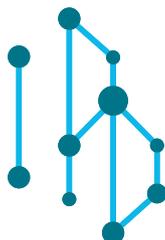


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INNOVATIVE PHARMACEUTICAL BIOTECH LIMITED
領航醫藥及生物科技有限公司

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

(Stock Code: 399)

**(A) VERY SUBSTANTIAL DISPOSAL AND
CONNECTED TRANSACTION IN RELATION TO
PROPOSED DISPOSAL OF APPROXIMATELY 19.14% OF THE
ISSUED SHARE CAPITAL OF AND AN AGGREGATE OF
HK\$577,170,000 CONVERTIBLE BONDS
ISSUED BY EXTRAWELL PHARMACEUTICAL
HOLDINGS LIMITED (STOCK CODE: 858)
AND
(B) RESUMPTION OF TRADING**

THE SALE AND PURCHASE AGREEMENT

The Board is pleased to announce that on 23 June 2019, the Company and the Purchaser entered into the Sale and Purchase Agreement pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Shares and the Sale Convertible Bonds at an aggregate Consideration of HK\$270,000,000.

The Sale Shares represent approximately 19.14% of the issued share capital of the Target Company which is an associate company of the Group and the financial results of which have not been consolidated in the results of the Group. Immediately after the Disposal, the Company will no longer hold any Target Company Shares and convertible bonds issued by the Target Company.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Disposal exceeds 75%, the entering into of the Sale and Purchase Agreement constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules.

Furthermore, as at the date of this announcement, (i) the Purchaser holds 389,200,000 Shares, representing approximately 26.58% of the total issued share capital of the Company, and is a substantial shareholder of the Company; (ii) the Purchaser is a connected person of the Company at the subsidiary level according to Rule 14A.07(1) of the Listing Rules. Therefore, the Purchaser is a connected person of the Company and the Disposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As a result, the Sale and Purchase Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, circular and the Independent Shareholders' approval at the SGM under the Listing Rules.

GENERAL

The SGM will be held and convened for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, save for the Purchaser and his associates (namely United Gene Holdings, United Gene Group, Biowindow Gene, JNJ Investments, Good Links, Victory Trend, Best Champion and China United Gene), no other Shareholder has a material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder. As such, save for the Purchaser and his associates as disclosed, no other Shareholder is required to abstain from voting on the resolution to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the SGM.

The Independent Board Committee (comprising all of the three independent non-executive Directors, namely, Ms. Chen Weijun, Dr. Zhang Zhihong and Mr. Wang Rongliang) has been established to advise the Independent Shareholders on the Sale and Purchase Agreement and the transactions contemplated thereunder. The Company will appoint an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) a letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders; (iv) financial information of the Group; and (v) a notice convening the SGM, will be despatched to the Shareholders on or before 30 August 2019 as the Board expects that additional time will be required for preparing the information to be contained in the circular.

RESUMPTION OF TRADING

Trading in the Shares was suspended at the request of the Company with effect from 9:00 a.m. on 24 June 2019 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the trading in the Shares to resume from 9:00 a.m. on 29 July 2019 following the publication of this announcement.

Completion of the Disposal is subject to fulfillment of the conditions precedent as set out in the section headed “Conditions precedent” below of this announcement. As the Disposal may or may not proceed, Shareholders and potential investors of the Company are advised to exercise caution when dealing in securities of the Company, and if they are in any doubt about their position, they should consult their professional advisers.

INTRODUCTION

The Board is pleased to announce that on 23 June 2019, the Company and the Purchaser entered into the Sale and Purchase Agreement pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Shares and the Sale Convertible Bonds at an aggregate Consideration of HK\$270,000,000.

THE SALE AND PURCHASE AGREEMENT

The terms and conditions of the Sale and Purchase Agreement are summarised as below:

Date

23 June 2019

Parties:

Vendor: The Company

Purchaser: Dr. Mao Yumin

As at the date of this announcement, (i) the Purchaser holds 389,200,000 Shares, representing approximately 26.58% of the total issued share capital of the Company, and is a substantial shareholder of the Company; (ii) the Purchaser is a connected person of the Company at the subsidiary level according to Rule 14A107(1) of the Listing Rules. Therefore, the Purchaser is a connected person of the Company.

Furthermore, as at the date of this announcement, the Purchaser and his associate (namely China United Gene) are in aggregate interested in (i) 403,151,350 Shares, representing approximately 27.53% of the total issued share capital of the Company; and (ii) the Outstanding Company Convertible Bonds I convertible into an aggregate of 1,519,000,000 Shares, representing approximately 103.74% of the total issued share capital of the Company as at the date of this announcement and approximately 50.92% of the enlarged total issued share capital of the Company after full conversion (before the Disposal).

