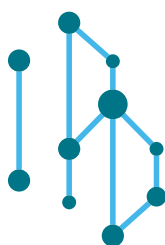

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Innovative Pharmaceutical Biotech Limited (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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INNOVATIVE PHARMACEUTICAL BIOTECH LIMITED

領航醫藥及生物科技有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 399)

- (1) AMENDMENT OF THE TERMS AND CONDITIONS
OF THE CONVERTIBLE BONDS;
(2) GRANT OF SPECIFIC MANDATE
TO ISSUE CONVERSION SHARES;
(3) CONNECTED TRANSACTION AT SUBSIDIARY LEVEL;
AND
(4) NOTICE OF SPECIAL GENERAL MEETING**

A notice convening the special general meeting (the “SGM”) of the Company to be held at 11:00 a.m. on Friday, 30 July 2021 at Falcon Room I, Basement, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong is set out on pages 26 to 28 of this circular. A form of proxy for use at the SGM is also enclosed with this circular.

Whether or not you are able to attend and vote at the SGM in person, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event no later than Wednesday, 28 July 2021 at 11:00 a.m. (Hong Kong time). 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.

14 July 2021

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DEFINITIONS

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

“Acquisition Agreement”	the sale and purchase agreement dated 17 March 2014 and entered into between Clear Rich, as the purchaser, and Extrawell BVI, as the vendor, in relation to the acquisition of an aggregate of 5,100 ordinary shares of HK\$1 each in the issued share capital of Smart Ascent, representing 51% of the total issued capital of Smart Ascent
“Additional Interest”	the additional interest in the amount of HK\$11,261,250 payable by the Company to the Bondholder, which unless extended, will become due on the Original Maturity Date pursuant to the Amendment Deed
“Amendment Deed”	the deed of amendment dated 26 July 2019 and entered between the Company and the Bondholder in relation to certain amendments to the interest payment terms of the Convertible Bonds
“Announcements”	collectively, the 2014 Announcements, the 2019 Announcements and the announcement of the Company dated 20 May 2020
“associates”	has the meaning ascribed to it under the Listing Rules
“Best Champion”	Best Champion Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
“Board”	board of Directors
“Bondholder”	Extrawell Pharmaceutical Holdings Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange (stock code: 858)

DEFINITIONS

“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
“China United Gene”	China United Gene Investment Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
“Clear Rich”	Clear Rich International Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Company”	Innovative Pharmaceutical Biotech Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 399)
“Conversion Price”	HK\$2.5 per Conversion Share, subject to adjustments in accordance with the terms and conditions of the Convertible Bonds
“Conversion Shares”	new Shares to be allotted and issued by the Company upon the exercise of the conversion rights attaching to the Convertible Bonds at the Conversion Price
“Convertible Bonds”	the convertible bonds (as amended by the Amendment Deed) in the aggregate principal amount of HK\$715,000,000 issued by the Company to the Bondholder on 28 July 2014
“Director(s)”	the directors of the Company

DEFINITIONS

“Extrawell BVI”	Extrawell (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability, and a wholly-owned subsidiary of the Bondholder
“Fosse Bio”	Fosse Bio-Engineering Development Limited, a company incorporated in Hong Kong and an indirect subsidiary of the Company
“Good Links”	Good Links Limited, a company incorporated in the British Virgin Islands with limited liability
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Interest Payment Year 2018”	the period from 28 July 2018 to 27 July 2019
“Interest Payment Year 2019”	the period from 28 July 2019 to 27 July 2020
“Interest Payment Year 2020”	the period from 28 July 2020 to 27 July 2021
“Interest Payment Year 2021”	the period from 28 July 2021 to 27 July 2022
“Interest Payment Year 2022”	the period from 28 July 2022 to 27 July 2023
“Latest Practicable Date”	8 July 2021, being the latest practicable date for ascertaining information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	28 July 2023, being the maturity date of the Convertible Bonds
“Original Maturity Date”	28 July 2021, being the original maturity date of the Convertible Bonds

DEFINITIONS

“Product”	oral insulin enteric-coated soft capsule for diabetic treatment being developed by Fosse Bio
“Second Amendment”	the proposed amendments to the terms and conditions of the Convertible Bonds as contemplated under the Second Deed of Amendment
“Second Amendment Long Stop Date”	12 November 2021 (or such other date as the Company and the Bondholder may agree)
“Second Deed of Amendment”	the deed of amendment dated 12 May 2021 entered into between the Company and the Bondholder in relation to the Second Amendment
“SGM”	a special general meeting of the Company to be convened on Friday, 30 July 2021 for the purpose of considering, and if thought fit, approving the Second Amendment and the transactions contemplated thereunder, including the grant of the Specific Mandate
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Smart Ascent”	Smart Ascent Limited, a company incorporated in Hong Kong with limited liability
“Specific Mandate”	specific mandate to be sought from the Shareholders at the SGM for the allotment and issue of the Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission of Hong Kong

