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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

The board (the "Board") of directors (the "Directors") of Innovative Pharmaceutical Biotech Limited (the "Company", together with its subsidiaries, the "Group") hereby announces the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2017 (the "Financial Period") together with the comparative figures for the six months ended 30 September 2016 (the "Previous Financial Period") as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2017

	Notes	**Six months ended 30 September** **2017** ***HK$'000*** **(unaudited)**	2016 *HK$'000* (unaudited)
Revenue	3	**9,729**	6,046
Cost of sales and services		**(8,806)**	(5,565)
Gross profit		**923**	481
Other income		**4,494**	5,802
Other gains and losses, net	4	**(98,994)**	(28,000)
Selling expenses		**(320)**	(119)
Administrative expenses		**(5,471)**	(9,910)
Other expenses		**(314)**	(157)
Share of results of associates		**5,339**	4,092
Finance costs	5	**(53,607)**	(46,284)
Loss before tax		**(147,950)**	(74,095)
Income tax		**—**	—
Loss for the period	6	**(147,950)**	(74,095)

	Note	Six months ended 30 September 2017 HK$'000 (unaudited)	2016 HK$'000 (unaudited)
Other comprehensive (expense) income			
Items that may be subsequently reclassified to profit or loss:			
Fair value changes of available-for-sale financial assets		**—**	(634)
Reclassification adjustments for the accumulated loss upon disposal of available-for-sale financial assets		**(40)**	44
Exchange difference on translation of foreign operations		**(725)**	(12)
		(765)	(602)
Total comprehensive expense for the period		**(148,715)**	(74,697)
Loss for the period attributable to:			
Owners of the Company		**(146,670)**	(73,290)
Non-controlling interests		**(1,280)**	(805)
		(147,950)	(74,095)
Total comprehensive expense for the period attributable to:			
Owners of the Company		**(147,218)**	(73,892)
Non-controlling interests		**(1,497)**	(805)
		(148,715)	(74,697)
Loss per share	8		
Basic		**HK(10.02) cents**	HK(5.01) cents
Diluted		**HK(10.02) cents**	HK(5.01) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2017

	Notes	**At 30 September 2017 *HK$'000* (unaudited)**	At 31 March 2017 *HK$'000* (audited)
Non-current assets			
Property, plant and equipment	9	**205**	32,385
Interests in associates	10	**80,522**	113,462
Investments in convertible bonds	11	**163,230**	225,245
Intangible assets	12	**1,373,224**	1,373,224
Available-for-sale financial assets		**—**	22,501
Amount due from the subsidiary of an associate		**9,285**	8,125
		1,626,466	1,774,942
Current assets			
Trade receivables	13	**7,732**	6,375
Available-for-sale financial assets		**56,668**	—
Prepayments, deposits and other receivables		**16,699**	8,333
Bank and cash balances		**28,929**	61,316
		110,028	76,024
Current liabilities			
Trade payables	14	**8,139**	2,237
Accruals and other payables		**7,784**	5,863
Amounts due to non-controlling interests		**22,871**	22,871
Amounts due to former non-controlling interests		**823**	823
Amount due to the subsidiary of an associate		**41,947**	41,947
		81,564	73,741
Net current assets		**28,464**	2,283
Total assets less current liabilities		**1,654,930**	1,777,225

	Note	At 30 September 2017 *HK$'000* **(unaudited)**	At 31 March 2017 *HK$'000* (audited)
Non-current liabilities			
Convertible bonds	15	**498,387**	470,671
Deferred tax liabilities		**—**	2,162
Loan from a non-controlling interest		**6,933**	6,067
		505,320	478,900
NET ASSETS		**1,149,610**	1,298,325
Capital and reserves			
Share capital		**14,642**	14,642
Reserves		**266,114**	413,332
Equity attributable to owners of the Company		**280,756**	427,974
Non-controlling interests		**868,854**	870,351
TOTAL EQUITY		**1,149,610**	1,298,325

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" is sued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2017.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group has five reportable and operating segments as follows:

(a) provision of genetic testing services in the PRC and Hong Kong ("Provision of genetic testing services")

(b) distribution of bio-industrial products in the PRC ("Distribution of bio-industrial products")

(c) trading of beauty equipment and products in Hong Kong ("Trading of beauty equipment and products")

(d) securities investment in Hong Kong and outside Hong Kong ("Securities investment")

(e) research and development and commercialisation of products ("Research and development")

The Group's reportable and operating segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The following is an analysis of the Group's revenue and results by reportable and operating segments:

	Provision of genetic testing services		Distribution of bio-industrial products		Trading of beauty equipment and products		Securities investment		Research and development		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
Six months ended 30 September												
Revenue from external customers	**–**	–	**–**	–	**9,729**	6,046	**–**	–	**–**	–	**9,729**	6,046
Segment (loss) profit after tax	**(1)**	(9)	**(898)**	(1,119)	**541**	471	**7,614**	(44)	**(235)**	(296)	**7,021**	(997)