The Sale Shares and the Sale Convertible Bonds

The Sale Shares, being 457,510,000 Target Company Shares, represent approximately 19.14% of the entire issued share capital of the Target Company whose financial results have not been consolidated in the results of the Group.

The Sale Convertible Bonds, which was issued by the Target Company to the Company on 29 October 2013, 25 April 2014, 1 September 2014, 7 January 2015 and 7 May 2015, carrying an aggregate outstanding principal amount of HK\$577,170,000 up to the date of this announcement. Further details of the Sale Convertible Bonds can be referred to in the announcement of the Company dated 15 May 2013 and the circular of the Company dated 27 September 2013.

The Sale Convertible Bonds are convertible into 900,000,000 Target Company Shares, representing approximately 37.66% of the total issued share capital of the Target Company as at the date of this announcement and approximately 27.36% of the enlarged total issued share capital of the Target Company after conversion, upon exercise in full by the Company of the conversion rights attaching to the Sale Convertible Bonds at a conversion price of HK\$0.6413 per Target Company Share.

The conversion price of HK\$0.6413 per Target Company Share of the Sale Convertible Bonds represents:

- (i) a premium of approximately 672.65% to the closing price of HK0.083 per Target Company Share as quoted on the Stock Exchange as at the Last Trading Date;

- (ii) a premium of approximately 683.99% to the average closing price per Target Company Share of approximately HK\$0.0818 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Date; and
- (iii) a premium of approximately 705.65% to the average closing price per Target Company Share of approximately HK\$0.0796 as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Date.

The Target Company is an associate company of the Group. The Sale Shares and the Sale Convertible Bonds represent all the Target Company Shares and convertible bonds issued by the Target Company held by the Company. Immediately after the Disposal, the Company will no longer hold any Target Company Shares and convertible bonds issued by the Target Company.

Consideration and payment terms

The aggregate Consideration for the Sale Shares and the Sale Convertible Bonds shall be HK\$270,000,000. Amongst the Consideration, HK\$50,000,000 is for the purchase of the Sale Shares and HK\$220,000,000 is for the purchase of the Sale Convertible Bonds. The Consideration shall be satisfied by the Purchaser in the following manner:

- (i) a sum of HK\$25,000,000 shall be payable by the Purchaser to the Company within ten days from the date of the Sale and Purchase Agreement. If the Disposal does not proceed to Completion, the Company shall promptly return the said sum to the Purchaser without interest upon termination of the Sale and Purchase Agreement;
- (ii) a further sum of HK\$25,000,000 shall be payable by the Purchaser to the Company within 180 days after the payment of HK\$25,000,000 as stated in (i) above or within five Business Days preceding Completion Date, whichever is earlier. If the Disposal does not proceed to Completion, the Company shall promptly return the said sum to the Purchaser without interest upon termination of the Sale and Purchase Agreement; and
- (iii) the balance of the Consideration (being HK\$220,000,000) shall be paid and set off by the purchase by the Company from the Purchaser of HK\$248,000,000 of the Outstanding Company Convertible Bonds I registered in the name of the Purchaser on Completion Date at a consideration of HK\$220,000,000.

The portion of the Consideration in (i) and (ii) above shall be paid by cash to the designated bank account of the Company or such other payment method as agreed between the Company and the Purchaser.

Pursuant to the terms of the Company Convertible Bonds, the Company may at any time and from time to time purchase any part of the Company Convertible Bonds at any price as agreed between the Company and the relevant bondholder of the Company Convertible Bonds. The Company Convertible Bonds which are purchased by the Company will forthwith be cancelled. For further information of the Company Convertible Bonds, please refer to the section “Information of the Company Convertible Bonds” in this announcement.

The Consideration was determined after arm’s length negotiation between the Company and the Purchaser.

The consideration for the Sale Shares of HK\$50,000,000 was determined having considered the market value of the Sale Shares of HK\$37,973,330 calculated by reference to the closing price of HK\$0.083 per Target Company Share as at the Last Trading Day and the trading liquidity of the Sale Shares which has been relatively low. The premium of the consideration for the Sale Shares of approximately 31.67% over the market value of the Sale Shares represents an appropriate opportunity for the Company to cash out its investment in the Sale Shares in order to satisfy the immediate funding needs of the Group.

