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 2019

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 2019 (the "Financial Period") together with the comparative figures for the six months ended 30 September 2018 (the "Previous Financial Period") as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

		Six months ended 30 September	
		2019	2018
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*3*	**11,126**	10,053
Cost of sales and services		**(10,074)**	(9,147)
Gross profit		**1,052**	906
Other income		**534**	5,651
Other gains and losses, net	*4*	**(30,659)**	(113,683)
Selling expenses		**(136)**	(126)
Administrative expenses		**(12,747)**	(12,227)
Other expenses		**—**	(314)
Share of results of associates		**6,312**	8,705
Finance costs	*5*	**(75,652)**	(62,218)

	Notes	Six months ended 30 September **2019** ***HK$'000*** **(unaudited)**	2018 *HK$'000* (unaudited)
Loss before tax		**(111,296)**	(173,306)
Income tax		**—**	—
Loss for the period	*6*	**(111,296)**	(173,306)
Other comprehensive (expense) income			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference on translation of foreign operations		**(532)**	(663)
		(532)	(663)
Total comprehensive expense for the period		**(111,828)**	(173,969)
Loss for the period attributable to:			
Owners of the Company		**(110,479)**	(171,278)
Non-controlling interests		**(817)**	(2,028)
		(111,296)	(173,306)
Total comprehensive expense for the period attributable to:			
Owners of the Company		**(111,011)**	(171,742)
Non-controlling interests		**(817)**	(2,227)
		(111,828)	(173,969)
Loss per share	*8*		
Basic		**HK(7.55) cents**	HK(11.70) cents
Diluted		**HK(7.55) cents**	HK(11.70) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2019

	Notes	**At 30 September 2019** **HK$'000** **(unaudited)**	At 31 March 2019 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	*9*	**65**	95
Interests in associates	*10*	**38,888**	48,954
Investments in convertible bonds	*11*	**97,661**	111,942
Intangible assets	*12*	**1,373,224**	1,373,224
		1,509,838	1,534,215
Current assets			
Trade receivables	*13*	**23,482**	21,176
Prepayments, deposits and other receivables		**6,502**	6,305
Bank and cash balances		**44,584**	17,058
		74,568	44,539
Current liabilities			
Trade payables	*14*	**21,034**	21,214
Accruals and other payables		**57,481**	7,273
Amounts due to non-controlling interests		**3,092**	3,092
Amounts due to former non-controlling interests		**823**	823
		82,430	32,402
Net current (liabilities) assets		**(7,682)**	12,137
Total assets less current liabilities		**1,501,976**	1,546,352

	Notes	At 30 September 2019 HK$'000 (unaudited)	At 31 March 2019 HK$'000 (audited)
Non-current liabilities			
Convertible bonds	*15*	**732,763**	658,632
Amount due to a shareholder		**7,000**	25,000
Amount due to the subsidiary of an associate		**41,952**	41,952
Loan from a non-controlling interest		**22,261**	20,929
Loan from an subsidiary of an associate		**15,016**	5,027
		818,992	751,540
NET ASSETS		**682,984**	794,812
Capital and reserves			
Share capital		**14,642**	14,642
Reserves		**(200,610)**	(89,599)
Equity attributable to owners of the Company		**(185,968)**	(74,957)
Non-controlling interests		**808,952**	869,769
TOTAL EQUITY		**682,984**	794,812

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2019

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 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2019.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 April 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	*Leases*
HK(IFRIC) – Int 23	*Uncertainty over Income Tax Treatments*
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015–2017 Cycle*

Except as described below regarding the impact of HKFRS 16 "Leases", the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated financial statements.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current period. HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees which superseded HKAS 17 "Leases" and the related interpretations.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

The Group has adopted the modified retrospective application permitted by HKFRS 16 upon adoption of the new standard. Accordingly, the standard has been applied for the period beginning on 1 April 2019 (i.e. the initial application period). Modified retrospective application requires the recognition of the cumulative impact of adoption of HKFRS 16 on all contracts as at 1 April 2019 in equity.

Modified retrospective application of HKFRS 16 also requires the Group to recognise a lease liability at the date of initial application for leases previously classified as an operating lease under the superseded HKAS 17 measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as lease applying HKAS 17 and HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application, i.e. 1 April 2019.

Based on the allowed practical expedients under HKFRS 16, the Group has elected not to apply the requirements of HKFRS 16 in respect of recognition of lease liabilities and right-of-use assets to leases for which the lease term ends within twelve months of the date of initial application.

Management has assessed the impact on transition and considers that the right-of-use assets and lease liabilities at 1 April 2019 are not material and the adoption of HKFRS 16 has not resulted in any recognition of right-of-use assets and lease liabilities as at 1 April 2019.