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Reconciliation of reportable segment profit (loss) after tax:		
Total segment profit/(loss)	**7,021**	(997)
Corporate and other expenses	**(58,196)**	(52,919)
Share of results of associates	**5,339**	4,092
Unallocated other income, gains and losses, net	**(102,114)**	(24,271)
Consolidated loss for the period	**(147,950)**	(74,095)

4. OTHER GAINS AND LOSSES, NET

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Change in fair value of derivative components of investments in convertible bonds *(Note 11)*	**(65,349)**	(19,379)
Impairment loss on interest in an associate *(Note 10)*	**(38,279)**	(8,577)
Gain/(loss) on sale of available-for-sale financial assets	**709**	(44)
Loss on disposal of property, plant and equipment	**(2,980)**	—
Change in fair value of available-for-sale financial assets	**6,905**	—
	(98,994)	(28,000)

5. FINANCE COSTS

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Effective interest expense on convertible bonds *(Note 15)*	**52,741**	45,621
Imputed interest expense on loan from a non-controlling interest of a subsidiary	**866**	663
	53,607	46,284

6. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging the following:

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	**576**	598
Operating lease charges of land and buildings	**1,170**	1,149
Cost of inventories recognised as an expense	**8,806**	5,565
Staff costs including directors' emoluments	**3,326**	2,930

7. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The directors have determined that no dividend will be paid in respect of the interim period (2016: Nil).

8. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss		
Loss for the purposes of basic and diluted loss per share (loss for the period attributable to owners of the Company)	**(146,670)**	(73,290)

	Six months ended 30 September	
	2017	2016
	Number of shares	Number of shares
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**1,464,193**	1,464,193

The computation of diluted loss per share for the six months ended 30 September 2017 and 2016 does not assume the conversion of the Company's outstanding convertible bonds since their assumed conversion would decrease the loss per share for both periods.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group's leasehold land and buildings with net book value of approximately HK$30,963,000 were disposed (six months ended 30 September 2016: HK$Nil) and no property, plant and equipment was acquired by the Group (six months ended 30 September 2016: Nil).

10. INTERESTS IN ASSOCIATES

	At 30 September 2017	At 31 March 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Cost of investments in associates		
Listed in Hong Kong	**476,841**	476,841
Unlisted	**—**	—
Share of post-acquisition profits and other comprehensive income	**103,243**	97,904
Impairment loss on interests in associates *(Note a)*	**(399,840)**	(361,561)
Adjustment against non-controlling interests *(Note b)*	**(99,722)**	(99,722)
	80,522	113,462
Fair value of listed investments *(Note c)*	**80,522**	113,462

Notes:

(a) As at 30 September 2017, the Group recognised impairment loss of approximately HK$38,279,000 in profit or loss which represented the difference between the fair value of the shares of Extrawell Pharmaceutical Holdings Limited ("Extrawell") based on the share price of Extrawell and the carrying amount of interest in associate (including the interest in Smart Ascent held by Extrawell) before adjustment against non-controlling interests at the end of the reporting period.

(b) During the year ended 31 March 2015, the Group purchased 51% equity interest in Smart Ascent Limited ("Smart Ascent") from Extrawell (BVI) Limited ("Extrawell (BVI)"), a wholly-owned subsidiary of Extrawell. Smart Ascent became a non-wholly owned subsidiary of the Company and consequently Smart Ascent and its subsidiaries ("SAL Group") have been consolidated within the Group commencing from 28 July 2014. The amount of equity in SAL Group that is attributable to the remaining 49% interest in Smart Ascent held by Extrawell and included in the carrying amount of interest in Extrawell prior to the acquisition of Smart Ascent by the Group has been reclassified from non-controlling interest (and interest in associate) and treated as part of equity attributable to owners of the Company to the extent of the Company's attributable equity interest in Extrawell which represented the share of equity in SAL Group attributable to the Company's ownership interest in Extrawell.

(c) The fair value of listed investments is based on the quoted market bid price of the shares of Extrawell and hence include the value attributable to Extrawell's equity interest in the SAL Group; whereas the carrying amount of the Group's interest in Extrawell as an associate as at 30 September 2017 and 31 March 2017 does not include that equity interest due to the adjustment against non-controlling interests (see note b above) and therefore is not directly comparable.

As at 30 September 2017, the Group had interests in the following associates:

Name of entity	Place of incorporation/ registration	Principal place of operation	Class of shares held	Proportion nominal of value of issued capital held by the Group		Proportion of voting power held by the Group		Principal activity
				30.9.2017	31.3.2017	**30.9.2017**	31.3.2017	
Extrawell	Bermuda	PRC	Ordinary shares	**19.14%**	19.14%	**19.14%**	19.14%	Development, manufacture and sale of pharmaceutical products
Longmark (Shanghai) Healthcare Limited	PRC	PRC	Registered capital	49.78%	49.78%	33.33%	33.33%	Provision of health care management services

11. INVESTMENTS IN CONVERTIBLE BONDS

On 27 April 2013, the Company entered into the conditional sale and purchase agreement to acquire (i) convertible bonds issued by Extrawell in an aggregate principal amount of HK$320,650,000 ("Sale CB-I") from Dr. Mao Yumin ("Dr. Mao"), the ultimate controlling shareholder of the Company at an aggregate consideration of HK$320,000,000 ("Consideration I"); and (ii) convertible bonds issued by Extrawell in an aggregate principal amount up to HK$256,200,000 ("Sale CB-II") from Dr. Mao at an aggregate consideration up to a maximum amount of HK$256,000,000 ("Consideration II"). Consideration I was satisfied by cash consideration of HK$120,000,000 and issuance of convertible bonds in the principle amount of HK$200,000,000 by the Company. Consideration II was satisfied by issuance of convertible bonds in the principle amount of HK$256,000,000 in four batches by the Company.