The consideration for the Sale Convertible Bonds of HK\$220,000,000 was determined based on commercial negotiation between the Company and the Purchaser taking into consideration (i) the liquidity of the Sale Convertible Bonds; (ii) the share price performance of the Target Company Shares since the issue of the Sale Convertible Bonds; (iii) the sensitivity analysis of the impact of the underlying share price on the value of the Sale Convertible Bonds; (iv) the audited carrying value of the Sale Convertible Bonds of HK\$111,942,000 as at 31 March 2019 as valued by Roma Appraisals Limited, an independent qualified valuer (the “**Valuer**); and (v) the fair value of the convertible bonds underlying the Purchase of HK\$248,000,000 as at 31 March 2019 as valued by the Valuer. The Board understands that the Valuer has adopted the binomial option pricing model approach in arriving at the carrying value of the Sale Convertible Bonds and the fair value of the convertible bonds underlying the Purchase. In view of (i) the significant drop of approximately 83.23% of the Target Company Shares from HK\$0.495 as at the first issue date of the Sale Convertible Bonds to HK\$0.083 as at the Last Trading Day; (ii) the parallel decline of approximately 80.61% of the aggregate principal amount of the Sale Convertible Bonds of HK\$577,170,000 since its issue to its carrying value of HK\$111,942,000 as at 31 March 2019; (iii) the high correlation between the price of Target Company Shares and the value of the Sale Convertible Bonds; and (iv) the market value of HK\$220,100,000 based on the assumption of 620,000,000 Shares converted under the Purchase at the closing price of HK\$0.355 per Share as at the Last Trading Day, the Board considered that the consideration of the Sale Convertible Bonds which is at a premium of approximately 96.53% over its carrying value offers an appropriate exit opportunity for the Company to immediately secure the value underlying the Sale Convertible Bonds.

Having considered the abovementioned factors, the Board (excluding the independent non-executive Directors who will opine after considering the advice from the independent financial adviser) considered that the consideration for the Sale Shares and the Sale Convertible Bonds is fair and reasonable and in the interest of the Company and its Independent Shareholders as a whole.

Conditions precedent

Completion is conditional upon the following conditions being satisfied or waived:

- (i) the Sale and Purchase Agreement and the transactions contemplated thereunder not having triggered any obligations under the Takeovers Code (including but not limited to the obligation of making a general offer);
- (ii) the Independent Shareholders having approved the Sale and Purchase Agreement and the transactions contemplated thereunder in the SGM in accordance with the Listing Rules; and
- (iii) (if necessary) all necessary consent, approval, waiver and authorisation in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder have been obtained.

The Company and the Purchaser shall use their reasonable endeavour to fulfill the conditions precedent on or before the Long Stop Date. Save as conditions (ii) and (iii), the Company and the Purchaser can mutually agree in writing to waive any of the conditions precedent. If any of the conditions precedent is/are not fulfilled or waived (as the case may be) on or before the Long Stop Date, the Sale and Purchase Agreement shall cease to have effect.

Pursuant to the terms and conditions of the Sale Convertible Bonds, any transfer of the Sale Convertible Bonds to a connected person of the Target Company (other than the associates of the bondholder of the Sale Convertible Bonds) shall comply with the requirements under the Listing Rules and/or the requirements imposed by the Stock Exchange (if any) and shall be subject to the approval by the directors of the Target Company.

To the Directors' best knowledge, as of the date of this announcement, neither the Company nor the Purchaser has any intention to waive any of the conditions precedent set out above.

Completion

Completion of the Sale and Purchase Agreement shall take place within five Business Days following the fulfillment of all conditions precedent under the paragraph headed "Conditions precedent" in this announcement or such other date as the Company and the Purchaser may agree in writing.

INFORMATION OF THE TARGET COMPANY

The Target Company is a company incorporated in Bermuda with limited liability. The Target Company Shares are listed on the main board of the Stock Exchange with stock code 858. According to the public information, the Target Company is an investment holding 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.

Set out below is the audited consolidated financial information of the Target Group for the two years ended 31 March 2018 and 2019 extracted from the 2018 annual report and the announcement relating to the audited consolidated results for the year ended 31 March 2019 of the Target Company respectively:

Results	For the year ended 31 March	
	2019	2018
	<i>Approximately</i>	<i>Approximately</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>
Revenue	89,218	85,762
Profit before taxation	63,374	29,186
Profit after taxation	63,324	29,272

The audited consolidated net assets of the Target Group was approximately HK\$1,067,079,000 and approximately HK\$1,061,571,000 as at 31 March 2018 and as at 31 March 2019 respectively.

