,266	358,706	567,773
Bank balances and cash	4,083	8,992	22,936

As stated in the 2021 Innovative Annual Report, revenue of Innovative increased from about HK\$14,580,000 to HK\$15,189,000 for FY2021, the increase was mainly attributable to increase in business of the trading of beauty equipment and products segment during FY2021. Innovative recorded loss of about HK\$212,155,000 in FY2021, which decreased by about HK\$10,307,000 from HK\$222,462,000 in FY2020. The decrease in loss was due to no loss incurred on modification of convertible bonds issued by Innovative and no loss recorded for change in fair value of investments in convertible bonds issued by the Company, which was partly offset by the increase in effective interest expense on convertible bonds issued by Innovative, and there were decreases in

LETTER FROM THE BOARD

the administrative expenses and research and development expenses in FY2021. Total assets of Innovative primarily comprised of its intangible assets held by the Smart Ascent Group related to the in-process research and development project involving the Product, which amounted to approximately HK\$1,373,224,000 as at 31 March 2021 and 2020. As at 31 March 2021, Innovative has relatively thin cash position of approximately HK\$8,992,000.

As stated in the 2022 Innovative Annual Report, revenue of Innovative decreased to about HK\$11,145,000 (FY2021: HK\$15,189,000), the decrease was mainly attributable to decrease in business of the trading of beauty equipment and products segment during FY2022 resulted from the COVID-19 pandemic still affecting the business, particularly the another wave of COVID-19 outbreak in early 2022. Innovative recorded profit of about HK\$36,431,000 (FY2021: Loss HK\$212,155,000) which was due to the non-cash item resulted from the completion of the Second Amendments to the terms and conditions of the Convertible Bonds. The Convertible Bonds were restated to the fair value of the liability component at completion date of the Second Amendments which were less than their carrying value. The difference between the carrying value and the fair value of the liability component of the Convertible Bonds amounting to approximately HK\$250,645,000 was then credited into the income statement for the FY2022. Total assets of Innovative comprised of its intangible assets held by Smart Ascent Group related to the in-process research and development project involving the Product was HK\$1,373,224,000 as at 31 March 2022 and 2021. As at 31 March 2022, Innovative had bank balances and cash amounting to HK\$4,083,000.

Smart Ascent

Smart Ascent is a 51% owned subsidiary of Innovative and the remaining 49% of Smart Ascent is owned by the Group. Smart Ascent Group is principally involved in the development of the Product, which is still at its clinical trial stage.

Smart Ascent Group has commenced part B of phase III clinical trial of the Product which is typically considered as the final stage of clinical trial before commercialization and to the best of the knowledge, information and belief of the Directors, Innovative has been allocating its internal resources to finance the development of the Product and would do its best endeavor to inject additional resources to the Smart Ascent Group to facilitate the development of the Product.

For the purpose of financing the working capital requirements of Smart Ascent Group, Innovative Group and the Group, as lenders and Smart Ascent, as borrower, entered into a shareholders' loan agreement on 27 July 2018 (the "**First Loan Agreement**") for a loan to Smart Ascent amounting to HK\$30,000,000 in total (the "**First Loan**"), contributed as to 51% i.e. HK\$15,300,000 by Innovative Group and as to 49% i.e. HK\$14,700,000 by the Group. Smart Ascent drew down HK\$10,000,000 and HK\$20,000,000 of the First Loan in September 2018 and August 2019, respectively. To enhance the financial resources of Smart Ascent Group and facilitate the progress of the clinical trial and further development of the Product, Innovative Group and the Group, as lenders and Smart Ascent, as borrower, entered into the second shareholders' loan agreement (the "**Second Loan Agreement**") on 8 March 2022 for a loan to Smart Ascent amounting to HK\$12,000,000 in total (the "**Second Loan**"), contributed as to 51% i.e.

LETTER FROM THE BOARD

HK\$6,120,000 by Innovative Group and as to 49% i.e. HK\$5,880,000 by the Group. Smart Ascent drew down HK\$5,000,000, HK\$4,500,000 and HK\$2,500,000 in June 2022, December 2022 and March 2023 respectively.

The outbreak of coronavirus disease (COVID-19) in the PRC since early 2020 disrupted the normal operations of participating hospitals for the clinical trial of the Product, and to ensure the safety of patients and clinical researchers, the clinical trial in the process of selection and enrolment of patients was temporarily suspended pending improvement in the pandemic situation. As the COVID-19 pandemic situation in the PRC had gradually improved, during the third quarter of 2020, the enrolment of patients had commenced, and while the pandemic situation in the PRC was largely under control, the preventive and control measures associated with the prolonged pandemic situation had been continuously implemented causing certain delay in patient selection and enrolment. Furthermore, the sporadic outbreaks of COVID-19 variant in the PRC, and particularly the emergence of the highly transmissible Omicron variant in early 2022, had driven the nation to vigilantly stick to its toughest COVID-19 measures, and caused regional and citywide lockdowns in many parts of the PRC, restricting patient flows and impacting on clinical research activities. As such, the patient selection and enrolment process experienced further delay, and is still ongoing.