DEFINITIONS

“United Gene Holdings”	United Gene Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
“Upcoming Interest Payment”	the interest on the Convertible Bonds in the total amount of HK\$75,075,000 for the Interest Payment Year 2018, the Interest Payment Year 2019 and the Interest Payment Year 2020, which unless extended, will become due on the Original Maturity Date
“Upcoming Principal Payment”	the Convertible Bonds in the aggregate principal amount of HK\$715,000,000, which unless extended, will become due on the Original Maturity Date
“Victory Trend”	Victory Trend Limited, a company incorporated in the British Virgin Islands with limited liability
“2014 Announcements”	the announcements of the Company dated 18 March 2014 and 28 July 2014 in relation to the Acquisition Agreement and the issue of the Convertible Bonds
“2019 Announcements”	the announcements of the Company dated 28 July 2019 and 28 October 2019 in relation to the Amendment Deed
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



INNOVATIVE PHARMACEUTICAL BIOTECH LIMITED
領航醫藥及生物科技有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 399)

Executive Directors:

Mr. Gao Yuan Xing
Mr. Tang Rong

Non-executive Directors:

Ms. Jiang Nian (*Chairman*)
Ms. Wu Yanmin
Ms. Xiao Yan

Independent non-executive Directors:

Ms. Chen Weijun
Mr. Wang Rongliang
Mr. Chen Jinzhong

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

***Head office and principal place of
business:***

Unit No. 2111, 21/F.
West Tower, Shun Tak Centre
168–200 Connaught Road Central
Sheung Wan, Hong Kong

14 July 2021

To the Shareholders

Dear Sir or Madam,

**(1) AMENDMENT OF THE TERMS AND CONDITIONS
OF THE CONVERTIBLE BONDS**
**(2) GRANT OF SPECIFIC MANDATE
TO ISSUE CONVERSION SHARES;**
(3) CONNECTED TRANSACTION AT SUBSIDIARY LEVEL;
AND
(4) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to (i) the 2014 Announcements and the circular of the Company dated 26 June 2014 in relation to the Acquisition Agreement and issue of the Convertible Bonds by the Company to the Bondholder; (ii) the 2019 Announcements and the circular of the Company dated

LETTER FROM THE BOARD

13 September 2019 in relation to the amendment to the terms and conditions of the Convertible Bonds; and (iii) the announcement of the Company dated 20 May 2020 in relation to updates on the status of commercialisation of the Product. Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

On 17 March 2014, Clear Rich, being a wholly-owned subsidiary of the Company, as the purchaser, and Extrawell BVI, being a wholly-owned subsidiary of the Bondholder, as the vendor, entered into the Acquisition Agreement in relation to the sale and purchase of 51% interest in the share capital of Smart Ascent. On 28 July 2014, the Company issued the Convertible Bonds in the principal amount of HK\$715,000,000 to the Bondholder as part of the consideration of the acquisition of Smart Ascent. The Convertible Bonds was issued at an interest rate of 3.5% per annum and the Original Maturity Date falls on 28 July 2021.

On 26 July 2019, the Company and the Bondholder entered into the Amendment Deed pursuant to which the Company and the Bondholder agreed to amend the interest payment terms of the Convertible Bonds to the effect that: (i) the interest payment due dates were amended from payment of interest in arrears annually to payment of interest for the Interest Payment Year 2018, Interest Payment Year 2019 and Interest Payment Year 2020 on or before the Original Maturity Date; and (ii) the Company was required to pay the Bondholder the Additional Interest in the amount of HK\$11,261,250 on the Original Maturity Date.

As at the Latest Practicable Date, (i) none of the conversion rights attached to the Convertible Bonds has been exercised by the Bondholder; (ii) the outstanding principal amount of the Convertible Bonds is HK\$715,000,000; and (iii) the amount of unpaid interest on the Convertible Bonds is approximately HK\$84,643,000.

On 12 May 2021, the Company and the Bondholder entered into the Second Deed of Amendment pursuant to which the Company and the Bondholder have conditionally agreed to amend certain terms and conditions of the Convertible Bonds (as amended by the Amendment Deed).

On 12 May 2021, the Company and the Bondholder entered into the Second Deed of Waiver pursuant to which the Bondholder granted to the Company a waiver in respect of the obligation of the Company to pay the Upcoming Principal Payment, the Upcoming Interest Payment and the Additional Interest on the Original Maturity Date.

The purpose of this circular is to provide you with, among other things, (i) further details of the Second Deed of Amendment and the transactions contemplated thereunder, including the grant of the Specific Mandate; (ii) further details of the Second Deed of Waiver; and (iii) a notice of the SGM.

LETTER FROM THE BOARD

THE SECOND DEED OF AMENDMENT

Details of the principal terms of the Second Deed of Amendment are set out below:

Date: 12 May 2021 (after trading hours of the Stock Exchange)

Parties: (1) the Company, as the issuer

(2) Extrawell Pharmaceutical Holdings Limited, as the bondholder

The Bondholder is a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange (stock code: 858). According to the public information, the Bondholder is an investment company and its subsidiaries are principally engaged in (i) the development, manufacture and sales of pharmaceutical products; (ii) the marketing and distribution of imported pharmaceutical products; and (iii) the commercial exploitation and development of genome related technologies.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) Dr. Mao Yumin is a substantial shareholder of the Company and holds directly or indirectly approximately 25.34% of the issued Shares. Dr. Mao Yumin is also a director of certain subsidiaries of the Bondholder and holds approximately 7.94% of the issued shares of the Bondholder; and (ii) each of Dr. Xie Yi, Mr. Cheng Yong and Dr. Lou Yi is an executive director of the Bondholder and holds less than 1% of the issued Shares. Each of Dr. Xie Yi and Dr. Lou Yi is also a director of certain subsidiary(ies) of the Company to represent the interest of the Bondholder in such subsidiary(ies) (being associates of the Bondholder) whereas Mr. Cheng Yong is a director of an insignificant subsidiary (as defined in the Listing Rules) of the Company.