The following table shows the shareholding of the Target Company (i) as at the date of this announcement; (ii) immediately after the Disposal (assuming no further issue or repurchase of the Target Company Shares); and (iii) immediately after the Disposal and assuming full conversion of the Sale Convertible Bonds (assuming no further issue or repurchase of the Target Company Shares):

Shareholders	As at the date of this announcement		Immediately after the Disposal		Immediately after the Disposal and assuming full conversion of the Sale Convertible Bonds	
	No. of shares	Approximate %	No. of shares	Approximate %	No. of shares	Approximate %
The Company	457,510,000	19.14%	—	—	—	—
The Purchaser	—	—	457,510,000	19.14%	1,357,510,000	41.26%
Other Shareholders	1,932,490,000	80.86%	1,932,490,000	80.86%	1,932,490,000	58.74%
Total	<u>2,390,000,000</u>	<u>100.00%</u>	<u>2,390,000,000</u>	<u>100.00%</u>	<u>3,290,000,000</u>	<u>100.00%</u>

As at the date of this announcement, the Target Company holds the Company Convertible Bonds II in an aggregate principal amount of HK\$715,000,000. Further details of the Company Convertible Bonds II are disclosed under the section “Information of the Company Convertible Bonds” in this announcement.

INFORMATION OF THE GROUP AND THE REMAINING GROUP

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, development and commercialization of the oral insulin products.

The Group expects that, following the Disposal, the Group will continue to engage in trading of beauty equipment and products in Hong Kong and research, development and commercialisation of the oral insulin product.

The Directors do not expect the Disposal will have any material impact to the research, development and commercialisation of the oral insulin product currently being carried out by the Group.

Since 2013, the Company acquired the Sale Shares and the Sale Convertible Bonds issued by the Target Company and the Target Company became an associate company of the Group. The Group's investments in the Target Group are recorded in the Group's consolidated statement of financial position under interests in associates and investments in convertible bonds as non-current assets of the Company, and these balances are sensitive to share price fluctuations of the Target Company Shares, as well as being subject to impairment assessment in accordance with Hong Kong Accounting Standards. The Company's share of results and other comprehensive income of the Target Company was approximately HK\$10,920,000 and approximately HK\$707,000 for 2018 and 2019 respectively. Nonetheless, the Directors believe that the Disposal will not have material impact on the financial performance of the Group in the future.

INFORMATION OF THE COMPANY CONVERTIBLE BONDS

Company Convertible Bonds I

References are made to the announcements of the Company dated 15 May 2013, 30 August 2013, 20 November 2013, 31 December 2013, 28 January 2014, 24 April 2014, 30 August 2014, 31 December 2014 and 30 April 2015 and the circular of the Company dated 27 September 2013.

The Company Convertible Bonds I were issued pursuant to an instrument of the Company Convertible Bonds I dated 25 October 2013 by the Company in an aggregate principal amount of HK\$744,000,000 with nil interest for a conversion period of ten years from the date of issue and a conversion price of HK\$0.4 per Share.

As at the date of this announcement, an aggregate outstanding balance of HK\$607,600,000 of the Company Convertible Bonds I was owed by the Company to the Purchaser and JNJ Investments. Amongst the Outstanding Company Convertible Bonds I, the Purchaser holds an aggregate principal amount of HK\$351,600,000. After Completion, an aggregate principal amount of HK\$103,600,000 (being HK\$351,600,000 net of HK\$248,000,000) of the Outstanding Company Convertible Bonds I being held by the Purchaser will be outstanding.

As at the date of this announcement, JNJ Investments (a company which is indirectly wholly-owned by the Purchaser) holds Outstanding Company Convertible Bonds I in an aggregate principal amount of HK\$256,000,000. The terms and conditions of the Outstanding Company Convertible Bonds I being issued to the Purchaser were the same as those to JNJ Investments. The Purchaser and JNJ Investments in aggregate were beneficially interested in the Outstanding Company Convertible Bonds I in an aggregate principal amount of HK\$607,600,000.

The Outstanding Company Convertible Bonds I are convertible into a maximum of 1,519,000,000 Shares, representing 103.74% of the total issued share capital of the Company as at the date of this announcement and 50.92% of the enlarged total issued share capital of the Company upon full conversion (before the Disposal).

The conversion price of HK\$0.40 per Share of the Outstanding Company Convertible Bonds I represents:

- (i) a premium of approximately 12.68% to the closing price of HK0.355 per Share as quoted on the Stock Exchange as at the Last Trading Date;
- (ii) a premium of approximately 11.73% to the average closing price per Share of approximately HK\$0.358 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Date; and
- (iii) a premium of approximately 10.96% to the average closing price per Share of approximately HK\$0.3605 as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Date.

Company Convertible Bonds II

Reference are made to the joint announcements of the Company and the Target Company dated 18 March 2014, 19 March 2014, 17 July 2014 and 28 July 2014 and the circular of the Company dated 26 June 2014 and the circular of the Target Company dated 27 June 2014.