To the best information of the Company, prior to the commercialization of the Product, the Product shall undergo those processes including a) execution of clinical trial testing; data and outcome analysis; preparation of the clinical trial outcome report; b) arrangement for production and sourcing of raw materials; and preparation for pre-marketing activities; and c) submission of clinical trial report to the National Medical Products Administration, and subject to its approval, applying for the new medicine certificate, and the manufacturing permit. Based on the current information available to the Company, as the pandemic control measures in the PRC have been substantially lifted from early 2023, the prolonged pandemic disruptions are expected to be gradually minimized that Smart Ascent Group has under the current circumstance, reassessed the timeline for commercialization of the Product which is currently expected to be in around the first quarter of 2025.

As disclosed above, the Board is of the view that the financial performance of Innovative was unsatisfactory and its cash position was relatively thin, and given the volatile market conditions under the impact of COVID-19 pandemic in the past three years, it is expected that Innovative would encounter difficulty in obtaining new debt or bank borrowings (without providing collaterals) with favorable terms or procurement of equity financing.

Hence, the Board is of the view that the Proposed Third Amendments would facilitate more time for the investment of Innovative in Smart Ascent and the Group expects to enjoy the economic benefits as share of profit of an associate when the Smart Ascent Group becomes profit making following commercialization of the Product.

LETTER FROM THE BOARD

FINANCIAL EFFECT OF THE PROPOSED THIRD AMENDMENTS

Upon the Proposed Third Amendments becoming effective, it is expected of the following financial impacts to the Group:

Earnings

Gain on receipt of the annual interests and the additional interests

Pursuant to the Proposed Third Amendments, the maturity date of the Convertible Bonds will be extended for two years from 28 July 2023 to 28 July 2025 (the “**Maturity Date**”), the principal amount of the Convertible Bonds remaining outstanding will be redeemed on the Maturity Date, and no interest will be received from the Convertible Bonds until the Maturity Date. However, there will be a generation of additional income by extending the maturity date of the Convertible Bonds to the Maturity Date. Innovative will have to pay on the Maturity Date all outstanding annual interests and additional interests in an aggregate amount of HK\$285,029,388 which comprising (i) the Outstanding Interest, Additional Interest I and Additional Interest II all of which are due on 28 July 2023 totaling HK\$166,040,875 under the Second Amendments and (ii) a total sum of HK\$118,988,513 comprising of (i), (ii) and (iii) below:

- (i) the 2024 Interest and 2025 Interest at 4.5% per annum in the aggregate amount of HK\$64,350,000;
- (ii) the Additional Interest III in the amount of HK\$4,826,250 representing 15% per annum on the 2024 Interest for one-year extension of the payment of 2024 interest; and
- (iii) the Additional Interest IV in the amount of HK\$49,812,263 representing 15% per annum on the aggregate amount of the Outstanding Interest, Additional Interest I and Additional Interest II totaling HK\$166,040,875 for two-year extension for the payment of the said HK\$166,040,875.

The postponement of time to the Maturity Date for the receipt of the Outstanding Interest, Additional Interest I and Additional Interest II in the amount of HK\$166,040,875, the receipts on the Maturity Date of the 2024 Interest and 2025 Interest, and the gain of Additional Interest III and Additional Interest IV resulting from the two-year extension of the Convertible Bonds from 28 July 2023 to the Maturity Date, as to approximately HK\$38,745,009, HK\$60,227,771 and HK\$20,015,733 in each of the years ending 31 March 2024, 2025 and 2026, will be reflected as fair value change in the valuation of the Convertible Bonds (subject to qualified valuer’s report) in the respective financial years, in accordance with Hong Kong Financial Reporting Standard 9 “Financial Instruments” and would be expected to increase the total equity of the Company in each of the financial years ending 31 March 2024, 2025 and 2026. The net cash proceeds from the items stated in (i) to (iii) above would improve the overall cash flow of the Group in the financial year ending 31 March 2026.

LETTER FROM THE BOARD

Assets and liabilities

As at 31 March 2023, the unaudited total assets and liabilities of the Group were approximately HK\$1,122,900,000 (2022: HK\$1,317,101,000 (audited)) and HK\$163,300,000 (2022: HK\$152,177,000 (audited)) respectively, and the unaudited total current assets and current liabilities were HK\$178,600,000 (2022: HK\$194,382,000) and HK\$60,300,000 (2022: HK\$64,063,000) respectively. As at the Latest Practicable Date, the Group's current assets and current liabilities are expected to be HK\$185,700,000 and HK\$59,800,000 respectively, arriving at net current assets of approximately HK\$125,900,000. It is expected that the Proposed Third Amendments will have no immediate material impact on the liquidity of the Group for the financial years ending 31 March 2024, 2025 and 2026.

REASONS FOR AND BENEFITS OF THE PROPOSED THIRD AMENDMENTS

Extension on the maturity date and the payment of the outstanding interest of the Convertible Bonds

The Company has received from Innovative the payments of interest on the Convertible Bonds for the period from 27 July 2014 to 28 July 2018 in accordance with their respective due dates on 28 July 2015, 28 July 2016, 28 July 2017 and 28 July 2018 respectively. The Company was approached by Innovative to go through the First Amendments and the Second Amendments to amend, *inter alia*, the payment dates of the interest and the maturity date of the Convertible Bonds. Under the Second Amendments, the maturity date of the Convertible Bonds will be due on 28 July 2023 and the Outstanding Interest, the Additional Interest I and Additional Interest II will also be due on 28 July 2023.