As at the Latest Practicable Date, Smart Ascent is owned as to 51% by Clear Rich, being a wholly-owned subsidiary of the Company, and 49% by Extrawell BVI, being a wholly-owned subsidiary of the Bondholder. Hence, each of Extrawell BVI and the Bondholder is a connected person of the Company at the subsidiary level by virtue of Extrawell BVI being a substantial shareholder of a subsidiary of the Company.

Principal terms of the Second Amendment

The Company and the Bondholder have conditionally agreed to amend the terms of the Convertible Bonds (as amended by the Amendment Deed) to the effect that:

(a) the Maturity Date shall be extended from the Original Maturity Date to 28 July 2023;

LETTER FROM THE BOARD

(b) the interest payment date of the Convertible Bonds shall be further amended and superseded as follows:

(i) the Convertible Bonds shall bear interest on the principal amount thereof in accordance with the following interest rate and payment schedule:

Interest Period	Interest Rate	Payment due dates
28 July 2014 to 27 July 2015	3.5% per annum on the principal amount of the Convertible Bonds	On or before 28 July 2015
28 July 2015 to 27 July 2016	3.5% per annum on the principal amount of the Convertible Bonds	On or before 28 July 2016
28 July 2016 to 27 July 2017	3.5% per annum on the principal amount of the Convertible Bonds	On or before 28 July 2017
28 July 2017 to 27 July 2018	3.5% per annum on the principal amount of the Convertible Bonds	On or before 28 July 2018
28 July 2018 to 27 July 2019	3.5% per annum on the principal amount of the Convertible Bonds	28 July 2023
28 July 2019 to 27 July 2020	3.5% per annum on the principal amount of the Convertible Bonds	28 July 2023
28 July 2020 to 27 July 2021	3.5% per annum on the principal amount of the Convertible Bonds	28 July 2023
28 July 2021 to 27 July 2022	3.5% per annum on the principal amount of the Convertible Bonds	28 July 2023
28 July 2022 to 27 July 2023	3.5% per annum on the principal amount of the Convertible Bonds	28 July 2023

(ii) the Company shall pay the Bondholder a sum of additional interest in the amount of HK\$3,753,750 on 28 July 2023 (representing 15% per annum on the annual interest payment under the Convertible Bonds), being the additional interest for one-year extension for payment of interest for Interest Payment Year 2021; and

LETTER FROM THE BOARD

(iii) in addition to (ii) above, the Company shall pay the Bondholder a sum of additional interest in the amount of HK\$25,900,875 on 28 July 2023 (representing 15% per annum on the aggregate amount of interest and the Additional Interest of HK\$86,336,250 multiplied by two). The Company and the Bondholder agreed that the said amount of HK\$25,900,875 is the additional interest for two-year further extension for payment of (a) the interest in the aggregate amount of HK\$75,075,000 for Interest Payment Year 2018, Interest Payment Year 2019, Interest Payment Year 2020; and (b) the Additional Interest mentioned in the Amendment Deed in the amount of HK\$11,261,250.

Save for the Second Amendment, the terms and conditions of the Convertible Bonds remain intact and unchanged.

An application has been made by the Company to the Stock Exchange for the approval of the Second Amendment pursuant to Rule 28.05 of the Listing Rules.

Conditions precedent

The Second Amendment shall be conditional upon and subject to:

- (a) the approval having been obtained from the Stock Exchange in respect of the Second Amendment;
- (b) all necessary consents and approvals required to be obtained on the part of the Company and the Bondholder in respect of the Second Amendment 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 the Bondholder at a special general meeting of each of the Company and the Bondholder to be convened and held to approve the Second Deed of Amendment and the transactions contemplated thereunder; and
- (d) (if necessary) the Bondholder having passed a written resolution of the bondholder meeting to approve the Second Deed of Amendment and the transactions contemplated thereunder.

LETTER FROM THE BOARD

The Second Amendment shall take effect on the next Business Day when all the conditions above are fulfilled. None of the above conditions can be waived. If any of the above conditions is not fulfilled on or before the Second Amendment Long Stop Date, the Second Deed of Amendment shall automatically lapse and be of no further effect and the Company and the Bondholder shall be released from all obligations thereunder.

As at the Latest Practicable Date, none of the above conditions had been fulfilled.

The Second Deed of Waiver

On 12 May 2021 (after trading hours of the Stock Exchange), the Company and the Bondholder entered into the Second Deed of Waiver pursuant to which the Bondholder granted to the Company a waiver in respect of the obligation of the Company to (i) redeem the Convertible Bonds which remains outstanding on the Original Maturity Date at 100% of the principal amount of the Convertible Bonds; (ii) pay the interest on the Convertible Bonds for the Upcoming Interest Payment and the Additional Interest when due on the Original Maturity Date; and (iii) not to take any steps to enforce or make demand for the Upcoming Principal Payment, the Upcoming Interest Payment and the Additional Interest to the extent necessary and solely to effect the Second Amendment.