The Sale CB-I and Sale CB-II (collectively referred to as "Sale CBs") are zero coupon convertible bonds, with a maturity date at the twentieth anniversary of the issue date and are denominated in HK$. The Sale CBs entitle the bond holders to convert them into shares of Extrawell at any time during the period commencing from the date of issuance up to the seventh business day prior to the maturity of the Sale CBs, at the conversion price per share of HK$0.6413, subject to anti-dilutive clauses.

The acquisition of the first, second, third and fourth batches of Sale CB-II, each batch having a principal amount of HK$64,130,000, were completed on 24 April 2014, 30 August 2014, 31 December 2014 and 30 April 2015, respectively. The fair value of the embedded conversion option at the respective acquisition dates, 31 March 2017 and 30 September 2017 are calculated using the Binomial Model and taking into account the dilution effect of the conversion of the convertible bonds. The inputs into the model were as follows:

	24 April 2014	**30 August 2014**	**31 December 2014**	**30 April 2015**	**31 March 2017**	**30 September 2017**
Stock price	HK$0.4	HK$0.335	HK$0.325	HK$0.55	HK$0.248	HK$0.176
Exercise price	HK$0.6413	HK$0.6413	HK$0.6413	HK$0.6413	HK$0.6413	HK$0.6413
Discount rate	18.21%	18.44%	19.04%	18.76%	18.18%	18.00%
Risk-free rate *(Note a)*	2.70%	2.28%	2.24%	1.81%	1.70%	1.75%
Expected volatility *(Note b)*	63.71%	62.61%	61.73%	58.62%	56.81%	57.33%
Expected dividend yield *(Note c)*	0.00%	0.00%	0.00%	0.00%	0.00%	0.000%

Notes:

(a) The rate was determined with reference to the yields of Hong Kong government bonds and treasury bills as at the date of valuation.

(b) Based on the historical price volatility of Extrawell over the bond period.

(c) Estimated regarding the historical dividend payout of Extrawell.

The Group recognised subsequent decrease in fair value changes on the derivative components of investments in convertible bonds of HK$65,349,000 as at 30 September 2017. (Six months ended 30 September 2016: HK$19,379,000)

As at 30 September 2017, the carrying amounts of the debt and the derivative components of the investments in convertible bonds are HK$41,738,000 (31 March 2017: HK$38,404,000) and HK$121,492,000 (31 March 2017: HK$186,841,000), respectively.

12. INTANGIBLE ASSETS

The intangible assets represent an in-process research and development project involving an oral insulin product (the "Product") (the "In-process R&D"). 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 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 Smart Ascent, which became a subsidiary of the Company upon completion of the acquisition on 28 July 2014. In addition, 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 expires in 2018, 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. Accordingly, Fosse Bio has the exclusive right for the commercialisation of the Product for the duration of the unexpired term of the THU Collaboration Arrangement. The recoverable amount of the In-process R&D is determined based on fair value calculations. The fair value calculation used cash flow projections, prepared by the management based on certain key assumptions. The expected future economic benefits attributable to the In-process R&D approved by the management cover a 10-year period and a discount rate of 23.10% was used. The management believed that any reasonably possible change in any of these assumptions used in cash flow projections would not cause the carrying amount of In-process R&D to exceed the recoverable amount. Other key assumptions for fair value calculations related to the estimation of cash inflows which include budgeted sales and gross margins where such estimation is based on management's expectations for the market development.

Furthermore, PRC legal advisors of the Company have informed that if the THU Collaboration Arrangement is early terminated or expired, Fosse Bio will no longer have the exclusive right of the commercialisation of the Product. Either of Fosse Bio or THU will have the rights to independently commercialise the patented product, without the consent from each other. However, given that THU is an educational unit and does not engage in commercialisation of the Product, the Directors have prepared the cash flow projections for the ten year period using the assumption that Fosse Bio will continue to have exclusive right for commercialisation of the Product after 2018.

Based on the recoverable amount estimation, the directors of the Company are in the opinion that no impairment on the In-process R&D should be recognised.

13. TRADE RECEIVABLES

The credit terms granted by the Group to its customers generally range from 30 to 180 days.