Under the Proposed Third Amendments, the Company was approached by Innovative for the further two-year extension of the maturity date from 28 July 2023 to 28 July 2025, and the payment date of all the outstanding interest due from Innovative to the Company up to 28 July 2023 will be further extended to 28 July 2025 (the “**Extension**”). Pursuant to the Third Amendment Deed, Innovative agreed to pay to the Company the 2024 Interest, the 2025 Interest, the Additional Interest III and the Additional Interest IV.

The two-year extension period (from 28 July 2023 to 28 July 2025) was requested by Innovative in order to enable Innovative to have sufficient time to arrange for the funding to meet its payment obligations under the Convertible Bonds, including new debt and equity financing. In considering the request for the Extension made by Innovative, the Board has scrutinized the issue carefully including the reason behind the request for the Extension, the financial situation of Innovative and its financial capacity to meet with payment of the Convertible Bonds after the Extension, the business prospect of Innovative and the effect the Extension may have on the business of the Group.

The Directors consider that the prolonged COVID-19 pandemic in the past three years was a global disruption across trade and finance and caused widespread impacts on worldwide business operations to varying degrees, and Innovative was inevitably suffered from the economic shift that it has experienced difficulty in improving its financial performance, and obtaining new debt with favorable terms or procuring equity financing under the volatile market condition in the past year.

LETTER FROM THE BOARD

The core operating business of Innovative involves the research and development of the Product characterized by oral administration of insulin for treatment of type 2 diabetes. To the best knowledge and information of the Directors, over the past decade, 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, and the prevalence of diabetes increases with age. Given that diabetes is a chronic disease that affects the long-lasting health condition of patients and the aged population is accelerating in the PRC, the Board forms the view that there is an enormous market for quality diabetes pharmaceuticals in the PRC and it is expected that the Product characterized by oral administration of insulin will be widely acceptable to patients upon its successful launching to the market. The Company was further informed by Innovative that Smart Ascent Group has been endeavoring to advance the clinical trial of the Product after the release of the pandemic control measures in the PRC, hence, the Board is optimistic and is of the view that the Product under clinical trial, once commercialized, will bring substantial benefits to both of the Company and Innovative and will improve the business of Innovative in the near future. In view of Innovative has been endeavoring to advance the progress of the clinical trial of the Product to realise its commercialization by the first quarter of 2025, the Board considers that the two-year extension period requested by Innovative is commercially justifiable.

The Board has also considered the latest financial information of Innovative available to the public to assess its financial situation and noted that as at 30 September 2022, amongst other things, (i) the total assets of Innovative was primarily comprised of the intangible assets held by the Smart Ascent Group related to the in-process research and development project involving the Product; (ii) the liabilities of Innovative was primarily comprised of the Convertible Bonds (issued to the Company); (iii) Innovative didn't have any bank borrowing; and (iv) the largest shareholder of Innovative, namely Dr. Ma Yumin, had been providing unsecured financial support to Innovative to meet its obligations.

Given the current share prices of Innovative (as stated below), the Company at the moment has no intention convert the Convertible Bonds into the Innovative Shares as the Company is of the view that holding of Convertible Bonds to maturity shall provide more monetary benefits to the Company. The request from Innovative for the Extension is aiming to enable it to postpone a substantial cash outflow, and thus allowing it more time to arrange for financial resources to meet its payment obligations under the Convertible Bonds. Following the release of the COVID-19 restrictions, the borders has been reopening and full resumption of normal travel around the world indicating the desire of the PRC government to improve the economies and financial market. In view of the positive move in the world's economy, the Board is still optimistic that the business environment and economy in the PRC will be resumed and recovered in the coming year and remain optimistic towards the business and financial performance of Innovative in the coming years.

The Directors consider that the Extension will not affect the business operations of the Group having taken into account the Group's cash position, the cash flows and working capital requirements of business operations for the coming three years, on the other hand, the increase of the annual interest rate on 2024 Interest and 2025 Interest, the Additional Interest III and Additional Interest IV all of which are the return resulting from the request of Innovative of the Extension, will bring benefit and generate more income to the Company as the additional interest

LETTER FROM THE BOARD

generated from the Proposed Third Amendments shall exceed the interest income from placing bank deposits in commercial banks in Hong Kong. The Extension is also generally in line with the expected time required for the Product to commence commercialization, which will facilitate the investment of Innovative in Smart Ascent such that the Group would also enjoy the economic benefits as share of profit of an associate when the Smart Ascent Group becomes profit making following commercialization of the Product. Finally, save for the continuing operation of the existing business of the Group, the Group currently does not plan to acquire or invest in other material investment, and taking into account the Group's financial position, the business operation of the Group will not be adversely affected by the Extension.

The Convertible Bonds was issued on 28 July 2014. The initial Conversion Price of HK\$2.5 per Conversion Share represents:

- (i) a premium of approximately 1,119.51% over the closing price of HK\$0.205 per Innovative Share as quoted on the Stock Exchange on the date of the Third Amendment Deed;
- (ii) a premium of approximately 1,131.53% over the average closing price of HK\$0.203 per Innovative Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of signing of the Third Amendment Deed;
- (iii) a premium of approximately 1,125.49% over the average closing price of HK\$0.204 per Innovative Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of signing of the Second Amendment Deed; and
- (iv) a premium of approximately 825.93% and 920.41% over the net asset value of approximately HK\$0.270 and HK\$0.245 per Innovative Share, calculated based on the respective audited consolidated net assets of HK\$395,266,000 and HK\$358,706,000 as at 31 March 2022 and 2021 and 1,464,193,024 Innovative Shares in issue as at the date of the Third Amendment Deed, respectively.