Pursuant to the Second Deed of Amendment, if any of the conditions precedent under the Second Deed of Amendment has not been fulfilled on the Second Amendment Long Stop Date, the Second Deed of Amendment shall automatically lapse and be of no further effect and the Company and the Bondholder shall be released from all obligations thereunder. In such circumstances, the Company and the Bondholder agree that the Company shall within 30 Business Days from the Second Amendment Long Stop Date pay to the Bondholder (i) the Upcoming Principal Payment, the Upcoming Interest Payment and the Additional Interest; and (ii) the additional interest calculated at 15% per annum on HK\$801,336,250, being the sum of the Upcoming Principal Payment, the Upcoming Interest Payment and the Additional Interest, accrued from 28 July 2021 to the actual date of payment (both days inclusive) on the basis of a 365-day year.

TERMS OF THE CONVERTIBLE BONDS

Subject to the fulfillment of the conditions precedent to the Second Amendment, the principal terms of the Convertible Bonds (as amended by the Amendment Deed and Second Deed of Amendment) will be as follows:

Principal amount:	An aggregate principal amount of up to HK\$715,000,000
Maturity date:	9th anniversary of the date of issue
Interest rate:	3.5% per annum

LETTER FROM THE BOARD

The interest payment due dates for the Interest Payment Year 2018, Interest Payment Year 2019, Interest Payment Year 2020, Interest Payment Year 2021, the Interest Payment Year 2022 and the Additional Interest shall be on 28 July 2023.

The Company shall pay to the Bondholder the Additional Interest.

The Company shall pay the Bondholder a sum of additional interest in the amount of HK\$3,753,750 on 28 July 2023 (representing 15% per annum on the annual interest payment under the Convertible Bonds), being the additional interest for one-year extension for payment of interest for Interest Payment Year 2021.

The Company shall pay the Bondholder a sum of additional interest in the amount of HK\$25,900,875 on 28 July 2023 (representing 15% per annum on the aggregate amount of interest and Additional Interest of HK\$86,336,250 multiplied by two). The Company and the Bondholder agreed that the said amount of HK\$25,900,875 is the additional interest for two-year extension for payment of (a) the interest in the aggregate amount of HK\$75,075,000 for Interest Payment Year 2018, Interest Payment Year 2019, Interest Payment Year 2020; and (b) the Additional Interest mentioned in the Amendment Deed in the amount of HK\$11,261,250.

Conversion Price:

The Conversion Price is HK\$2.5 per Conversion Share, subject to adjustments as set out and in accordance with the terms and conditions of the Convertible Bonds.

The Conversion Price of HK\$2.5 per Conversion Share represents:

- (i) a premium of approximately 904.02% over the closing price of HK\$0.249 per Share as quoted on the Stock Exchange on the date of the Second Deed of Amendment;

LETTER FROM THE BOARD

- (ii) a premium of approximately 908.06% over the average closing price of HK\$0.248 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of signing of the Second Deed of Amendment;
- (iii) a premium of approximately 908.6% over the closing price of HK\$0.248 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (iv) a premium of approximately 544.33% over the net asset price of approximately HK\$0.388 per Share, calculated based on the audited consolidated net assets of HK\$567,773,000 as at 31 March 2020 and 1,464,193,024 Shares in issue as at the date of the Second Deed of Amendment; and
- (v) a premium of approximately 920.41% over the net asset price of approximately HK\$0.245 per Share, calculated based on the audited consolidated net assets of HK\$358,706,000 as at 31 March 2021 and 1,464,193,024 Shares in issue as at the date of the Second Deed of Amendment.

Adjustment events:

The Conversion Price shall from time to time be adjusted upon occurrences of certain events, including but not limited to the followings:-

- (i) consolidation or sub-division of Shares;
- (ii) capitalisation of profits;
- (iii) capital distribution;
- (iv) issue of Shares by way of rights, options and warrants;

LETTER FROM THE BOARD

- (v) issue of any securities if and whenever the Company shall issue wholly for cash which are convertible into, exchangeable for or carry rights of subscription for Shares;
- (vi) modification of rights of conversion or exchange or subscription attaching to any such securities;
- (vii) issue of Shares wholly for cash at more than 20% discount to the market price of such Shares; and
- (viii) issue of Shares for acquisition of asset at more than 20% discount to the market price of such Shares.

Conversion Shares:

Based on the initial Conversion Price of HK\$2.5 per Conversion Share, a maximum number of 286,000,000 Conversion Shares will be allotted and issued upon exercised in full of the conversion rights attaching to the Convertible Bonds, which represent:

- (i) approximately 19.53% of the total issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 16.34% of the total issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon exercise in full of the conversion rights attaching to Convertible Bonds.

Conversion Rights:

Each holder of the Convertible Bonds shall have the right, exercisable during the Conversion Period (as defined below) to convert the whole or any part (in multiples of HK\$35,750,000) of the outstanding principal amount of the Convertible Bonds held by such holder of the Convertible Bonds into such number of Conversion Shares as will be determined by dividing the principal amount of the Convertible Bonds to be converted by the Conversion Price in effect on the date of conversion.

LETTER FROM THE BOARD

No fraction of a Share shall be issued on conversion of the Convertible Bonds and no cash adjustments will be made.

Conversion Restrictions:

Upon exercise of the conversion rights attaching to the Convertible Bonds,

- (i) the holders of Convertible Bonds and their respective associates, together with parties acting in concert (as defined in the Takeovers Code) with them, will not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code; and
- (ii) the public float of the Company will comply with the relevant requirements under the Listing Rules.