The following is an analysis of trade receivables by age, presented based on the invoice dates, which approximated the respective revenue recognition dates at the end of the reporting period:

	At 30 September 2017	At 31 March 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
30 days or less	**2,730**	470
31 to 60 days	**2,511**	621
61 to 180 days	**2,220**	469
Over 180 days	**271**	4,815
	7,732	6,375

14. TRADE PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date.

	At 30 September 2017 *HK$'000* **(unaudited)**	At 31 March 2017 *HK$'000* (audited)
30 days or less	**2,639**	2,230
31 to 60 days	**2,431**	—
61 to 180 days	**2,103**	7
Over 180 days	**966**	—
	8,139	2,237

15. CONVERTIBLE BONDS

As disclosed in Note 11, the Company issued convertible bonds in an aggregate principle amount of HK$436,800,000 and HK$51,200,000 respectively on 25 October 2013 and 27 December 2013 (collectively referred to as "Convertible Bonds I") for the acquisition of Sale CB-I and 450,000,000 ordinary shares of Extrawell. The Convertible Bonds I with a zero coupon rate mature on the tenth anniversary of the date of issue.

The Convertible Bonds I entitle the bond holders to convert them into shares of the Company at any time within 10 years from the date of issue of the Convertible Bonds I, at the conversion price per share of HK$0.4, subject to anti-dilution clauses.

If the Convertible Bonds I have not been converted, they will be redeemed at par on the tenth anniversary of the date of issue.

The Convertible Bonds I are issued in HK$. The fair values of the liability component were HK$42,886,000 and HK$4,981,000 for the Convertible Bonds I issued by the Company at 25 October 2013 and 27 October 2013 respectively, which has been determined by the discounted cash flow approach using the prevailing market interest rate of similar non-convertible bonds and taking into account the credit risk of the Company. The fair values of the conversion option of HK$671,267,000 and HK$82,161,000 were classified as the equity component for Convertible Bonds I issued by the Company at 25 October 2013 and 27 October 2013 respectively, and are calculated using Binomial Model.

On 16 June 2015, Convertible Bonds I with aggregate principal amounts of and HK$40,000,000 were converted into ordinary shares of the Company. During the period ended 30 September 2017, none of the Convertible Bond I was converted into ordinary shares of the Company.

The movement of the liability component of Convertible Bonds I for both periods is set out below:

	Principal amount	Carrying amount
	HK$'000	*HK$'000*
As at 1 April 2016 (audited)	351,600	60,305
Interest charge *(Note 5)*	—	7,440
30 September 2016 (unaudited)	351,600	67,745
As at 1 April 2017 (audited)	351,600	76,057
Interest charge *(Note 5)*	—	9,384
30 September 2017 (unaudited)	351,600	85,441

As disclosed in Note 11, the Company issued convertible bonds in an aggregate principle amount of HK$64,000,000, HK$64,000,000, HK$64,000,000 and HK$64,000,000 respectively on 24 April 2014, 30 August 2014, 31 December 2014 and 30 April 2015 (collectively referred to as "Convertible Bonds II") for the acquisition of Sale CB-II first, second, third and fourth batches respectively. The Convertible Bonds II with zero coupon rate will mature on the tenth anniversary of the date of issue.

The Convertible Bonds II entitle the bond holders to convert them into shares of the Company at any time within 10 years from the date of issue of the Convertible Bonds II at the conversion price per share of HK$0.4, subject to anti-dilution clauses.

If the Convertible Bonds II have not been converted, they will be redeemed at par on the tenth anniversary of the date of issue.

The Convertible Bonds II are issued in HK$. The fair values of the liability components were HK$6,622,000, HK$6,916,000, HK$7,577,000 and HK$7,790,000 for the Convertible Bonds II issued by the Company at 24 April 2014, 30 August 2014, 31 December 2014 and 30 April 2015 respectively, which has been determined by the discounted cash flow approach using the prevailing market interest rate of similar non-convertible bonds and taking into account the credit risk of the Company. The fair values of the conversion option of HK$131,454,000, HK$118,983,000, HK$112,597,000 and HK$109,371,000 classified as equity components for the Convertible Bonds II issued by the Company at 24 April 2014 and 30 August 2014, 31 December 2014 and 30 April 2015 respectively are calculated using Binomial Model. The inputs into the model were as follows:

	Principal amount of HK$64,000,000			
	24 April 2014	**30 August 2014**	**31 December 2014**	**30 April 2015**
Stock price	HK$1.42	HK$1.19	HK$1.16	HK$1.16
Exercise price	HK$0.40	HK$0.40	HK$0.40	HK$0.40
Discount rate	25.46%	24.92%	23.78%	23.44%
Risk-free rate *(Note a)*	2.20%	1.84%	1.85%	1.48%
Expected volatility *(Note b)*	84.57%	82.53%	80.79%	79.49%
Expected dividend yield *(Note c)*	0.00%	0.00%	0.00%	0.00%

Notes:

(a) The rate was determined with reference to the yields of Hong Kong government bonds and treasury bills as at the date of valuation.

(b) Based on the historical price volatility of the Company over the bond period.

(c) Estimated regarding the historical dividend payout of the Company.

None of Convertible Bonds II was converted into ordinary shares of the Company during both interim periods.

