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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

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 2018 (the "Financial Period") together with the comparative figures for the six months ended 30 September 2017 (the "Previous Financial Period") as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2018

		Six months ended 30 September	
		2018	2017
		HK$'000	*HK$'000*
	Notes	**(unaudited)**	(unaudited)
Revenue	*3*	**10,053**	9,729
Cost of sales and services		**(9,147)**	(8,806)
Gross profit		**906**	923
Other income		**5,651**	4,494
Other gains and losses, net	*4*	**(113,683)**	(98,994)
Selling expenses		**(126)**	(320)
Administrative expenses		**(12,227)**	(5,471)
Other expenses		**(314)**	(314)
Share of results of associates		**8,705**	5,339
Finance costs	*5*	**(62,218)**	(53,607)
Loss before tax		**(173,306)**	(147,950)
Income tax		**–**	–
Loss for the period	*6*	**(173,306)**	(147,950)

	Notes	Six months ended 30 September 2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Other comprehensive (expense) income			
Items that may be subsequently reclassified to profit or loss:			
Reclassification adjustments for the accumulated loss upon disposal of available- for-sale financial assets		**–**	(40)
Exchange difference on translation of foreign operations		**(663)**	(725)
		(663)	(765)
Total comprehensive expense for the period		**(173,969)**	(148,715)
Loss for the period attributable to:			
Owners of the Company		**(171,278)**	(146,670)
Non-controlling interests		**(2,028)**	(1,280)
		(173,306)	(147,950)
Total comprehensive expense for the period attributable to:			
Owners of the Company		**(171,742)**	(147,218)
Non-controlling interests		**(2,227)**	(1,497)
		(173,969)	(148,715)
Loss per share	*8*		
Basic		**HK(11.70) cents**	HK(10.02) cents
Diluted		**HK(11.70) cents**	HK(10.02) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2018

	Notes	**At 30 September 2018** **HK$'000** **(unaudited)**	At 31 March 2018 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*9*	**119**	162
Interests in associates	*10*	**54,901**	81,437
Investments in convertible bonds	*11*	**117,704**	166,447
Intangible assets	*12*	**1,373,224**	1,373,224
Amount due from the subsidiary of an associate		**12,126**	10,610
		1,558,074	1,631,880
Current assets			
Trade receivables	*13*	**13,131**	12,715
Available-for-sale financial assets		**10,485**	36,247
Prepayments, deposits and other receivables		**4,566**	13,094
Bank and cash balances		**21,425**	20,227
		49,607	82,283
Current liabilities			
Trade payables	*14*	**12,558**	10,411
Accruals and other payables		**7,099**	8,848
Amounts due to non-controlling interests		**22,871**	22,871
Amounts due to former non- controlling interests		**823**	823
		43,351	42,953
Net current assets		**6,256**	39,330
Total assets less current liabilities		**1,564,330**	1,671,210

	Notes	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Non-current liabilities			
Convertible bonds	*15*	**590,568**	554,515
Amount due to a shareholder		**25,000**	–
Amount due to the subsidiary of an associate		**46,852**	41,947
Loan from a non-controlling interest		**9,054**	7,923
		671,474	604,385
NET ASSETS		**892,856**	1,066,825
Capital and reserves			
Share capital		**14,642**	14,642
Reserves		**10,033**	181,775
Equity attributable to owners of the Company		**24,675**	196,417
Non-controlling interests		**868,181**	870,408
TOTAL EQUITY		**892,856**	1,066,825

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued 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 financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2018.

New and amended Hong Kong Financial Reporting Standards ("HKFRSs") adopted by the Group

A number of new or amended standards became applicable for the current reporting period. Those that are relevant to the Group's condensed consolidated interim financial information are as follows:

- HKFRS 9 "*Financial Instruments*"; and

- HKFRS 15 "*Revenue from Contracts with Customers*".

The impact of the adoption of these standards and the new accounting policy are disclosed below. The other standards did not have material impact on the Group's accounting policies and did not require any adjustments.

The below explains the impact of adoption of HKFRS 9 "Financial Instruments" ("HKFRS 9") and HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15") on the Group's condensed consolidated interim financial information:

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

In the current period, the Group has applied the HKFRS 9 and use the exemption from restating comparative information and recognises any transition adjustments against the opening balance of equity at 1 April 2018.

The impacts of the new requirements on the Group's financial statements are as follow:

Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (a) amortised cost, (b) fair value through profit or loss (FVTPL) and (c) fair value through other comprehensive income (FVTOCI). The classification is determined based on the contractual cash flow characteristics of the financial assets and the entity's business model for managing the financial assets.