Conversion Period:

The period commencing from the date of issue of the Convertible Bonds and ending on the day which falls on the 9th anniversary of the date of issue of the Convertible Bonds.

Early Redemption:

The Company shall not be entitled to redeem all or part of the outstanding Convertible Bonds prior to the Maturity Date.

The Company or any of its subsidiaries may at any time and from time to time purchase the Convertible Bonds at any price as agreed between the Company or such subsidiary and the relevant holder of the Convertible Bonds.

Furthermore, according to the instrument constituting the Convertible Bonds, the holders of the Convertible Bonds do not have the right to early redemption of all or part of the outstanding Convertible Bonds prior to the Maturity Date.

Ranking:

The Conversion Shares shall rank *pari passu* in all respects among themselves and with all other existing Shares outstanding at the date of conversion and all Conversion Shares shall include rights to participate in all dividends and other distributions.

LETTER FROM THE BOARD

- Transferability: Any transfer of the Convertible Bonds shall be in respect of the whole or any part (in multiples of HK\$35,750,000) of the principal amount of the Convertible Bonds.
- Furthermore, according to the instrument constituting the Convertible Bonds, the Convertible Bonds must not be transferred to any person, firm or company which is a connected person (as defined in the Listing Rules) of the Company except in compliance with the applicable requirements under the Listing Rules and the Takeovers Code.
- Application for listing: No application will be made by the Company to the Stock Exchange for listing of the Convertible Bonds. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.
- Notice of conversion by other bondholders: The Company may, upon request by the holders of the Convertible Bonds in writing, notify the holders of the Convertible Bonds about the conversion of the convertible bonds of the Company by other bondholders within 7 Business Days from the date of receipt of the relevant conversion notice.

LETTER FROM THE BOARD

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The following table shows the shareholding of the Company (i) as at the Latest Practicable Date; and (ii) immediately after full conversion of the Convertible Bonds (assuming there is no change in the issued share capital of the Company other than the issue of the Conversion Shares):

	As at the Latest Practicable Date		Immediately after full conversion of the Convertible Bonds (assuming there is no change in the issued share capital of the Company other than the issue of the Conversion Shares)	
	Number of Shares	Approx.%	Number of Shares	Approx.%
Dr. Mao Yumin	363,200,000	24.81%	363,200,000	20.75%
China United Gene <i>(Note)</i>	7,770,810	0.53%	7,770,810	0.44%
Chau Yiu Ting	328,600,000	22.44%	328,600,000	18.78%
The Bondholder	—	—	286,000,000	16.34%
Public Shareholders	764,622,214	52.22%	764,622,214	43.69%
Total	1,464,193,024	100.00%	1,750,193,024	100.00%

Note:

China United Gene is owned as to 60% by Best Champion, which in turn is owned as to 33.5% and 33% by United Gene Holdings and Victory Trend respectively. United Gene Holdings is wholly-owned by Dr. Mao Yumin. Victory Trend is wholly-owned by Good Links, which in turn is owned as to 50% by Dr. Mao Yumin. Under the SFO, Dr. Mao Yumin is deemed to be interested in 7,770,810 Shares held by China United Gene.

UPDATES ON THE STATUS OF COMMERCIALISATION OF THE PRODUCT

As set out in the 2014 Announcements, the Convertible Bonds were issued by the Company to the Bondholder as part of the consideration for the acquisition of 51% in Smart Ascent in 2014.

Smart Ascent and Fosse Bio

Smart Ascent is an investment company incorporated in Hong Kong with limited liability and is currently owned as to 51% by Clear Rich, being a wholly-owned subsidiary of the Company, and 49% by Extrawell BVI, being a wholly-owned subsidiary of the Bondholder. Save for being shareholders of Smart Ascent, the Company and the Bondholder does not have any other business relationship.

LETTER FROM THE BOARD

Fosse Bio, being a subsidiary of Smart Ascent, is a company incorporated in Hong Kong with limited liability and is principally engaged in the development and commercialisation of oral insulin products.

The Product

Fosse Bio has entered into a technical service agreement with the contract research organisation for the development of the Product, which is classified as a pharmaceutical product, in the Clinical Trial (as defined below). The Product will enable diabetic patients to have access to a more convenient, safer and painless way of administration of insulin drugs for diabetic treatment, which are currently generally available in injection form. Save for the Product, as at the Latest Practicable Date, Fosse Bio does not have any other products in the pipeline.

Prior to the commercialisation of the Product, the Group will need to go through, among others, the following key development stages: (i) execution of clinical trial testing; (ii) data and outcome analysis; (iii) preparation of the outcome report; (iv) entering into of production arrangement; (v) sourcing of raw materials; (vi) possible marketing activities or pre-sales preparation work; (vii) submission of the clinical trial report to National Medical Products Administration; and (viii) applying for the new medicine certificate and the manufacturing permit.

Stage of clinical trial

Phase I and Phase II of the clinical trials in respect of the Product had already been completed. Phase III of the clinical trial consists of two parts. Part A of phase III of the clinical trial relates to the multi-centered, randomised, double-blinded and placebo controlled clinical trial of the Product on treatment of Type 2 diabetes. Part B of phase III of the clinical trial (the “**Clinical Trial**”) involves extended clinical trial with more extensive sampling of the Product.