The movement of the liability component of Convertible Bond II for both periods is set out below:

	Principal amount *HK$'000*	**Carrying amount** *HK$'000*
As at 1 April 2016 (audited)	256,000	39,456
Interest charge *(Note 5)*	—	4,565
30 September 2016 (unaudited)	256,000	44,021
As at 1 April 2017 (audited)	256,000	49,084
Interest charge *(Note 5)*	—	5,871
30 September 2017 (unaudited)	256,000	54,955

The Company issued convertible bonds in an aggregate principle amount of HK$715,000,000 on 28 July 2014 (collectively referred to as "Convertible Bonds III") for the acquisition of 51% equity interest in Smart Ascent. The Convertible Bonds III with a coupon rate of 3.5% per annum mature on the seventh anniversary of the date of issue.

The Convertible Bonds III entitle the bond holders to convert them into shares of the Company at any time within 7 years from the date of issue of the Convertible Bonds III, at the conversion price per share of HK$2.5, subject to anti-dilution clauses.

If the Convertible Bonds III have not been converted, they will be redeemed at par on the seventh anniversary of the date of issue.

The Convertible Bonds III are issued in HK$. The fair value of the liability component was HK$233,547,000 for the Convertible Bonds III issued by the Company at 28 July 2014, which has been determined by the discounted cash flow approach using the prevailing market interest rate of similar non-convertible bonds and taking into account the credit risk of the Company. The fair value of the conversion option of HK$136,646,000 was classified as the equity component for the Convertible Bonds III issued by the Company at 28 July 2014 and is calculated using Binomial Model. The inputs into the model were as follows:

	28 July 2014 principal amount of HK$715,000,000
Stock price	HK$1.27
Exercise price	HK$2.5
Discount rate	24.67%
Risk-free rate *(Note a)*	1.63%
Expected volatility *(Note b)*	80.04%
Expected dividend yield *(Note c)*	0.00%

Notes:

(a) The rate was determined with reference to the yields of Hong Kong government bonds and treasury bills as at the date of valuation.

(b) Based on the historical price volatility of the Company over the bond period.

(c) Estimated regarding the historical dividend payout of the Company.

None of Convertible Bonds III was converted into ordinary shares of the Company during both interim periods.

The movement of the liability component of Convertible Bond III for both periods is set out below:

	Principal amount *HK$'000*	**Carrying amount** *HK$'000*
As at 1 April 2016 (audited)	715,000	303,385
Interest paid	—	(25,025)
Interest charge *(Note 5)*	—	32,613
30 September 2016 (unaudited)	715,000	310,973
As at 1 April 2017 (audited)	715,000	345,530
Interest paid	—	(25,025)
Interest charge *(Note 5)*	—	37,486
30 September 2017 (unaudited)	715,000	357,991

16. CONTINGENT LIABILITIES AND LITIGATION

Litigation concerning CNL (Pinghu) Biotech Co. Ltd. ("CNL (Pinghu)") in the PRC

On 17 April 2012, a writ of summons was issued by 江蘇瑞峰建設集團有限 公司 (Jiangsu Ruifeng Construction Group Co., Limited) ("Jiangsu Ruifeng") in the PRC as the plaintiff against CNL (Pinghu), an indirect non-wholly owned subsidiary of the Company, as the defendant in relation to the disputes arising from the consideration and completion of construction services under the construction contracting services agreement dated 8 October 2010, the construction agreement dated 17 December 2010 and the supplemental agreement dated 8 March 2011 (collectively referred to as the "Construction Agreements") entered into between CNL (Pinghu) and Jiangsu Ruifeng, to claim the outstanding construction cost of RMB13,150,000, the related interests and litigation costs of the case. Pursuant to the Construction Agreements, the total construction costs was RMB16,675,000. Jiangsu Ruifeng had issued invoices amounting to RMB29,126,000 in relation to the construction work they performed. The aggregated invoice amount was substantially different from the contracted amount. CNL (Pinghu) only settled the amount of RMB16,601,000 and recorded it as the cost of buildings as at 30 June 2012. On 24 April 2012, Jiangsu Ruifeng obtained a civil ruling against CNL (Pinghu), pursuant to which a bank deposit of RMB15,000,000 or equivalent amount of assets of CNL (Pinghu) were to be frozen, but the actual amount frozen was HK$222,000 as at 30 June 2012, which was significantly lower than the amount stated in the civil ruling. The frozen balance was released during the year ended 30 June 2013. On 14 January 2013, an independent construction consulting company, which was appointed by Pinghu District Court, issued a statement certifying the total construction cost incurred would be in a range between RMB15,093,000 (equivalent to approximately HK$19,142,000) and RMB18,766,000 (equivalent to HK$23,801,000). According to the relevant legal opinion dated on 29 July 2013, the possibility for Pinghu District Court for adopting the construction cost of RMB18,766,000 is higher. On 20 December 2013, the 浙江省平湖市人民法院 (People's Court of Pinghu City, Zhejiang Province) delivered a further civil ruling, pursuant to which, CNL (Pinghu) shall, after the said civil ruling came into force, pay to Jiangsu Ruifeng, among other things, a fee of RMB3,309,000 (equivalent to approximately HK$4,197,000) for the construction services rendered. CNL (Pinghu) filed an application to appeal to 浙江省嘉興市中級人民法院 (the Intermediate People's Court of Jiaxing City, Zhejiang Province). On 25 April 2014, 浙江省嘉興市中級人民法院 upheld the original ruling of 浙江省平湖市人民法 院 and the Company was required to pay approximately RMB4,223,000 (equivalent to approximately HK$5,333,000) to Jiangsu Ruifeng. Full provision had been made by the Group in this regard a s a t 30 September 2014. During the year ended 31 March 2015, the Company has received payment notice of approximately RMB2,897,000 (equivalent to approximately HK$3,660,000) and settled accordingly. There is no further payment was made by the Company for the year ended 31 March 2017 and for the Financial Period.