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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	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	**11,126**	10,053	**—**	—	**—**	—	**11,126**	10,513
Segment (loss) profit after tax	**916**	592	**(8)**	(25,762)	**(1,668)**	(549)	**(760)**	(25,719)

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Reconciliation of reportable segment profit (loss) after tax:		
Total segment profit/(loss)	**(760)**	(25,719)
Corporate and other expenses	**(86,723)**	(74,790)
Share of results of associates	**6,312**	8,705
Unallocated other income, gains and losses, net	**(30,125)**	(81,502)
Consolidated loss for the period	**(111,296)**	(173,306)

4. OTHER GAINS AND LOSSES, NET

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Change in fair value of investments in convertible bonds *(Note 11)*	**(14,281)**	(52,680)
Impairment loss on interest in an associate *(Note 10)*	**(16,378)**	(35,241)
Change in fair value of available-for-sale financial assets	**—**	(25,762)
	(30,659)	(113,683)

5. FINANCE COSTS

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Effective interest expense on convertible bonds *(Note 15)*	**74,131**	61,078
Imputed interest expense on loan from a non-controlling interest of a subsidiary	**1,332**	1,131
Interest expense on loan from the subsidiary of an associate	**189**	—
Others	**—**	9
	75,652	62,218

6. LOSS FOR THE PERIOD

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

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	**30**	42
Operating lease charges of land and buildings	**1,114**	1,170
Cost of inventories recognised as an expense	**10,074**	9,147
Staff costs including directors' emoluments	**3,852**	3,273

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 (2018: 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	
	2019	2018
	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)	**(110,479)**	(171,278)

	Six months ended 30 September	
	2019	2018
	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 2019 and 2018 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 2019 period (six months ended 30 September 2018: Nil).

10. INTERESTS IN ASSOCIATES

	At 30 September 2019	At 31 March 2019
	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	**115,843**	109,531
Impairment loss on interests in associates *(Note a)*	**(454,074)**	(437,696)
Adjustment against non-controlling interests *(Note b)*	**(99,722)**	(99,722)
	38,888	48,954
Fair value of listed investments *(Note c)*	**38,888**	48,954

Notes:

(a) As at 30 September 2019, the Group recognised impairment loss of approximately HK$16,378,000 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 2019 and 31 March 2019 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 2019, 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
				30.9.2019	31.3.2019	**30.9.2019**	31.3.2019	
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	**33.33%**	33.33%	**49.78%**	49.78%	Provision of health care management services

On 23 June 2019, the Company and Dr. Mao Yumin, being a substantial shareholder of the Company, entered into a sale and purchase agreement to disposal (i) 457,510,000 ordinary share(s) of Extrawell and (ii) the convertible bonds issued by Extrawell in principal amount of HK$577,170,000 with no interest bearing at an aggregate consideration of HK$270,000,000 (the "Disposal").

On 4 October 2019, the Disposal was approved in the special general meeting and completed on 8 October 2019.

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 2019 and 30 September 2019 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 2019	30 September 2019
Stock price	HK$0.4	HK$0.335	HK$0.325	HK$0.55	HK$0.107	HK$0.085
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%	17.60%	17.79%
Risk-free rate *(Note a)*	2.70%	2.28%	2.24%	1.81%	1.42%	0.93%
Expected volatility *(Note b)*	63.71%	62.61%	61.73%	58.62%	56.14%	57.70%
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$16,378,000 as at 30 September 2019. (Six months ended 30 September 2018: HK$52,680,000)

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 (the "renewed THU Collaboration Arrangement"). Pursuant to the renewed 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 renewed 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 23.73% 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 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 2019 *HK$'000* **(unaudited)**	At 31 March 2019 *HK$'000* (audited)
30 days or less	**1,162**	767
31 to 60 days	**1,532**	762
61 to 90 days	**1,854**	1,692
Over 90 days	**18,934**	17,954
	23,482	21,175

14. TRADE PAYABLES

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

	At 30 September 2019 *HK$'000* **(unaudited)**	At 31 March 2019 *HK$'000* (audited)
30 days or less	**1,032**	696
31 to 60 days	**1,455**	675
Over 180 days	**18,547**	19,841
	21,034	21,214

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 2019, 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 2018 (audited)	351,600	95,922
Interest charge *(Note 5)*	—	11,835
30 September 2018 (unaudited)	351,600	107,757
As at 1 April 2019 (audited)	351,600	120,978
Interest charge *(Note 5)*	—	14,950
30 September 2019 (unaudited)	351,600	135,928

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 2018 (audited)	256,000	61,064
Interest charge *(Note 5)*	—	5,962
30 September 2018 (unaudited)	256,000	68,129
As at 1 April 2019 (audited)	256,000	75,970
Interest charge *(Note 5)*	—	8,794
30 September 2019 (unaudited)	256,000	84,764

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.