Assuming that the Company exercises the conversion rights attaching to the Convertible Bonds prior to the maturity date of 28 July 2023, 286,000,000 Innovative Shares will be allotted and issued to the Company, which represents approximately 19.53% of the Innovative Shares in issue as at the date of the Third Amendment Deed or approximately 16.34% of the issued Innovative Shares as enlarged upon the conversion.

The Company considers that the holding of the Convertible Bonds which are interest-bearing to maturity, shall provide more monetary benefits to the Company, as such, the Company has no present intention of converting the Convertible Bonds into Innovative Shares.

Having considered the above, the Directors (including the independent non-executive Directors) are of the view that the Proposed Third Amendments and the granting of the waiver to Innovative pursuant to the terms of the Deed of Waiver, are both on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Basis for the annual interest rate of the Convertible Bonds and the additional interest rate on the extension/further extension of interest payment

It is agreed in the Third Amendment Deed that the annual interest rate for 2024 Interest and 2025 Interest is 4.5% per annum.

The Company has searched for relevant convertible bonds/notes issued by companies listed on the Stock Exchange announced for the past three months prior to and including 28 April 2023 (i.e. the date of the Third Amendment Deed), on a best effort basis, excluding issuance of A share convertible bonds and issuance of perpetual (without maturity date) convertible bonds by companies, which are considered of less relevance to the Company. Having considered that the abovementioned period adopted is appropriate to illustrate the current market practice in relation to prevailing coupon interest rate applied to similar convertible bonds issued under the current market condition and sentiment, the Company has identified an exhaustive list of 14 comparables (the “**Comparables**”). However, Shareholders should note that the businesses, operations and prospects of Innovative are not the same as the subject companies of the Comparables which are only used to provide a general reference for the common market practice. Summary of the Comparables are set out below:

Date of announcement	Company name	Stock code	Principal amount (’000)	Interest rate per annum (%)	Maturity (years)	Interest payment
10 February 2023	Phoenitron Holdings Limited	8066	HK\$16,500,000	5	3	maturity
15 February 2023	China Silver Technology Holdings Limited	515	HK\$15,262,320	8	3	annual, at conversion
17 February 2023	Gudou Holdings Limited	8308	HK\$25,300,000	2.34262	1	monthly
3 March 2023	Wynn Macau, Limited	1128	US\$600,000,000	4.5	6	semi-annual
3 March 2023 & 24 March 2023	Da Sen Holdings Group Limited	1580	HK\$7,800,000	10	2	semi-annual
9 March 2023	Wisdom Wealth Resources Investment Holding Group Limited	7	HK\$100,000,000	5.625*	1	no information
10 March 2023	Kiu Hung International Holdings Limited	381	HK\$30,500,000	0	3	not applicable
28 March 2023	IBO Technology Company Limited	2708	HK\$92,400,000	8	2	maturity
29 March 2023	China Baoli Technologies Holdings Limited	164	RMB20,000,000	2	3	maturity
3 April 2023 & 4 April 2023	Ta Yang Group Holdings Limited	1991	HK\$40,000,000	10	3	semi-annual
3 April 2023	China Zenith Chemical Group Limited	362	HK\$44,100,000	3	2	annual
10 April 2023	Global Sweeteners Holdings Limited	3889	RMB120,000,000	5	3	maturity
13 April 2023	AL Group Limited	8360	HK\$5,000,000	3	7	maturity
28 April 2023	Hua Yin International Holdings Limited	989	HK\$150,000,000	6	3	quarterly
			Maximum	10		
			Minimum	0		
			Average	5.18		
			Median	5		

* HSBC’s then HK\$ best lending rate

Source: the website of the Stock Exchange (www.hkex.com.hk)

LETTER FROM THE BOARD

The annual interest rate of 4.5% per annum on the principal amount of the Convertible Bonds for the two-year extension period from 28 July 2023 to 28 July 2025 is within the above range of nil to 10% and is close to the average 5.18% and the median 5%, of the Comparables as illustrated above.

Further, the Additional Interest III is the additional interest for the Extension calculated at 15% per annum on the 2024 Interest, and Additional Interest IV is the additional interest for the Extension calculated at 15% per annum on the Outstanding Interest, Additional Interest I and Additional Interest II respectively.

The additional interest calculated at 15% per annum was arrived at after arm's length negotiation between Innovative and the Company, having taken into account the prevailing deposits interest rate available to the Group and the prevailing best lending rate of 5.875% by the Group's principal banker and 5.625% to 5.875% by other commercial banks in Hong Kong at the time of entering into the Third Amendment Deed. The Directors also consider that the additional interest rate at 15% per annum which is approximately two times over the aforesaid best lending rate is fair and reasonable, given that the Company will grant the one-year extension of payment for the 2024 Interest and the further two-year extension of the payment of Outstanding Interest, Additional Interest I and Additional Interest II under the Proposed Third Amendments and the circumstance that no collateral is provided to the Group.