Litigation concerning Longmark (Shanghai) in the PRC

The Company's associate, Longmark (Shanghai) entered into a tenancy agreement with 上海向膳樂緣餐飲有限公司 (Shanghai Xiangshanleyuan Dining Limited) ("the tenant") for the use of premises located in 上海市長寧區臨虹路128弄2號地下一層 (the first floor, lane 2, 124 Linhong Road, Changning District, Shanghai) ("the Premises") on 9 August 2011.

On 2 November 2015, the tenant filed a writ of summons in PRC against Longmark (Shanghai) claiming the sum of RMB213,610 (equivalent to HK$250,714) being compensation for the loss resulted from the suspension of electric power supply on the Premises.

On 28 October 2016, 上海市長寧區人民法院 (People's Court of Shanghai Changning District) rejected the petitions filed by the tenant.

The directors believe that the above legal claim will not have a material adverse effect on the results of the operations, cash flow or financial positions of the Group. As there is no certainty of the outcome of this legal case, the potential losses, if any, which may arise from this claim has not been reflected in the consolidated financial statements.

The legal case has not been concluded up to the date of this consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP RESULTS

Revenue of the Group for the Financial Period amounted to approximately HK$9.7 million, representing an increase of approximately 59% as compared with the total revenue of approximately HK$6.1 million that was recorded in the Previous Financial Period. The increase was mainly attributable to the increase in business of the trading of beauty equipment and products segment during the Financial Period. Loss attributable to the owners of the Company increased to HK$146.67 million for the Financial Period, representing an increase from the loss of HK$73.3 million that was recorded in the Previous Financial Period. The increase of loss was primarily due to the decrease in fair value of derivative components of the Group's investments in convertible bonds that were issued by Extrawell Pharmaceutical Holdings Limited ("Extrawell"), a company listed on the main board of The Stock Exchange of Hong Kong Limited, as well as the increase in impairment loss on interest in Extrawell, for the Financial Period as compared with the Previous Financial Period.

BUSINESS REVIEW

Provision of genetic testing services

Since 2010, the Group has held the permanent and exclusive distribution rights for genetic testing services in the regions of the PRC, Hong Kong, and Macau, permanent non-exclusive distribution rights for genetic testing services in other regions, and the right to use certain logos on genetic testing products and for genetic testing services that are distributed by the Group. The Group has franchised the distribution rights of the genetic testing products and services. The provision of genetic testing services did not generate any revenue this year and in the Previous Financial Period.

Distribution of bio-industrial products

The Group has held the exclusive distribution rights for the distribution of bone chips and fat in the PRC since 1 January 2010 for an initial term of 5 years, the term of which was automatically extended by an additional 10 years upon the expiry of the initial term. There was no revenue arising from the distribution of bio-industrial products during both the Financial Period and Previous Financial Period.

Trading of beauty equipment and products

The Group commenced the trading of beauty equipment and products since June 2013. During the Financial Period, revenue arising from the trading of beauty equipment and products amounted to approximately HK$9.7 million, representing an increase of approximately 59% from the revenue in the amount of approximately HK$6.1 million that was recorded in the Previous Financial Period.

Investments in Extrawell

Since 2013 the Company has acquired shares and convertible bonds issued by Extrawell and Extrawell became an associate company of the Group. The Group's investments in Extrawell 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 Extrawell's publicly traded shares, as well as being subject to impairment assessment in accordance with Hong Kong Accounting Standards.

Research and development

The in-process research and development project (the "In-process R&D") represented an in-process research and development project involving an oral insulin product (the "Product"). The Group will inject additional resources into clinical trial of the In-process R&D and consolidate the effort of the project team in order to facilitate the development of it.

Thus far, the Group has financed the research and development segment 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.

The In-process R&D was recorded as intangible asset in Group's consolidated statement of financial position with carrying value of HK$1,373 million. The management performs the impairment assessment at the end of each reporting period.

The recoverable amount of the intangible asset is determined based on fair value calculations which used cash flow projections prepared by the management of the Group using certain key assumptions. Key assumptions for the fair value calculations were based on estimated cash inflows derived from budgeted sales and gross margin which estimates are based on the expectations for the market development. In addition, the fundamental assumptions included the regulatory approvals from the relevant government bodies (in particular, the granting of the certificate of new medicine and pharmaceutical manufacturing permit for the Product by CFDA) to launch the Product by the end of 2019.

At the end of the Financial Period, the Directors of the Company have performed impairment assessment on the intangible asset. The recoverable amount of the intangible asset is determined based on the estimated fair value of the In-process R&D. Based on the assessment, the recoverable amount of the Group's intangible asset is estimated to be higher than the carrying amount and therefore the Directors of the Company considered that no impairment is necessary as at 30 September 2017.