Part A of phase III of the clinical trial was completed in 2013 with satisfactory results. The statistical outcome of the per-protocol set (PPS) analysis relating to part A of phase III of the clinical trial shows that the bio-efficacy of the Product in the treatment group was significantly superior to that of the control group in the effect of reducing blood glucose level in diabetics.

In respect of Phase III of the clinical trial, the National Medical Products Administration imposed more stringent requirements which include a requirement for a larger sample group of patients, and the use of double-blind tests where neither the patients nor the researchers have knowledge on which patients belong to the treatment group (where patients will be given the Product) or the control group (where patients will be given placebo), with a view to reducing experimental bias during phase III of the clinical trial.

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The Group has completed the design of the Clinical Trial and is currently in the process of selection and enrolment of patients as well as selection of hospitals. As at the Latest Practicable Date, over 200 patients have been enrolled in selected participating hospitals to take part in the Clinical Trial.

Expected date of commercialisation

Due to the outbreak of the coronavirus pandemic since early 2020, the normal operations of the participating hospitals for the Clinical Trial had been severely disrupted. In order to ensure the safety of patients and clinical researchers, research projects such as the Clinical Trial had been temporarily suspended and as result there had been a delay in the selection and enrolment of patients for the Clinical Trial. Based on the latest information available to the Company, the Product is expected to be launched in the market and available for sale at selected hospitals by mid of 2023. The Group is expected to generate a stable source of revenue and profit after the launch of the Product taking into account that (i) there is massive demand in the PRC for innovative insulin products in light of the growing diabetic population; (ii) once the Product is launched, it is expected to become the first oral insulin drug available in the market; (iii) the Product is expected to be sold at a reasonable price range and will provide a superior and effective treatment method for diabetes patients; and (iv) once the Product is launched, it will be protected for a period of 5 years under the current regulations in the PRC which prohibits other companies from manufacturing and/or undergoing clinical trial for similar products.

REASONS FOR THE SECOND AMENDMENT

The Company is an investment holding company. The Group is principally engaged in (i) trading of beauty equipment and products in Hong Kong; (ii) securities investment in Hong Kong and outside Hong Kong; and (iii) research and development and commercialization of the oral insulin products.

The outstanding principal amount of the Convertible Bonds and the outstanding interest payment for the Interest Payment Year 2018, Interest Payment Year 2019, Interest Payment Year 2020 and the Additional Interest, unless they are extended, will become due on the Original Maturity Date. Based on the audited consolidated financial statements of the Group for the year ended 31 March 2021, the Group recorded loss attributable to owners of the Company of approximately HK\$204,939,000 and net current liabilities of approximately HK\$771,873,000.

LETTER FROM THE BOARD

As at 31 March 2021, total liabilities of the Group were approximately HK\$1,044,504,000. A breakdown of the liabilities of the Group are set out below:

Items	Carrying amount HK\$'000	Maturity date
Unconverted convertible bonds		
— CBI (<i>Note</i>)	139,963	Year 2023
— CBII (<i>Note</i>)	17,776	Year 2024
— Convertible Bond	726,528	Year 2021
— CBIV (<i>Note</i>)	49,045	Year 2025
Loan from a former associates	16,118	Year 2023
Loans from/amounts due to non-controlling interests, former non-controlling interests and a former associate	66,791	No fixed terms of repayment
Loan from substantial shareholder	20,000	Repayable within 12 months
Others	8,283	Repayable within 12 months
Total	<u><u>1,044,504</u></u>	

Note:

Each of CBI, CBII and CBIV are held directly and/or indirectly by Dr. Mao Yumin, being a substantial shareholder of the Company, and Dr. Xie Yi, being a director of certain subsidiary(ies) of the Company.

The Second Amendment would ease the immediate financial burden of the Group. In the meantime, the Company will also consider other possible equity fund raising and debt financing activities to strengthen the liquidity and financial position of the Group.

The two-year extension period of the maturity date of the Convertible Bonds from the Original Maturity Date to the Maturity Date was agreed between the Bondholder and the Company in order to enable the Company to have sufficient time to arrange for funding to meet its payment obligations on the Maturity Date, including from internal sources of financing following the

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expected commercialisation of the Product in mid of 2023 and/or equity fund raising activities in view of the positive business outlook of the Group in two years' time and when the market condition is expected to be less volatile following the large scale of COVID-19 vaccination in Hong Kong and worldwide.

The Second Amendment was arrived at after arm's length negotiations between the Company and the Bondholder. The additional interest in the total amount of HK\$29,654,625 to be paid by the Company to the Bondholder under the Second Amendment was determined between the parties taking into account (i) the prevailing market rate; (ii) the current financial and cash position of the Group; and (iii) the benefits that the Second Amendment would bring to the Group, which includes providing greater flexibility to the Company's working capital management and the alleviation of the immediate funding needs of the Company to redeem the outstanding principal amount of the Convertible Bonds and to settle the outstanding interest.

The additional interest calculated at 15% per annum was arrived at after arm's length negotiation between the Bondholder and the Company, having taken into account (i) the prevailing best lending rate of 5.25% by commercial banks in Hong Kong; and (ii) the audited net current liabilities of the Group of approximately HK\$771,873,000 as at 31 March 2021, which indicate that the Group currently does not have sufficient financial resources to settle the Convertible Bonds on the Original Maturity Date. The Directors considered that the additional interest rate at 15% per annum which is approximately two times over the aforesaid best lending rate is reasonable, given that the Bondholder will grant a one-year extension of interest payment for the Interest Payment Year 2021 and further two-year extension of the Upcoming Interest Payment and the Additional interest, and under the circumstance that the Company is unable to provide any collateral to the Bondholder.