The Company Convertible Bonds II were issued pursuant to an instrument of the Company Convertible Bonds II dated 28 July 2014 by the Company to the Target Company in an aggregate principal amount of HK\$715,000,000 with 3.5% interest per annum for a conversion period of 7 years from the date of issue and a conversion price of HK\$2.5 per Share.

As at the date of this announcement, the Target Company holds the Company Convertible Bonds II in an aggregate principal amount of HK\$715,000,000.

The Company Convertible Bonds II are convertible into a maximum of 286,000,000 Shares, representing approximately 19.53% of the total issued share capital of the Company as at the date of this announcement and approximately 16.34% of the enlarged total issued share capital of the Company upon full conversion.

The conversion price of HK\$2.5 per Share of the Company Convertible Bonds II represents:

- (i) a premium of approximately 604.23% to the closing price of HK0.355 per Share as quoted on the Stock Exchange as at the Last Trading Date;

- (ii) a premium of approximately 598.32% to the average closing price per Share of approximately HK\$0.358 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Date; and
- (iii) a premium of approximately 593.48% to the average closing price per Share of approximately HK\$0.3605 as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Date.

The following table shows the shareholding of the Company (i) as at the date of this announcement; (ii) assuming full conversion of the Outstanding Company Convertible Bonds I and Company Convertible Bonds II (assuming no further issue or repurchase of the Shares) as at the date of this announcement; and (iii) assuming full conversion of the Outstanding Company Convertible Bonds I and Company Convertible Bonds II (assuming no further issue or repurchase of the Shares) immediately after the Disposal:

Shareholders	As at the date of this announcement		Assuming full conversion of the Outstanding Company Convertible Bonds I and Company Convertible Bonds II as at the date of this announcement		Assuming full conversion of the Outstanding Company Convertible Bonds I and Company Convertible Bonds II immediately after the Disposal	
	<i>No. of shares</i>	<i>Approximate %</i>	<i>No. of shares</i>	<i>Approximate %</i>	<i>No. of shares</i>	<i>Approximate %</i>
The Purchaser	389,200,000	26.58%	1,268,200,000	38.79%	648,200,000	24.46%
JNJ Investments	—	0.00%	640,000,000	19.58%	640,000,000	24.16%
China United Gene	13,951,350	0.95%	13,951,350	0.43%	13,951,350	0.53%
The Target Company	—	0.00%	286,000,000	8.74%	286,000,000	10.80%
Other Shareholders	1,061,041,674	72.47%	1,061,041,674	32.46%	1,061,041,674	40.05%
Total	<u>1,464,193,024</u>	<u>100.00%</u>	<u>3,269,193,024</u>	<u>100.00%</u>	<u>2,649,193,024</u>	<u>100.00%</u>

REASONS FOR AND BENEFIT OF THE DISPOSAL

As disclosed above, the Group's investments in the Target Company are recorded in the Group's consolidated statement of financial position under interests in associates and investments in convertible bonds, and these balances are sensitive to share price fluctuations of the Target Company Shares, as well as being subject to impairment assessment in accordance with Hong Kong Accounting Standards. Since the issue of the Sale Convertible Bonds, the share price of the Target Company Shares has significantly dropped by approximately 83.23% from the closing price of the Target Company Shares of HK\$0.495 as at the first issue date of the Sale Convertible Bonds to the closing price of the Target Company Shares of HK\$0.083 as at the Last Trading Day. The decrease in the share price of the Target Company Shares also results in the decrease of the value of the Sale Convertible Bonds which makes disposal of the Sale Convertible Bonds less attractive. Furthermore, the Company has no intention to exercise the conversion attaching to the Sale Convertible Bonds given the high premium of the conversion price of the Sale Convertible Bonds over the trading price of the Target Company Shares.

With reference to the Company's audited consolidated annual results for the year ended 31 March 2019, the Group's total borrowings were approximately HK\$755,455,000 and its bank and cash balances were approximately HK\$17,058,000 as at 31 March, 2019. Thus, it is the Group's strategy to improve its debt and cash position, and the Company has been actively exploring fund raising opportunities through capital market as well as other cash out opportunity through possible disposal of the Sale Shares and/or the Sale Convertible Bonds to investors independent of the Company. However, in light of (i) the unstable global economy and financial market and the weaken investors' sentiment triggered by the China-United States trade war since 2018; (ii) the decreasing share price of the Shares; and (iii) the relatively low trading liquidity of the Shares, the Group encountered difficulty to raise funds through the abovementioned fund raising options. As a result, the Company approached its Shareholder to explore various opportunities to improve the Group's cash position and finally reached the terms under the Sale and Purchase Agreement with the Purchaser.