The Group's bank balances and pledged bank deposits carried variable interest rates of 0.001% to 5.15% and 0.55% to 4.7% as recorded during the year ended 31 March 2023, respectively. Hence, the annual interest rate of 4.5% on the principal amount of the Convertible Bonds is close to the upper range of, and the additional interest rate of 15% per annum on the Outstanding Interest, Additional Interest I and Additional Interest II, is substantially higher than, the existing interest rates of the Group's bank balances and pledged bank deposits (and when compared to deposit interest rates available from other commercial banks in Hong Kong). The two-year extension of the maturity of the Convertible Bonds to the Maturity Date represents an additional income of approximately HK\$118,988,513 to the Group, which includes two-year annual interest for 2024 Interest and 2025 Interest (HK\$64,350,000), the Additional Interest III (HK\$4,826,250) and the Additional Interest IV (HK\$49,812,263).

As discussed above and according to the 2022 Innovative Annual Report, it is noted that the financial performance of Innovative was unsatisfactory and its cash position was relatively thin. The Board was told by Innovative that Innovative is going to plan for, among others, obtaining of loans from banks and doing equity financing, which will be in a better position to arrange for the funding to meet its payment obligations on the Maturity Date. The Board is cautiously optimistic that following the easing of travel restrictions and the recent border reopening together with supportive policies in the PRC and Hong Kong, the market condition will turn to be more stable in the near future and thus is of the view that the Extension will make the repayment of all outstanding sum under the Convertible Bonds more feasible.

LETTER FROM THE BOARD

Despite the weak financial performance of Innovative, it is noted that Innovative's core operating business involving the clinical trial of the Product is still ongoing, and following the substantial lifting of the pandemic control measures in the PRC in early 2023, it is expected that the prolonged pandemic disruptions that impacted on the progress of the clinical trial are expected to be gradually minimized, and as far as the Company is aware of, there has not been any material events occurred that may adversely affect Innovative's financial and trading position nor indicate that any of the principal or interests of the Convertible Bonds in relation to the Proposed Third Amendments is not recoverable on the Maturity Date. As such, the Board, having struck a balance on the risk and benefit in respect of the Proposed Third Amendments, is of the view that the Proposed Third Amendments will bring benefits to the Group.

The prolonged COVID-19 pandemic has caused devastating forces and uncertainties to many businesses, and has taken a cautiously optimistic view on Innovative's financial capability to fulfill the payment obligations on the Maturity Date. When approaching by Innovative for the request of the Extension, the Board has been suggested by Innovative and was made known from the recent Innovative's announcements that in addition to equity financing, Innovative has been making efforts to improve its financial performance by way of acquisition of business that can provide revenue stream. In the meantime, Innovative has been advancing the progress of the clinical trial of the Product after the prolonged pandemic situation in the PRC and the Company is expecting on the launching of the Product in the PRC market.

With the adverse impact of the prolonged COVID-19 pandemic subsiding and the economy is in gradual recovery and investor sentiment improves, the Board believes that with the clinical trial of the Product is in progress, both the Company and Innovative expects favorable results on the clinical trial and the successful commercialization of the Product. As the pandemic situation in the PRC has been substantially improved and the clinical trial of the Product will be conducted under controlled framework, the Board holds a positive view on the success of the Product and considers that the risk of non-recovery of Convertible Bonds due to unsuccessful of the Product would be minimal. The Board will coordinate with Innovative in monitoring the progress of the clinical trial of the Product and expects successful launching of the Product to the market. The Company has a positive view that the business of Innovative will improve and Innovative will be capable of seeking new debt and equity financing in an effort to meet its payment obligations under the Convertible Bonds on the Maturity Date.

The Company considers that the Extension is a win-win situation as it not only allows Innovative to have more time to improve its financial performance and pursue funding especially the economy has begun recovering steadily after the uplifting of pandemic containment measures against COVID-19 at the beginning of 2023, it also allows the Company to generate more income as the additional interest generated from the Proposed Third Amendments which would exceed the interest offered by commercial banks in Hong Kong.

LETTER FROM THE BOARD

The Company will also keep watching the financial performance of Innovative and the financing exercises by Innovative during the 2-year extension period and, in the case that Innovative is unable to fulfill its payment obligations under the Third Amendment Deed, the Company can still reconsider the situation and take appropriate steps upon expiry of the Maturity Date.

The Company did give thought to the scenario that if Innovative is unable to repay the outstanding sums on the Maturity Date and the Board has sought professional advice on the rights and actions the Company could take if this happens. The Company would like to reiterate that at the moment the Company is holding a positive view on the repayment ability of Innovative, the Board believes that it is commercially reasonable to proceed with the Extension at the moment. As the Board will closely monitor the financial performance of the Innovative in the next two years, if the Company is of the view that there is material adverse change or events that affect the repayment ability of Innovative, the Board will take an initiative role to discuss with Innovative a settlement plan such as repayment by instalments at such terms acceptable to the Company, the Board will keep on seeking advices from professional parties in reviewing the whole situation in order to protect the interests of the Company and its Shareholders.