As at the Latest Practicable Date, the Company does not have any arrangement to undertake fund raising activities. The Company has considered other alternative financing methods to settle the Convertible Bonds, including bank borrowings, and placing of new shares, rights issue and open offer. In respect of bank borrowings, the Directors are of the view that the ability of the Group to obtain bank borrowings usually depends on the Group's profitability and financial position as well as the prevailing market condition and may be subject to lengthy due diligence and internal risk assessment by and negotiations with financial institutions. The Directors consider that it is impracticable to obtain third-party financing on terms favourable to the Group in light of its current financial and cash position of the Group as well as in the absence of material assets as collateral for such third-party financing. Notwithstanding the above, the Company did explore opportunities to seek for potential banking facility or bank loans and the Company has commenced to approach a number of financial institutions. However, as at the Latest Practicable Date, the Company did not receive any positive response from the said financial institutions.

LETTER FROM THE BOARD

The Directors considered that it would be difficult to raise funds by way of placing of new Shares taking into account the current financial performance and conditions of the Group as well as the volatility in the stock market following the outbreak of the coronavirus pandemic since early 2020. Further, raising funds by way of placing of new Shares would result in dilution of the equity interests of the existing Shareholders who cannot participate in the placing. On the other hand, rights issue or open offer may involve relatively substantial time and cost to complete owing to the preparation, printing and posting of additional documentation such as the prospectus as well as processing of trading arrangements.

With regards to the Company's plan to redeem the outstanding principal amount of the Convertible Bonds and to settle the outstanding interest when the Convertible Bonds become due on the Maturity Date, the Company intends to meet its payment obligations through internal sources of financing and/or equity fund raising activities. The Group is expected to generate a stable source of revenue and profit following the completion of the Clinical Trial and commercialisation of the Product by mid of 2023, and part of the proceeds from selling of the Products could be utilised for settlement of the outstanding principal amount of the Convertible Bonds together with outstanding interest on the Maturity Date. Further, in view of the positive business outlook of the Group in two years' time, equity fund raising activities will become more viable options for the Company to fund its payment obligations in respect of the Convertible Bonds when the market condition is expected to be less volatile following the large scale of COVID-19 vaccination in Hong Kong and worldwide.

In view of the above, the Board considered that the Second Deed of Amendment and the transactions contemplated thereunder, including the grant of the Specific Mandate, and the Second Deed of Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As none of the Directors have any material interest in the Second Deed of Amendment and the Second Deed of Waiver, they are not required to abstain from voting on the Board resolutions for approving the Second Deed of Amendment, the Second Deed of Waiver and the transactions contemplated thereunder.

LISTING RULES IMPLICATION

According to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. The Company has applied to the Stock Exchange for approval for the Second Amendment contemplated by the Second Deed of Amendment pursuant to Rule 28.05 of the Listing Rules.

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As at the Latest Practicable Date, Smart Ascent is owned as to 51% by Clear Rich, being a wholly-owned subsidiary of the Company, and 49% by Extrawell BVI, being a wholly-owned subsidiary of the Bondholder. Hence, each of Extrawell BVI and the Bondholder is a connected person of the Company at the subsidiary level by virtue of Extrawell BVI being a substantial shareholder of a subsidiary of the Company. The entering into of the Second Deed of Amendment constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Board (including the independent non-executive Directors) has considered, confirmed and approved that the Second Deed of Amendment is on normal commercial terms or better, and the terms of which are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Pursuant to Rule 14A.101 of the Listing Rules, the entering into of the Second Deed of Amendment as a connected transaction of the Company is only subject to the reporting and announcement requirements, but is exempt from the circular, independent financial advice and shareholders' approval requirements.

GRANT OF SPECIFIC MANDATE TO ISSUE CONVERSION SHARES

The Conversion Shares will be issued under the Specific Mandate and is subject to the approval of the Shareholders at the SGM.

SGM

A notice convening the SGM to be held at 11:00 a.m. on 30 July 2021 at Falcon Room I, Basement, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong is set out on pages 26 to 28 of this circular for the purpose of considering and, if thought fit, passing the resolution set out therein.

To the best of the Director's knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date (i) Dr. Mao Yumin, being a substantial shareholder of the Company, holds 363,200,000 Shares directly and 7,770,810 Shares indirectly through China United Gene. Dr. Mao Yumin is also a director of certain subsidiaries of the Bondholder and holds approximately 7.94% of the issues shares of the Bondholder. In light of the above, Dr. Mao is materially interested in the Second Amendment. Hence, Dr. Mao Yumin and China United Gene are required to abstain from voting on the resolution(s) proposed to be passed at the SGM; and (ii) save as disclosed above, no Shareholders are required to abstain from voting on the resolutions to be proposed at the SGM.

A form of proxy for the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return enclosed proxy form in accordance with the instructions printed thereon to the branch share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any

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event no later than Wednesday, 28 July 2021 at 11:00 a.m. (Hong Kong time). Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM, or any adjournment thereof if you so wish, and in such event, the form of proxy shall be deemed to be revoked.