Since 2014, the Group engaged in the development (the "**Project**") of a technology that would allow insulin to be administered orally (the "**Product**") and the technology is still in the research and development stage.

It is expected that the Product will be one of the first oral insulin medicines available in the market. The Project represented an in-process research and development project involving the Product. The patents of an invention “a method of production of oil-phase preparation of oral insulin (一種製備口服胰島素油相製劑的方法)” in relation to the Product are registered under the joint names of Fosse Bio-Engineering Development Limited (“**Fosse Bio**”) and Tsinghua University, Beijing (“**THU**”) granted by State Intellectual Property Office of the PRC and United States Patent and Trademark Office of the United States of America granted on 4 August 2004 and 28 March 2006 respectively and will be expired on 20 April 2021 and 12 April 2022 respectively. Fosse Bio is a subsidiary of the Group. Fosse Bio and THU have entered into the agreements in 1998 (the “**THU Collaboration Arrangement**”) in connection with the research and development of the Product. Pursuant to the THU Collaboration Arrangement, which has expired in October 2018 and renewed with a new term of collaboration until 14 October 2023, Fosse Bio would be entitled to commercialise the relevant technologies of the Product and to manufacture and sell the Product on an exclusive basis, and THU is entitled to 1.5% of Fosse Bio’s annual sales upon commercialisation of the Product.

The Group is preparing to commence part B of phase III clinical trials of the Product which is typically considered as the final stage of clinical trial before commercialization. The Group plans to inject additional resources into clinical trial of the Project and consolidate the effort of the project team in order to facility the development of it and will use its best endeavours to commercialise the product around early 2022. Thus far, the Group has financed the Project with the Group’s internal resources but remains active and open to other fund-raising and partnership activities to further develop the Group’s portfolio and development.

In light of the current uncertain economic environment in the global market and given that investment in pharmaceutical products are generally considered as high-risk investment, the Group is in a difficult position to obtain financing for developing the Product. The Board takes the view that the proceeds from the Disposal, together with the existing available internal resource of the Group, will enable the Group to financially support the development of the Product for commercialisation.

The Board holds the view that with the adoption of the Twelfth Five-Year Plan in 2011 and the central government’s increasing investment in the nation’s healthcare reforms in the PRC, the pharmaceutical industry continued to demonstrate a strong growth momentum supported by robust market demand primarily driven by natural growth, the aging of population, accelerating urbanization and the people’s rising living standards. The Board is confident that there will be substantial demand for the Product and accordingly, using the net proceeds of the Disposal as disclosed in the section headed “Use of Proceeds” in this announcement below to finance the Project will, in due course, generate strong returns for the Company for the benefit of all the Shareholders.

Furthermore, following the settlement of the Purchase, the respective convertible bonds will be cancelled in accordance with the terms and conditions of the Company Convertible Bonds and will no longer be the liabilities consolidated into the Group, thus improves the gearing and credit profile of the Group.

Based on the above, the Directors (excluding the independent non-executive Directors who will give their views after taking into account the opinion given by the independent financial adviser) are of the view that the Disposal are on normal commercial terms and ordinary and usual course of business of the Company, and the terms and conditions of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

No Director has a material interest in the Disposal and no Director was required to be abstained from voting on the board resolutions to approve the Disposal.

FINANCIAL EFFECT OF THE DISPOSAL AND THE PURCHASE

As at the date of this announcement, the Target Company is accounted for as an associate of the Company in the consolidated financial statements of the Group. The Sale Shares and the Sale Convertible Bonds represent all the Target Company Shares and convertible bonds issued by the Target Company held by the Company. Upon Completion, the Company will cease to hold any Target Company Shares and convertible bonds issued by the Target Company and the Company will no longer be the registered holder of the Sale Shares and the Sale Convertible Bonds.

As at 31 March 2019, the audited carrying value of the Group's investment in Sale Shares is approximately HK\$48,954,000, and its interests in Sale Shares will no longer be accounted for under non-current assets of the Group's financial statement as a result of the disposal of Sale Shares. Further, for illustrative purpose, as a result of the disposal of the Sale Shares, it is estimated that the Company will realize an unaudited gain on disposal of the Sale Shares of approximately HK\$1,046,000, which will be credited to the profit and loss, being the difference of the cash proceeds from disposal of Sale Shares of approximately HK\$50,000,000 and the audited carrying value of Sale Shares as at 31 March 2019.