The auditors of the Company expressed a disclaimer of opinion on the consolidated financial statements of the Group for the year ended 31 March 2017 on a basis that the carrying amount of the In-process R&D is determined based on the management's key assumptions which are made with high degree of estimation uncertainties. The carrying amount is highly dependent upon further research and development work that is required to be carried out, results of clinical trials, successful launching of the Product by the end of 2019 and key assumptions to be applied in preparing a cash flow projection for the sales of the Product.

As at the date of this announcement, the Product is still in the research and development stage. Accordingly, uncertainty as to when the Product can be launched exists. To address the audit qualification, the Group will use its best endeavors to commercialise the Product by the end of 2019.

The Group has accounted for reasonable amount of time for each process until commercialisation of the Product. The Group will use its best endeavours to commercialise the Product by the end of 2019. Nonetheless, commercialisation of the Product is subject to uncertainties and risks arising from the results of the clinical trial of the Product and the assessment of China Food and Drug Administration ("CFDA"). These factors may be beyond the control of the Group and may lead to further delay in the timetable. To the best knowledge, information and belief of the Directors, other than the uncertainties and risks arising from the results of the clinical trial of the Product and the assessment of CFDA, there are no other foreseeable obstacles/issues leading to further delay in the timetable.

Under normal circumstances, part B, Phase III of the clinical trial is typically considered as the final stage of clinical trial before commercialisation in the PRC. Accordingly, once the Group has commenced part B, Phase III of the clinical trial of the Product, the Group will be in a better position to ascertain the expected launch progress of the Product, and by that time the Group will be able to provide additional supporting evidence, for example, research and development results and status updates to the Group's auditors to support the management's assumptions on the timing and probability of success in launching the Product. The Board will, as appropriate in the circumstances, engage the auditors at an early stage to discuss the audit plan and how to address the issues, in particular once the Group has commenced part B of Phase III of the clinical trial of the Product.

As set out in the Circular, on 17 March 2014, the Group and the Extrawell Group entered into a conditional sale and purchase agreement where the Company agreed to purchase 51% of the equity interest in SAL Group from the Extrawell Group. As part of the agreement, the Group has undertaken to the Extrawell Group that for a period of 3 years from completion, the Group would, on a best endeavor basis, solely assume the future capital and operational expenditures of Smart Ascent by way of unsecured interest-free shareholder's loans up to the amount of HK$600 million from July 2014 to July 2017. The undertaking ceased to be valid upon expiry in July 2017. The Group is still in discussion with Extrawell regarding the arrangement after the expiry of the undertaking. Prior to reaching an agreement with Extrawell, the Group undertakes the provision of funding to the development of the Product in the PRC by internal resources upon expiry of the undertaking.

The In-process R&D is subject to inherent uncertainties and risks which may be beyond the control of the Group. Certain evidence and information may not be available and cannot be obtained in forming the auditors' opinions. The Group would use its best efforts to commercialise the Product and provide the evidence and information to the auditors as and when available.

The Group will make further announcements depending on situation and in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") if there is any material development.

PROSPECTS

Provision of genetic testing services

In October 2014, the Group franchised the genetic testing distribution rights to two related parties who began providing genetic testing services and selling genetic testing products in the PRC. The Group holds a cautious view regarding the business given the uncertainty of the policy and regulatory environment of genetic testing in the PRC and does not anticipate a recovery of the industry in the near-term. The Group is actively seeking partners or potential investors to work with or acquire the Group's genetic testing subsidiaries.

Distribution of bio-industrial products

CNL (Pinghu) Biotech Co. Ltd. ("CNL (Pinghu)"), a non-wholly owned subsidiary of the Company, commenced the construction of the production plant, research and development workshop and office in 2010. Since 2012, CNL (Pinghu) has been a defendant to a civil litigation suit in the PRC regarding construction costs of the production plant. A verdict on the civil litigation suit was reached in April 2014 pursuant to which it was ruled that the Group is liable to pay RMB4.2 million to the plaintiffs. Payments were made in respect of the litigation in accordance with the directions of the court. The court has delayed payments to the plaintiff at this time and further announcements will be made by the Company as and when appropriate pursuant to the requirements of the Listing Rules.

Trading of beauty equipment and products

The major trading products of the Group are beauty equipment and beauty products, and sales of these beauty equipment and beauty products represent the major component that contributes to the Group's revenue.

Revenues and profit margins of the Group from the trading segment have been relatively stable in the past and trading volume is the key determiner of the profitability of the segment. The Group competes by offering trading terms that are more favourable to its suppliers and vendors compared to the Group's competitors, and trades products that are still in high demand given the development of Asian economies.

Securities investment

The management of the Group is optimistic on the long-term recovery of the markets but they also remain cautious on the direction of the market in the near-term. The Group continues to manage a diverse portfolio of Asian stocks and bonds.