Based on the above, the Directors consider that the Extension, and the increase in the interest rate of annual interest and the provision of additional interests resulting from the Extension are all arrived at after arm's length negotiation between the Company and Innovative and the Directors consider that the Extension as proposed in the Proposed Third Amendments is on normal commercial term and is fair and reasonable as Innovative will also pay the 2024 Interest and 2025 Interest on the Maturity Date, while the two-year extension of time can accommodate Innovative to continue deploying its financial resources in Smart Ascent Group for the commercialization of the Product, and to perform its payment obligations on the Maturity Date, which will be in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS OF LISTING RULES

As one or more of the applicable percentage ratios in respect of the transaction contemplated under the Proposed Third Amendments is more than 25%, the transaction contemplated under the Third Amendment Deed constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. The Proposed Third Amendments are therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of the Latest Practicable Date, (i) Innovative does not hold any Share of the Company ; (ii) each of Dr. Xie Yi, Mr. Cheng Yong and Dr. Lou Yi, being the executive Director, holds less than 1% of the share capital of Innovative; and (iii) Dr. Mao Yumin, being a director of certain subsidiaries of the Company, is a substantial shareholder of Innovative holding approximately 22.60% of the share capital of Innovative and he also holds 7.94% of the Shares of the Company. Save as disclosed above, Innovative and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules). In light of Dr. Mao Yumin's relationship with the Company and Innovative, the Board is of the view that Dr. Mao Yumin is required to abstain from voting on the proposed ordinary resolution at the SGM.

LETTER FROM THE BOARD

THE SGM

The Company will convene the SGM at Room 2, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Wednesday, 28 June 2023 at 3:00 p.m. for the Shareholders to consider, and if thought fit, to approve, among other things, the Third Amendment Deed and the transactions contemplated thereunder. The notice of the SGM is set out on page SGM-1 to SGM-2 to this circular. The voting on resolutions to be proposed at the SGM will be conducted by way of poll in accordance with Rule 13.39 (4) of the Listing Rules.

The Company will publish an announcement on the results of the SGM with respect to whether or not the proposed resolutions have been passed by the Shareholders.

A form of proxy for use at the SGM is also enclosed. Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM (or any adjournment thereof) to the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM (or any adjournment thereof) should you so wish and in such event the relevant form of proxy shall be deemed to be revoked.

RECOMMENDATION

The Board considers that the terms and conditions of the Proposed Third Amendment Deed and the Proposed Third Amendments contemplated thereunder, and the Deed of Waiver have been arrived at after arm's length negotiation between the Company and Innovative which are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolution approving the Proposed Third Amendment Deed, the Proposed Third Amendments and the transactions contemplated thereunder, and the Deed of Waiver at the SGM.

FURTHER INFORMATION

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

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

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for the three years ended 31 March 2020, 2021 and 2022 and the six months ended 30 September 2022 have been disclosed in the annual reports of the Company for each of the three years ended 31 March 2020, 2021 and 2022 and the interim report for the six months ended 30 September 2022 respectively. The aforementioned annual reports and the interim report 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 2020 (pages 75 to 203):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0727/2020072700588.pdf>
http://www.extrawell.com.hk/catalog/pdf/2020%20AR_e.pdf

- (B) in respect of the annual report of the Company for the year ended 31 March 2021 (pages 73 to 191):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0727/2021072700705.pdf>
http://www.extrawell.com.hk/catalog/pdf/2021072700705_e.pdf

- (C) in respect of the annual report of the Company for the year ended 31 March 2022 (pages 81 to 203):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0728/2022072800931.pdf>
http://www.extrawell.com.hk/catalog/pdf/2022072800931_E.pdf

- (D) in respect of the interim report of the Company for the six months ended 30 September 2022 (pages 2 to 29):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/1215/2022121500411.pdf>
http://www.extrawell.com.hk/catalog/pdf/2022121500411_e.pdf

2. INDEBTEDNESS

As at the close of business on 30 April 2023, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this circular, the indebtedness of the Group was as follows:

Borrowings

As at the close of business on 30 April 2023, 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\$19,800,000 and corporate guarantees of about HK\$18,000,000 from the Company and certain subsidiaries of the Company, and approximately HK\$ nil of the banking facilities had been utilized.

Lease Liabilities

As at the close of business on 30 April 2023, the Group had current and non-current lease liabilities of approximately HK\$1,287,062 and HK\$3,112,112 respectively in relation to the remaining lease terms of certain lease contracts, which are unsecured and unguaranteed.

Other Indebtedness

On 16 July 2013, the Company issued 20-year zero coupon convertible bonds with an aggregate principal amount of HK\$641,300,000 (the “**2013 Convertible Bonds**”) which is unsecured and unguaranteed. The 2013 Convertible Bonds are convertible at the option of their holders into ordinary shares of the Company at the initial conversion price of HK\$0.6413 per share on or before the seventh business day prior to the maturity date of 16 July 2033. As at 30 April 2023, the outstanding principal amount of the 2013 Convertible Bonds was HK\$577,170,000.

Save as aforesaid and apart from intra-group liabilities, at the close of business on 30 April 2023, 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 2023 and up to the Latest Practicable Date.

3. WORKING CAPITAL

The Directors, after taking into account 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 requirements in the next 12 months from the date of publication of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

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

As part of the development strategy of the Group, and in line with the development trends of the pharmaceutical industry in the PRC, the Group has been focusing on enhancing the Group’s production capability and capacity so as to enhance its core competitiveness and sustain the long-term development of the Group, while the Group continues to monitor the market trends aiming for developing a new line of products in an effort to restore its pharmaceutical trading business and identify business opportunities that may provide an income stream to the Group.