As at 31 March 2019, the audited carrying value of the Group's investment in Sale Convertible Bonds is approximately HK\$111,942,000, and its investments in Sale Convertible Bonds will no longer be accounted for under non-current assets of the Group's financial statement as a result of the disposal of Sale Convertible Bonds. Further, for illustrative purpose, as a result of the Purchase and disposal of Sale Convertible Bonds, it is estimated that the Company will realize an unaudited gain on the Purchase of approximately HK\$2,424,000, which will be credited to the profit and loss, being the excess of the carrying value of the liability component of approximately HK\$79,672,000 for the convertible bonds with a principal amount of HK\$248,000,000 underlying the Purchase over the fair value of the liability component of approximately HK\$77,248,000 for the aforesaid convertible bonds.

As a result of the abovementioned effect, the Group expects to record an estimated net gain of approximately HK\$820,000, which represents net effect of the gain on disposal of Sale Shares, the gain on Purchase and related expenses of approximately HK\$2,650,000. The Group's gearing ratio (expressed as total liabilities divided by total equity) will also improve from approximately 0.99 as at 31 March 2019 to approximately 0.93 upon Completion and thus improve the credit profile of the Group.

USE OF PROCEEDS

The net proceeds from the Disposal after deducting related expenses are estimated to be approximately HK\$267,350,000. The Group intends to apply the net proceeds from the Disposal in the following manner:

- (i) as to approximately HK\$25,000,000 for the on-going development of part B of phase III clinical trial on the Product under the Project;
- (ii) as to approximately HK\$220,000,000 for the set off of the Purchase; and
- (iii) as to the remaining balance of approximately HK\$22,350,000, of which approximately HK\$12,000,000 will be used for the operating and administrative expenses of the Company for the next twelve months and approximately HK\$10,350,000 for the general working capital of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Disposal exceeds 75%, the entering into of the Sale and Purchase Agreement constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules.

Furthermore, as at the date of this announcement, (i) the Purchaser holds 389,200,000 Shares, representing approximately 26.58% of the total issued share capital of the Company, and is a substantial shareholder of the Company; (ii) the Purchaser is a connected person of the Company at the subsidiary level according to Rule 14A.07(1) of the Listing Rules. Therefore, the Purchaser is a connected person of the Company and the Disposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As a result, the Sale and Purchase Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, circular and the Independent Shareholders' approval at the SGM under the Listing Rules.

GENERAL

The SGM will be held and convened for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, save for the Purchaser and his associates (namely United Gene Holdings, United Gene Group, Biowindow Gene, JNJ Investments, Good Links, Victory Trend, Best Champion and China United Gene), no other Shareholder has a material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder. As such, save for the Purchaser and his associates as disclosed, no other Shareholder is required to abstain from voting on the resolution to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the SGM.

The Independent Board Committee (comprising all of the three independent non-executive Directors, namely, Ms. Chen Weijun, Dr. Zhang Zhihong and Mr. Wang Rongliang) has been established to advise the Independent Shareholders on the Sale and Purchase Agreement and the transactions contemplated thereunder. The Company will appoint an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (i) further details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) a letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders; (iv) financial information of the Group; and (v) a notice convening the SGM, will be despatched to the Shareholders on or before 30 August 2019 as the Board expects that additional time will be required for preparing the information to be contained in the circular.

RESUMPTION OF TRADING

Trading in the Shares was suspended at the request of the Company with effect from 9:00 a.m. on 24 June 2019 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the trading in the Shares to resume from 9:00 a.m. on 29 July 2019 following the publication of this announcement.

Completion of the Disposal is subject to fulfillment of the conditions precedent as set out in the section headed “Conditions precedent” above of this announcement. As the Disposal may or may not proceed, Shareholders and potential investors of the Company are advised to exercise caution when dealing in securities of the Company, and if they are in any doubt about their position, they should consult their professional advisers.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Best Champion”	Best Champion Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which is owned as to 33.5% by United Gene Holdings and 33% by Victory Trend
“Biowindow Gene”	Biowindow Gene Development (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability which is wholly owned by United Gene Group
“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

“China United Gene”	China United Gene Investment Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which is owned as to 60% by Best Champion
“Company”	Innovative Pharmaceutical Biotech Limited (領航醫藥及生物科技有限公司) (stock code: 399), a company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“Company Convertible Bonds”	collectively, Company Convertible Bonds I and Company Convertible Bonds II
“Company Convertible Bonds I”	the convertible bonds in an aggregate principal amount of HK\$744,000,000 issued by the Company pursuant to an instrument of the Company Convertible Bonds I dated 25 October 2013 with nil interest for a conversion period of ten years from the date of issue and a conversion price of HK\$0.4 per Share
“Company Convertible Bonds II”	the convertible bonds in a principal amount of HK\$715,000,000 issued by the Company to the Target Company pursuant to an instrument of the Company Convertible Bonds II dated 28 July 2014 with 3.5% interest per annum and with the conversion right to convert 286,000,000 Shares of the Company for a conversion period of 7 years from the date of issue and a conversion price of HK\$2.5 per Share
“Completion”	completion of the Disposal in accordance with the terms and conditions of the Sale and Purchase Agreement
“Completion Date”	within five Business Days following the fulfillment of all conditions precedent under the paragraph headed “conditions precedent” in this announcement or such other date as the Company and the Purchaser may agree in writing
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	the consideration for the sale and purchase of the Sale Shares and the Sale Convertible Bonds