Research and development

To further ensure that the Product will be able to commercialise by end of 2019, the Group will also allocate more human resources to the project and strengthen its project team so that relevant personnel of the project team will regularly monitor the progress and make regular reports to the management of the Company so as to ensure the In-process R&D can be completed according to the Group's schedule to commercialise the Product. The Group will also engage appropriate number of hospitals to carry out the clinical trials so that part B, phase III of the clinical trial of the Product can be completed on or before the first quarter of 2019.

During the Financial Period, the Group also explored potential opportunities with investors and potential partners but as at the date of this Announcement the Group has yet to encounter a suitable business partner. The Group will continue to evaluate potential products that would be used to bolster the Group's pipeline.

FINANCIAL REVIEW

Capital structure

	31.3.2017	31.3.2016
	HK$'000	*HK$'000*
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each (the "Shares")	**500,000**	500,000
Issued and fully paid:		
1,464,193,024 Shares (As at 31 March 2017: 1,464,193,024 Shares)	**14,642**	14,642

Liquidity and financial resources

As at 30 September 2017, the Group had bank and cash balances of approximately HK$28.9 million (31 March 2017: approximately HK$61.3 million).

As at 30 September 2017, total borrowings of the Group were approximately HK$571 million (31 March 2017: approximately HK$542.4 million) which reflected the debt value of the Company's unconverted convertible bonds, amounts due to non-controlling interests, amounts due to former non-controlling interests, amount due to the subsidiary of an associate, and loan from a non-controlling interest.

The ratio of current assets to current liabilities of the Group was 1.35 as at 30 September 2017 as compared to the 1.03 as at 31 March 2017. The Group's gearing ratio as at 30 September 2017 was 0.3 (31 March 2017: 0.3) which is calculated based on the Group's total liabilities of approximately HK$586.9 million (31 March 2017: approximately HK$552.6 million) and the Group's total assets of approximately HK$1,736 million (31 March 2017: approximately HK$1,851 million).

The Group places importance on security, short-term commitment, and availability of the surplus cash and cash equivalents.

Significant acquisition and investments

On 11 March 2017, the Company and a seller entered into a Memorandum of Understanding (the "MOU"), pursuant to which the Company intended to acquire the controlling interest in three companies which are principally engaged in the provision of one-stop accredited medical consultation and health examination services in Hong Kong.

On 14 September 2017, the MOU was terminated and no definitive agreement was finalised and entered into between the Company and the seller for the acquisition.

Save as mentioned above, the Group had no other significant investments, nor had it made any material acquisition or disposal of the Group's subsidiaries or associated companies during the Financial Period.

Charges on the Group's assets

As at 30 September 2017, the Group and the Company did not have any charges on their assets (31 March 2017: Nil).

Contingent liabilities

Details of litigation and contingent liabilities are set out in note 16 to the consolidated financial statements.

Foreign exchange exposure

The monetary assets and liabilities and businesses of the Group are mainly conducted in Hong Kong Dollars, Renminbi, and United States Dollars. The Group maintains a prudent strategy in its foreign exchange risk management, with the foreign exchange risk being minimised through balancing the foreign currency monetary assets against foreign currency monetary liabilities, and foreign currency revenue against foreign currency expenditure. The Group did not use any financial instruments to hedge against foreign currency risk during the Financial Period. The Group will continue to monitor its foreign currency exposure closely and consider hedging foreign currency exposure should the need arise.

Number and numeration of employees

As at 30 September 2017, the Group had 24 full time employees (31 March 2017: 24), most of whom work in the Company's subsidiaries in the PRC. It is the Group's policy that the remuneration of employees and Directors are in line with the market and commensurate with their responsibilities. Discretionary year-end bonuses are payable to the employees based on individual performance. Other employee benefits include medical insurance, retirement schemes, training programmes, and education subsidies.

Total staff costs including the Directors' remuneration for the Financial Period amounts to approximately HK$3.3 million (Previous Financial Period: approximately HK$2.9 million).

Segment information

Details of the segment information are set out in note 3 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Financial Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted and complied with all the code provisions as set out in Appendix 14 to the Listing Rules (the "Code") during the Financial Period, except for the deviations discussed below.

Code provision A.2.1

Ms. Jiang Nian is the chairman of the Group. As at the date of this announcement, no suitable candidate has been identified and the role of chief executive officer remains vacant. The Company is continually looking for a suitable person to assume this role.

Code provision A.4.1

Code provision A.4.1 stipulates that non-executive Directors should be appointed for a specific term and should be subject to re-election.

The Company has deviated from the Code provision A.4.1. The non-executive Directors and independent non-executive Directors were not appointed for specific term but are subject to retirement by rotation and re-election at least once every three years in accordance with the provision of the Company's Bye-laws. As such, the Company considers that sufficient measures have been taken to serve the purpose of this Code provision.

The Directors believe that, despite the absence of specified terms for non-executive Directors, the Directors are committed to representing the long-term interests of the Company and its shareholders as a whole.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions. All Directors have confirmed that they have fully complied with the Model Code throughout the Financial Period. No incident of non-compliance was noted by the Company in the Financial Period.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.ipb.asia and www.irasia.com/listco/hk/ipb) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the Interim Period containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and made available on the above websites in due course.

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

Hong Kong, 29 November 2017

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).