Based on the Group's financial instruments as at 30 September 2018, the impact on initial application of HKFRS 9 are as follows:

- Financial assets held-for-trading carried at fair value: these investments qualified for designation as financial assets measured at FVTPL under HKFRS 9, the fair value changes will be recognised to profit or loss. There is no financial impact for the adoption of HKFRS 9.

  The debt component and conversion option derivative of the investments in convertible bonds is measured at amortised cost and FVTPL respectively under HKAS 39 for the year ended 31 March 2018. Upon the initial application of HKFRS 9, this entire hybrid contract is classified as financial assets measured at FVTPL and is no longer be split into debt and conversion option components. On transition, the difference between the fair value of the entire hybrid contract accounted for under HKFRS 9 and sum of the fair values of the two components previously recognised separately under HKAS 39 was adjusted in its opening retained earnings as at 1 April 2018 without any restatement in the corresponding period. Subsequent to initial measurement, all fair value gains/losses are recognised in profit or loss.

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" ("ECL") model. Under the expected credit loss model, it is no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances.

From 1 April 2018, the Group applies the new ECL model to financial assets measured at amortised cost. The Group applies the simplified approach permitted by HKFRS 9 for trade receivables which requires expected lifetime losses to be recognised from initial recognition of the receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The initial application of HKFRS 15 had not have a significant impact on the Group's results of operations and financial position.

3. REVENUE AND SEGMENT INFORMATION

The Group has three reportable and operating segments as follows:

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

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

(c) 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:

	Trading of beauty equipment and products		Securities investment		Research and development		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
Six months ended 30 September								
Revenue from external customers	**10,053**	9,729	**-**	–	**-**	–	**10,513**	9,729
Segment (loss) profit after tax	**592**	541	**(25,762)**	7,614	**(549)**	(235)	**(25,719)**	7,021

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Reconciliation of reportable segment profit (loss) after tax:		
Total segment profit/(loss)	**(25,719)**	7,021
Corporate and other expenses	**(74,790)**	(58,196)
Share of results of associates	**8,705**	5,339
Unallocated other income, gains and losses, net	**(81,502)**	(102,114)
Consolidated loss for the period	**(173,306)**	(147,950)

4. OTHER GAINS AND LOSSES, NET

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Change in fair value of derivative components of investments in convertible bonds (Note 11)	**(52,680)**	(65,349)
Impairment loss on interest in an associate (Note 10)	**(35,241)**	(38,279)
Gain/(loss) on sale of available-for-sale financial assets	**–**	709
Loss on disposal of property, plant and equipment	**–**	(2,980)
Change in fair value of available-for-sale financial assets	**(25,762)**	6,905
	(113,683)	(98,994)

5. FINANCE COSTS

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Effective interest expense on convertible bonds *(Note 15)*	**61,078**	52,741
Imputed interest expense on loan from a non-controlling interest of a subsidiary	**1,131**	866
Others	**9**	–
	62,218	53,607

6. LOSS FOR THE PERIOD

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

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	**42**	576
Operating lease charges of land and buildings	**1,170**	1,170
Cost of inventories recognised as an expense	**9,147**	8,806
Staff costs including directors' emoluments	**3,273**	3,326

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 (2017: 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	
	2018	2017
	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)	**(171,278)**	(146,670)

	Six months ended 30 September	
	2018	2017
	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 2018 and 2017 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

No property, plant and equipment was acquired and disposed by the Group. During the six months ended 30 September 2017 period, the Group's leasehold land and buildings with net book value of approximately HK$30,963,000 were disposed.

10. INTERESTS IN ASSOCIATES

	At 30 September 2018	At 31 March 2018
	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	**117,529**	108,824
Impairment loss on interests in associates *(Note a)*	**(439,747)**	(404,506)
Adjustment against non-controlling interests *(Note b)*	**(99,722)**	(99,722)
	54,901	81,437
Fair value of listed investments *(Note c)*	**54,901**	81,437

Notes:

(a) As at 30 September 2018, the Group recognised impairment loss of approximately HK$35,241,000 in profit or loss which represented the difference between the fair value of the shares of 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 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 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 2018 and 31 March 2018 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 2018, 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
				30.9.2018	31.3.2018	**30.9.2018**	31.3.2018	
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 2018 and 30 September 2018 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 2018**	**30 September 2018**
Stock price	HK$0.4	HK$0.335	HK$0.325	HK$0.55	HK$0.179	HK$0.12
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%	17.77%	18.49%
Risk-free rate *(Note a)*	2.70%	2.28%	2.24%	1.81%	1.95%	2,42%
Expected volatility *(Note b)*	63.71%	62.61%	61.73%	58.62%	57%	56,32%
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$52,680,000 as at 30 September 2018. (Six months ended 30 September 2017: HK$65,349,000)

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. The THU Collaboration Arrangement has been expired in October 2018. On 12 November 2018, the Group has entered into a supplemental agreement with THU to renew the term of the collaboration for another five years to October 2023. Pursuant to the THU Collaboration Arrangement, 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 25.21% 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.