“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Disposal”	the proposed disposal of the Sale Shares and the Sale Convertible Bonds by the Company to the Purchaser pursuant to the terms of the Sale and Purchase Agreement
“Good Links”	Good Links Limited, a company incorporated in the British Virgin Islands with limited liability which is owned as to 50% by the Purchaser
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Board comprising all of the three independent non-executive Directors, namely, Ms. Chen Weijun, Dr. Zhang Zhihong and Mr. Wang Rongliang, to advise the Independent Shareholders on the Sale and Purchase Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than the Purchaser and its associates
“JNJ Investments”	JNJ Investments Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly owned by Biowindow Gene
“Last Trading Day”	21 June 2019, being the last trading day of the Shares and the Target Company Shares immediately before the date of the Sale and Purchase Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	23 December 2019 or such other date as the Company and the Purchaser may agree in writing
“Outstanding Company Convertible Bonds I”	an aggregate outstanding balance of HK\$607,600,000 of the Company Convertible Bonds I owed by the Company to the Purchaser and JNJ Investments as to HK\$351,600,000 and as to HK\$256,000,000 respectively

“PRC”	the People’s Republic of China which, for the purpose of this announcement only, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
“Purchase”	the Company’s purchase of part of the Outstanding Company Convertible Bonds I with aggregate principal amount of HK\$248,000,000 from the Purchaser, of which (i) HK\$87,600,000 of the Outstanding Convertible Bonds I issued on 25 October 2013; (ii) HK\$8,000,000 of the Outstanding Convertible Bonds I issued on 27 December 2013; (iii) HK\$64,000,000 of the Outstanding Convertible Bonds I issued on 24 April 2014; (iv) HK\$64,000,000 of the Outstanding Convertible Bonds I issued on 30 August 2014; and (v) HK\$24,400,000 of the Outstanding Convertible Bonds I issued on 30 December 2014 held by the Purchaser will be the subject of the Purchase
“Purchaser”	Dr. Mao Yumin, being the honorary chairman of the Company
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 23 June 2019 entered into between the Company and the Purchaser in relation to the Disposal
“Sale Convertible Bonds”	the convertible bonds in an aggregate outstanding principal amount of HK\$577,170,000 issued by the Target Company to the Company on 29 October 2013, 25 April 2014, 1 September 2014, 7 January 2015 and 7 May 2015 with the conversion right to convert into 900,000,000 Target Company Shares at a conversion price of HK\$0.6413 with nil interest due on 16 July 2033
“Sale Shares”	457,510,000 Target Company Shares
“SGM”	a special general meeting of the Company to be held and convened to consider and, if though fit, to approve by the Independent Shareholders, among other, the Sale and Purchase Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of par value HK\$0.01 each in the issued share capital of the Company

“Shareholder(s)”	the registered holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Repurchases issued by the Securities and Futures Commission of Hong Kong
“Target Company”	Extrawell Pharmaceutical Holdings Limited (精優藥業控股有限公司) (stock code: 00858), a company incorporated in Bermuda with limited liability and issued shares of which are listed on the main board of the Stock Exchange
“Target Company Share(s)”	ordinary share(s) of par value HK\$0.01 each in the issued share capital of the Target Company
“Target Group”	the Target Company and its subsidiaries
“United Gene Group”	United Gene Group Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly owned by United Gene Holdings
“United Gene Holdings”	United Gene Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly owned by the Purchaser
“Victory Trend”	Victory Trend Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly owned by Good Links
“%”	per cent

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

Hong Kong, 26 July 2019

As at the date of this announcement, the Board comprises Ms. Jiang Nian (chairman & non-executive director), Mr. Gao Yuan Xing (executive director), Mr. Tang Rong (executive director), Ms. Huang He (executive director), Ms. Xiao Yan (non-executive director), Ms. Wu Yanmin (non-executive director), Ms. Chen Weijun (independent non-executive director), Dr. Zhang Zhihong (independent non-executive director) and Mr. Wang Rongliang (independent non-executive director).