The Group generally finances its operations with internally generated cash flow and the facilities granted by its principal banker in Hong Kong. The Group's business operations are not significantly affected by any seasonal and cyclical factors, except extended statutory holidays in the PRC that may lead to lower Group's revenue and profit for the months in which these holidays are declared. There is no significant seasonality of borrowing requirements. As at 30 April 2023, the Group did not have bank borrowings. The banking facilities on trade finance to a maximum amount of HK\$18,000,000 provided to certain subsidiaries of the Company were supported by the pledge of the Group's fixed deposits of about HK\$19,800,000 and corporate guarantees of about HK\$18,000,000 from the Company and certain subsidiaries of the Company and there was no utilization of the banking facilities on trade finance as at 30 April 2023. The Group's cash and cash equivalents comprising principally Hong Kong Dollars, United States Dollars and Renminbi, amounted to about HK\$101,000,000 (excluding the pledged bank deposits of about HK\$19,800,000) as at 30 April 2023.

Save for certain purchases are denominated in Euros, the Group's business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars and Renminbi. The Group manages the foreign currency exposure by closely monitoring the foreign currency movements and may purchase foreign currencies at spot rate, when and where appropriate for meeting its payment obligation. No foreign currency hedges or other hedges have been made but the Group will use financial instruments for hedging purpose when considered appropriate.

The prolonged COVID-19 pandemic situation in the past three years impacted the pharmaceutical industry's growth pace as the citywide lockdowns and border restrictions caused disruptions to supply chains, affecting pharmaceutical manufacturing and distribution in the PRC. However, the nation's timely implementation of the pandemic containment measures and controls, together with a series of policies and reforms on stabilizing the economy and advancing the research and development of innovative pharmaceuticals, have facilitated the industry to continuously develop in a sustainable development pace. As the pandemic control measures in the PRC have been substantially lifted from early 2023 and the prolonged pandemic disruptions have significantly been reduced, the supply chain interruptions that may impact business operations will be gradually minimized, and the Group expects that the pharmaceutical manufacturing sector in the PRC will continue to prosper and facilitate the business growth of the Group's pharmaceutical manufacturing business in the years to come.

Amid the challenges brought by the prolonged COVID-19 pandemic, the health awareness among people is growing and demand for quality pharmaceuticals remains robust in the PRC. In accordance with the Fourteenth Five-Year Plan (2021–2025), China's pharmaceutical industry is expected to continuously undergo transformation and thereby developing in a sustainable path while the health systems will continuously be enhanced to cater for building of Healthy China. Grasping the development trends of the pharmaceutical industry, the Group will continue to allocate its internal resources to develop quality products so as to meet market demand and enhance its core competitiveness in the long run.

The Group will continue to coordinate with Innovative, the majority shareholder of the Smart Ascent Group to monitor the progress of the oral insulin project following the substantial lifting of the movement restrictions in early 2023. It is expected that the easing of the restrictions will facilitate patient flows and hence the progress of the ongoing clinical trial. The diabetic population in the PRC is constantly increasing as the elderly population accelerates and life expectancy increases, market demand for quality diabetes pharmaceuticals is expected to be enormous. The Group believes that the successful launching of the oral insulin product in the future would justify the Group's investments and bring benefits to the Group.

The Group believes that it has maintained prudent cash management to preserve a sound financial position, which remains stable, and buttressed upon its sound financial position, the Group will endeavor to capture the growing market opportunity while remaining cautiously optimistic in striving for a sustainable development path for the Group.

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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

- (a) 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) 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 or short positions which they were taken or deemed to have taken 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 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 of Shares held/entitled	Approximate percentage of the issued share capital of the Company
Dr. Xie Yi (i)	The Company	Through controlled corporations	900,000,000	37.66%
Mr. Cheng Yong (ii)	The Company	Directly beneficially owned	830,000	0.04%
		Through controlled corporations	140,760,000	5.89%
		Held by spouse	<u>5,090,000</u>	<u>0.21%</u>
			<u>146,680,000</u>	<u>6.14%</u>

Notes:

- (i) These 900,000,000 Shares represent conversion shares to be allotted and issued to the bondholder, United Gene International Holdings Group Limited (“UG International”) upon exercise in full of the conversion rights by UG International, at conversion price of HK\$0.6413 per Share under the Company’s 20-year zero coupon convertible bonds issued on 16 July 2013 with principal amount of HK\$577,170,000 outstanding. The entire issued share capital of UG International is owned by JNJ Investments Ltd which is wholly owned by Biowindow Gene Development (Hong Kong) Limited (“HK Biowindow”), and the entire issued share capital of HK Biowindow is owned by United Gene Group Ltd (a company incorporated in the British Virgin Islands). The issued share capital of United Gene Group Ltd is owned as to 33% by Ease Gold Investments Limited, which is wholly owned by Dr. Xie Yi.
 - (ii) 1,060,000 Shares and 139,700,000 Shares are respectively held by Merchandise Holdings Limited and United Gene Industry Group Limited, both are companies incorporated in the British Virgin Islands and are wholly owned by Mr. Cheng Yong.
- (b) Save as disclosed in paragraph 2(a) above, as at the Latest Practicable Date, none of the Directors or 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 corporations (within the meaning of Part XV of the SFO) (i) 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 or short positions which they were taken or deemed to have under such provisions of the SFO) or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) were required, pursuant to the Model Code contained in the Listing Rules to be notified to the Company and the Stock Exchange.
- (c) 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 2022 being the date to which the latest published audited consolidated financial statements of the Group were made up.
- (d) 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, to the best knowledge of the Directors, the following persons (other than a Director and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or 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 member of the Group:

Name of Shareholder	Capacity	Number of Shares held/ entitled	Approximate percentage of the issued share capital of the Company
Dr. Mao Yumin	Directly beneficially owned	189,920,000	7.94%
	Through controlled Corporations (<i>Note</i>)	900,000,000	37.66%
		1,089,920,000	45.60%
Huang Zhenping	Directly beneficially owned	150,000,000	6.28%

Note: These 900,000,000 Shares represent conversion shares to be allotted and issued to the bondholder, United Gene International Holdings Group Limited (“UG International”) upon exercise in full of the conversion rights by UG International, at conversion price of HK\$0.6413 per Share under the Company’s 20-year zero coupon convertible bonds issued on 16 July 2013 with principal amount of HK\$577,170,000 outstanding. The entire issued share capital of UG International is owned by JNJ Investments Ltd which is wholly owned by Biowindow Gene Development (Hong Kong) Limited (“HK Biowindow”), and the entire issued share capital of HK Biowindow is owned by United Gene Group Ltd (a company incorporated in the British Virgin Islands). The issued share capital of United Gene Group Ltd is owned as to 33% by United Gene Holdings Limited, which is wholly owned by Dr. Mao Yumin.

- (b) As at the Latest Practicable Date, to the best knowledge of the Directors, the following persons, 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
Grand Success Management Limited	Charmtex Investments Limited	10,000 shares of US\$1 each	20%

- (c) Save as disclosed above, the Company had not been notified and is not aware of any other persons who had any interest or short position in the Shares and underlying Shares 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. LITIGATION

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

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contracts with any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of any compensation (other than statutory compensation).

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

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 Second Amendment Deed;
- (b) the deed of waiver dated 12 May 2021 executed by the Company and Innovative in respect of waiving certain obligations of Innovative regarding the Second Amendment Deed.

8. EXPERT AND CONSENT

Not applicable.

9. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.extrawell.com.hk) for a period of at least 14 days before the date of the SGM:

- (i) the Third Amendment Deed; and
- (ii) the Deed of Waiver

10. GENERAL

- (a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the head office and principal place of business of the Company in Hong Kong is Suites 2206-08, 22nd Floor, Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.
- (b) The company secretary of the Company is Ms. WONG Sau Kuen who is qualified to act as a company secretary of the Company pursuant to Rule 3.28 of the Listing Rules.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (d) The English text of this circular and the accompanying form of proxy shall prevail over this respective Chinese text in the case of inconsistency.

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 IS HEREBY GIVEN that a special general meeting of Extrawell Pharmaceutical Holdings Limited (the “**Company**”) will be held at Room 2, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Wednesday, 28 June 2023 at 3:00 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution which will be proposed as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the third amendment deed (the “**Third Amendment Deed**”) and the deed of waiver (the “**Deed of Waiver**”) both dated 28 April 2023 entered into between the Company and Innovative Pharmaceutical Biotech Limited (“**Innovative**”) in relation to the amendment of certain terms and conditions (the “**Third Amendments**”) of the convertible bonds issued by Innovative to the Company in the principal amount of HK\$715,000,000 (the “**Convertible Bonds**”) (a copy of the Third Amendment Deed and the Deed of Waiver has been produced to the meeting marked “A” and “B” respectively and signed by the Chairman of the meeting for the purpose of identification) be and are hereby approved, ratified and confirmed, and all the transactions contemplated thereunder, including the Third Amendments, be and are hereby approved, ratified and confirmed; and
- (b) the directors of the Company (the “**Directors**”) are hereby authorized for and on behalf of the Company to do all such further acts and things (including, without limitation, signing, executing (under hand or under seal), perfecting and delivering all agreements, documents and instruments including the Third Amendment Deed and the Deed of Waiver) and to take all such steps which in his/her opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transactions contemplated under the Third Amendment Deed and the Deed of Waiver.”

By order of the Board

Extrawell Pharmaceutical Holdings Limited

Xie Yi

Chairman

Hong Kong, 12 June 2023

* *For identification purpose only*

NOTICE OF SGM

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Head office and principal place of
business in Hong Kong:*
Suites 2206-08, 22nd Floor,
Devon House, Taikoo Place,
979 King's Road,
Quarry Bay,
Hong Kong

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 Shares 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 Shares 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 authorized in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney duly authorized, and must be deposited at the Company's branch share registrar and transfer office in Hong Kong (“**Branch Registrar**”), Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, 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 the meeting (or any adjournment thereof).
4. 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 23 June 2023 to 28 June 2023 (both days inclusive), during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the meeting, 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 21 June 2023.
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.
6. The 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. Xie Yi, Mr. Cheng Yong, Dr. Lou Yi and Ms. Wong Sau Kuen, and the independent non-executive Directors are Mr. Fang Lin Hu, Ms. Jin Song and Dr. Guo Yi.