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 90 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 2018	At 31 March 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
30 days or less	**2,956**	1,085
31 to 60 days	**2,831**	817
61 to 90 days	**2,546**	1,130
Over 90 days	**4,798**	9,683
	13,131	12,715

14. TRADE PAYABLES

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

	At 30 September 2018	At 31 March 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
30 days or less	**2,607**	1,001
31 to 60 days	**2,433**	719
Over 180 days	**7,518**	8,691
	12,558	10,411

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 *HK$'000*	**Carrying amount** *HK$'000*
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 at 1 April 2018 (audited)	351,600	95,922
Interest charge *(Note 5)*	–	11,835
30 September 2018 (unaudited)	351,600	107,757

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	**Carrying amount**
	HK$'000	*HK$'000*
As at 1 April 2017 (audited)	256,000	49,084
Interest charge *(Note 5)*	–	5,871
30 September 2017 (unaudited)	256,000	54,955
As at 1 April 2018 (audited)	256,000	61,064
Interest charge *(Note 5)*	–	5,982
30 September 2018 (unaudited)	256,000	68,129

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	**Carrying amount**
	HK$'000	*HK$'000*
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
As at 1 April 2018 (audited)	715,000	397,529
Interest paid	–	(25,025)
Interest charge *(Note 5)*	–	43,261
30 September 2018 (unaudited)	715,000	415,765

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 2018 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, 128 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$10.1 million, representing an increase of approximately 3% as compared with the total revenue of approximately HK$9.7 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$171.28 million for the Financial Period, representing an increase from the loss of HK$146.67 million that was recorded in the Previous Financial Period. The increase of loss was primarily due to the decrease in fair value of available-for-sale financial assets of the Group, for the Financial Period as compared with the Previous Financial Period.

BUSINESS REVIEW

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$10.1 million, representing an increase of approximately 3% from the revenue in the amount of approximately HK$9.7 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.

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.

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 2018.

The auditor of the Company (the "Auditor") expressed a disclaimer of opinion in the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 March 2018 as it had not been provided by the Directors of the Company with sufficient information to satisfy themselves as to the basis (together with the related data to which specific assumption was applied) for which the cash flow projection (the "Cash Flow Projection") used by the Directors to estimate the fair value of the intangible assets (the "Valuation") by income approach in relation to the In-process R&D involving the Product.

The Cash Flow Projection was prepared using significant management assumptions and judgement. The major assumptions of the Cash Flow Projection included the timing to completion of the clinical trials, the obtaining of the relevant regulatory approvals and the launching of the Product by mid of 2020 (the "Assumptions"). The estimated timing was the best estimation by the Group have regard to the progress of the In-process R&D. As the Product is still under the research and development stage, uncertainty as to when the Product can be launched exists. Further, the In-process R&D is subject to inherent uncertainties and risks which may be beyond the control of the Company. Accordingly, certain evidence and information may not be available at this stage. The management of the Company has considered the relevant facts and circumstances relevant to the situation and considered that the Assumptions adopted for the preparation of the Cash Flow Projection were reasonable.

The management of the Company has discussed with its Auditor as to how the disclaimer of opinion would be removed from the Company's financial statements going forward and is given to understand that the removal is subject to the latest progress of the clinical trials, the provision of sufficient evidence as to the timing of the completion of the clinical trials, the obtaining of regulatory approval and the launching of the Product. In light of the recent development in the manpower of the Company's working team of the project and the finalization of the funding arrangement, the management of the Company considers that the revised timetable for launching of the Product to be realistic and achievable.

The Company will use its best effort to commercialize the Product and provide appropriate evidence to the Auditor as available in due course. The Company considers that it would be in a better position to provide available evidence to the Auditor after commencement of the clinical trials.

As aforesaid, the removal of the disclaimer of opinion would be subject to the latest progress of the clinical trials, the provision of sufficient evidence as to the timing of the completion of the clinical trials, the obtaining of regulatory approval and the launching of the Product as adopted in the Cash Flow Projection. Once the Company has commenced Part B of phase III clinical trials, the Company will be in a better position to ascertain the expected launch progress of the Product and to provide the Auditor with additional supporting evidence to support the Assumptions adopted in the Cash Flow Projection.