On 26 July 2019, the Company and the Extrawell (the bondholder of Convertible Bond III) (the “Bondholder”) entered into the Amendment Deed pursuant to which the Company and the Bondholder have conditionally agreed to amend the interest payment terms of the Convertible Bonds to the effect that i) the interest payment due dates shall be amended from payment of interest in arrears annually to payment of interest for the periods from 28 July 2018 to 27 July 2019, 28 July 2019 to 27 July 2020 and 28 July 2020 to 27 July 2021, on or before 28 July 2021; and ii) the Company shall pay to the Bondholder a sum of additional interest in the amount of HK$11,261,250 on 28 July 2021 (representing 15% per annum on the annual interest payment under the Convertible Bonds multiplied by three), being the additional interest for 2-year extension for the payment of interest for the period from 28 July 2018 to 27 July 2019 and 1 year extension for payment of interest for period from 28 July 2019 to 27 July 2020.

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 2018 (audited)	715,000	415,765
Interest paid	—	(25,025)
Interest charge *(Note 5)*	—	37,486
30 September 2018 (unaudited)	715,000	415,765
As at 1 April 2019 (audited)	715,000	461,684
Interest charge *(Note 5)*	—	50,387
30 September 2019 (unaudited)	715,000	512,071

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 as at 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 period ended 30 September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP RESULTS

Revenue of the Group for the Financial Period amounted to approximately HK$11.1 million, representing an increase of approximately 10.7% as compared with the total revenue of approximately HK$10.1 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 decreased to HK$110.48 million for the Financial Period, representing a decrease from the loss of HK$171.28 million that was recorded in the Previous Financial Period. The decrease of loss was primarily due to the less change in fair value of investments in convertible bonds and less impairment loss on interest in an associate for the Financial Period as compared with the Previous Financial Period.

BUSINESS REVIEW

Trading of beauty equipment and products

During the Financial Period, revenue arising from the trading of beauty equipment and products amounted to approximately HK$11.1 million, representing an increase of approximately 10.7% from the revenue in the amount of approximately HK$10.7 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.

On 23 June 2019, the Company and Dr. Mao Yumin, being a substantial shareholder of the Company, entered into a sale and purchase agreement to disposal (i) 457,510,000 ordinary share(s) of Extrawell and (ii) the convertible bonds issued by Extrawell in principal amount of HK$577,170,000 with no interest bearing at an aggregate consideration of HK$270,000,000 (the "Disposal").

On 4 October 2019, the Disposal was approved in the Special General Meeting and completed on 8 October 2019.

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 2019.

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. The management considered that there is sufficient resources to funding the development of the Product.

The management of the Company is closely working with the contract research organization ("CRO"). The Part B of phase III clinical trials has registered in the Center for Drug Evaluation, National Medical Products Administration.

Based on the currently available information, the Company expects that the Product would commence generating revenue for the Group by January of 2022.

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. However, the recent political issues in Hong Kong and the trade conflicts between China and US will have an unpredictable impact on the economy in Hong Kong and China. The Group will cautiously explore the trading business in Hong Kong. The Group will reinforce our risk management policy and will proactive in adopting timely measures to balance its risk and return in the long run. The Group competes by offering trading terms that are more favourable to its suppliers and vendors compared to the Group's competitors.

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 January of 2022, 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 January of 2022.

FINANCIAL REVIEW

Capital structure

	31.3.2019	31.3.2018
	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 2019, the Group had bank and cash balances of approximately HK$44.6 million (31 March 2019: approximately HK$17.1 million).

As at 30 September 2019, total borrowings of the Group were approximately HK$822.9 million (31 March 2019: approximately HK$755.5 million) which reflected the debt value of the Company's unconverted convertible bonds, amount due to a shareholder, 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 and an subsidiary of an associate.

The ratio of current assets to current liabilities of the Group was 0.91 as at 30 September 2019 as compared to the 1.37 as at 31 March 2019. The Group's gearing ratio as at 30 September 2019 was 0.59 (31 March 2019: 0.50) which is calculated based on the Group's total liabilities of approximately HK$901.4 million (31 March 2019: approximately HK$783.9 million) and the Group's total assets of approximately HK$1,584.4 million (31 March 2019: approximately HK$1,578.8 million).

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

Significant acquisition and investments

Save as disclosed in the Section Investments in Extrawell under Business Review of Management Discussion and Analysis in respect of the disposal of the shares of Extrawell and the convertible bonds issued by Extrawell, 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 2019, 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 16 to unaudited condensed 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 2019, the Group had 23 full time employees (31 March 2019: 23), 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$3.9 million (Previous Financial Period: approximately HK$3.3 million).

Segment information

Details of the segment information are set out in note 3 to unaudited condensed 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 2019

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