RECOMMENDATION

The Board considers that the terms of the Second Deed of Amendment and the transactions contemplated thereunder, including the grant of the Specific Mandate, are 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 ordinary resolution as set out in the notice of SGM.

ADDITIONAL INFORMATION

The register of members of the Company will be closed from Tuesday, 27 July 2021 to Friday, 30 July 2021 (both days inclusive) to determine the eligibility of the Shareholders to attend and vote at the SGM. The record date for determining the entitlement of the Shareholders to attend and vote at the SGM will be on Friday, 30 July 2021. All transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than Monday, 26 July 2021 at 4:30 p.m. (Hong Kong time).

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

Shareholders and potential investors should note that the Second Deed of Amendment is conditional upon fulfilment of all conditions precedent therein. The transactions contemplated under the Second Deed of Amendment may or may not materialize. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Yours faithfully

For and on behalf of the Board

Innovative Pharmaceutical Biotech Limited

Tang Rong

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 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. MISCELLANEOUS

- (a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is located at Unit No. 2111, 21/F., West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Sheung Wan, Hong Kong.
- (c) The company secretary of the Company is Mr. Poon Hon Yin. Mr. Poon is qualified as a Certified Public Accountant registered with the Hong Kong Institute of Certified Public Accountants and is also a fellow member of the Association of Chartered Certified Accountants. Mr. Poon has been a managing director of Probiz CPA Limited since 2006.
- (d) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

NOTICE OF SGM



INNOVATIVE PHARMACEUTICAL BIOTECH LIMITED

領航醫藥及生物科技有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 399)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of Innovative Pharmaceutical Biotech Limited (the “**Company**”) will be held at Falcon Room I, Basement, Gloucester Luk Kwok Hong Kong, 72 Gloucester Road, Wanchai, Hong Kong on Friday, 30 July 2021 at 11:00 a.m., for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution of the Company:

ORDINARY RESOLUTION

1. “THAT:

- (a) the deed of amendment (the “**Second Deed of Amendment**”) (a copy of which has been produced to the Meeting and marked “A” and initialled by the chairman of the Meeting for the purpose of identification) dated 12 May 2021 entered into between the Company, as the issuer, and Extrawell Pharmaceutical Holdings Limited (the “**Bondholder**”), as the bondholder, in relation to the proposed amendment to the terms of the convertible bonds (as amended by the deed of amendment dated 26 July 2019) (the “**Convertible Bonds**”) in the aggregate principal amount of HK\$715,000,000 issued by the Company to the Bondholder on 28 July 2014 and all the transactions contemplated thereunder and all other matters in connection herewith and incidental thereto, be and are hereby approved, confirmed and ratified;
- (b) subject to the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the new shares (the “**Conversion Shares**”) of the Company to be allotted and issued upon the exercise of the conversion rights attached to the Convertible Bonds, the directors (the “**Directors**”) of the Company be and are hereby granted a specific mandate (the “**Specific Mandate**”) to allot and issue the Conversion Shares which may be allotted and issued upon the exercise of the conversion rights attached to the Convertible Bonds, provided that the

NOTICE OF SGM

Specific Mandate is in addition to, and shall not prejudice nor revoke any general or specific mandates which may from time to time be granted to the Directors prior to passing of this resolution; and

- (c) any Director be and is hereby authorised to do all such things and acts and execute all such documents (whether under common seal or not) which he considers necessary, desirable or expedient to implement or to give effect to any matters relating to the Second Deed of Amendment and the transactions contemplated thereunder.”

By order of the Board
Innovative Pharmaceutical Biotech Limited
Tang Rong
Executive Director

Hong Kong, 14 July 2021

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

***Head office and principal place of
business:***

Unit No. 2111, 21/F.
West Tower, Shun Tak Centre
168–200 Connaught Road Central
Sheung Wan, Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Meeting. If more than one proxy is so appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
3. To be valid, the form of proxy and (if required by the board of directors) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event no later than Wednesday, 28 July 2021 at 11:00 a.m. (Hong Kong Time).

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4. The register of members of the Company will be closed from Tuesday, 27 July 2021 to Friday, 30 July 2021 (both days inclusive) to determine the eligibility of the Shareholders to attend and vote at the SGM. The record date for determining the entitlement of the Shareholders to attend and vote at the SGM will be on Friday, 30 July 2021. All transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than Monday, 26 July 2021 at 4:30 p.m. (Hong Kong time).
5. No instrument appointing a proxy shall be valid after expiration of 12 months from the date named in it as the date of its execution, except at an adjourned meeting or on a poll demanded at the Meeting or any adjournment thereof in cases where the Meeting was originally held within 12 months from such date.
6. Where there are joint holders of any shares, any one of such joint holders may vote at the Meeting, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders be present at the Meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
7. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the Meeting if the member so wish and in such event, the form of proxy shall be deemed to be revoked.

As at the date of this notice, the Board comprises Ms. Jiang Nian (chairman & non-executive Director), Mr. Gao Yuan Xing (executive Director), Mr. Tang Rong (executive Director), Ms. Xiao Yan (non-executive Director), Ms. Wu Yanmin (non-executive Director), Ms. Chen Weijun (independent non-executive Director) and Mr. Wang Rongliang (independent non-executive Director) and Mr. Chen Jinzhong (independent non-executive Director).