As at the date of this announcement, other than the uncertainties and risks arising from the results of the clinical trials of the Product as well as related governmental assessment, there is no other foreseeable obstacles or issues leading to the Company's expectation of a further delay in the timetable for the launching 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 Smart Ascent Limited ("Smart Ascent" together with its subsidiaries, the "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. On 27 July 2018, a shareholders' loan agreement was entered into between the Company and Extrawell Group, pursuant to which, the Company and Extrawell agreed to advance a total sum of HK$30 million to Smart Ascent Limited in the proportion of 51% and 49%, respectively. Upon completion such funding arrangement, Extrawell has allocated its human resources to assist the Group in the operation of the clinical trials.

The Group has completed the assessment and finalized the engagement of the contract research organization ("CRO"). Fosse Bio-Engineering Development Limited ("Fosse Bio"), a subsidiary of the Company, and the CRO have entered into a technical service agreement dated 31 October 2018 pursuant to which Fosse Bio has appointed the CRO to conduct clinical research in relation to the Product. Following the engagement of the CRO, the work related to the engagement of hospitals to conduct the Part B of Phase III clinical trials and the recruitment of supervisors to monitor the progress can be commenced.

Based on the currently available information, the Company expects that the estimated timeline as stated in the announcement of the Company dated 15 August 2018 in relation to the conduct of Part B of phase III clinical trials and the commercialization of the Product and the funding arrangement for the completion of the research and development and commercialization of the Product will remain unchanged and that it is expected that the Product would commence generating revenue for the Group around the mid of 2020.

As set out in the previous annual reports of the Company, Fosse Bio and Tsing Hua University ("THU") have entered into the agreements in 1998 (the "THU Collaboration Arrangement") in connection with the research and development of the Product which term has expired in October 2018. On 12 November 2018, the Group has entered into a supplemental agreement with THU to renew the term of the collaboration for another five years to October 2023. Under the THU Collaboration Arrangement, 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 Board of the Directors of the Company is of the view that the renewal of the THU Collaboration Arrangement can facilitate the exclusive commercialization of the Product by the Group and is in the interests of the Company and its shareholders as a whole.

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

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 mid of 2020, 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 by mid of 2020.

FINANCIAL REVIEW

Capital structure

	31.3.2018	31.3.2017
	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 2018: 1,464,193,024 Shares)	**14,642**	14,642

Liquidity and financial resources

As at 30 September 2018, the Group had bank and cash balances of approximately HK$21.4 million (31 March 2018: approximately HK$20.2 million).

As at 30 September 2018, total borrowings of the Group were approximately HK$695.2 million (31 March 2018: approximately HK$628.1 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 1.14 as at 30 September 2018 as compared to the 1.92 as at 31 March 2018. The Group's gearing ratio as at 30 September 2018 was 0.45 (31 March 2018: 0.38) which is calculated based on the Group's total liabilities of approximately HK$714.8 million (31 March 2018: approximately HK$647.3 million) and the Group's total assets of approximately HK$1,607.7 million (31 March 2018: approximately HK$1,714.2 million).

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

Significant acquisition and investments

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 2018, the Group and the Company did not have any charges on their assets (31 March 2018: Nil).

Contingent liabilities

Details of litigation and contingent liabilities are set out in note 20 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 2018, the Group had 22 full time employees (31 March 2018: 22), 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$3.3 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 is committed to striving good corporate governance practices and emphasising on transparency and accountability to its shareholders and stakeholders for enhancing investor confidence. Throughout the Financial Period, the Company has adopted and complied with all the code provisions as set out in the Corporate Governance Code ("CG Code") as set forth in Appendix 14 to the Listing Rules, save and except for the deviations from code provisions A.2.1 and A.4.1.

Code provision A.2.1

Code provision A.2.1 stipulates that, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Ms. Jiang Nian is the chairman of the Group. As at the date of this report, 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 non-executive Directors and independent non-executive Directors were not appointed for specific terms 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 articles of association. As such, the Company was unable to fully comply with code provision A.4.1 of the CG Code during the Financial Period.

The Directors believe that, despite the absence of specified terms for non-executive Directors, sufficient measures have been taken to serve the purpose of this code provision and that 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. Upon specific enquiries being made with all the Directors, each of them have confirmed that they have fully complied with the required standards set out in the Model Code throughout the Financial Period in relation to their securities dealings, if any.

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 2018

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).