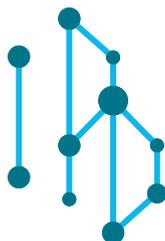


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INNOVATIVE PHARMACEUTICAL BIOTECH LIMITED
領航醫藥及生物科技有限公司

(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 2020

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 2020 (the “Financial Period”) together with the comparative figures for the six months ended 30 September 2019 (the “Previous Financial Period”) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2020

| | | Six months ended 30 September | |
|--------------------------------|--------------|--------------------------------------|--------------------|
| | | 2020 | 2019 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (unaudited) | (unaudited) |
| Revenue | 3 | 7,152 | 11,126 |
| Cost of sales and services | | (6,387) | (10,074) |
| Gross profit | | 765 | 1,052 |
| Other income | | 221 | 534 |
| Other gains and losses, net | 4 | — | (30,659) |
| Selling expenses | | (122) | (136) |
| Administrative expenses | | (7,742) | (12,747) |
| Share of results of associates | | — | 6,312 |
| Finance costs | 5 | (87,329) | (75,652) |

| | | Six months ended 30 September | |
|--|--------------|--------------------------------------|-----------------------|
| | | 2020 | 2019 |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| | | (unaudited) | (unaudited) |
| Loss before tax | | (94,207) | (111,296) |
| Income tax | | <u>—</u> | <u>—</u> |
| Loss for the period | 6 | <u>(94,207)</u> | <u>(111,296)</u> |
| Other comprehensive (expense) income | | | |
| Items that may be subsequently reclassified to profit or loss: | | | |
| Exchange difference on translation of foreign operations | | <u>(26)</u> | <u>(532)</u> |
| | | <u>(26)</u> | <u>(532)</u> |
| Total comprehensive expense for the period | | (94,233) | (111,828) |
| Loss for the period attributable to: | | | |
| Owners of the Company | | (93,449) | (110,479) |
| Non-controlling interests | | <u>(758)</u> | <u>(817)</u> |
| | | <u>(94,207)</u> | <u>(111,296)</u> |
| Total comprehensive expense for the period attributable to: | | | |
| Owners of the Company | | (93,475) | (111,011) |
| Non-controlling interests | | <u>(758)</u> | <u>(817)</u> |
| | | <u>(94,233)</u> | <u>(111,828)</u> |
| Loss per share | 8 | | |
| Basic | | <u>HK(6.38) cents</u> | <u>HK(7.55) cents</u> |
| Diluted | | <u>HK(6.38) cents</u> | <u>HK(7.55) cents</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2020

| | | At 30 September 2020 | At 31 March 2020 |
|---|-------|-------------------------|-----------------------|
| | Notes | HK\$'000 (unaudited) | HK\$'000 (audited) |
| Non-current assets | | | |
| Property, plant and equipment | 9 | — | 35 |
| Right-of-use assets | | 2,841 | 3,433 |
| Intangible assets | 10 | 1,373,224 | 1,373,224 |
| | | <u>1,376,065</u> | <u>1,376,692</u> |
| Current assets | | | |
| Trade receivables | 11 | 12,870 | 15,608 |
| Prepayments, deposits and other receivables | | 3,602 | 3,642 |
| Bank and cash balances | | 11,928 | 22,936 |
| | | <u>28,400</u> | <u>42,186</u> |
| Current liabilities | | | |
| Trade payables | 12 | 5,136 | 10,253 |
| Lease liabilities | | 2,127 | 2,285 |
| Accruals and other payables | | 4,040 | 5,140 |
| Amounts due to non-controlling interests | | 3,092 | 3,092 |
| Amounts due to former non-controlling interests | | 823 | 823 |
| Loan from a substantial shareholder | | 7,000 | 7,000 |
| Amount due to a former associate | | 41,947 | 41,947 |
| Convertible Bonds | 13 | 665,896 | — |
| | | <u>730,061</u> | <u>70,540</u> |
| Net current liabilities | | <u>(701,661)</u> | <u>(28,354)</u> |
| Total assets less current liabilities | | <u>674,404</u> | <u>1,348,338</u> |

| | | At 30 September | At 31 March |
|--|--------------|------------------------|------------------------|
| | | 2020 | 2020 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (unaudited) | (audited) |
| Non-current liabilities | | | |
| Convertible bonds | <i>13</i> | 164,159 | 743,142 |
| Lease liabilities | | 24 | 1,111 |
| Loan from a non-controlling interest | | 20,929 | 20,929 |
| Loan from a former associate | | 15,752 | 15,383 |
| | | <hr/> 200,864 | <hr/> 780,565 |
| NET ASSETS | | <hr/> 473,540 | <hr/> 567,773 |
| Capital and reserves | | | |
| Share capital | | 14,642 | 14,642 |
| Reserves | | (498,490) | (405,015) |
| | | <hr/> (483,848) | <hr/> (390,373) |
| Equity attributable to owners of the Company | | (483,848) | (390,373) |
| Non-controlling interests | | 957,388 | 958,146 |
| | | <hr/> 957,388 | <hr/> 958,146 |
| TOTAL EQUITY | | <hr/> 473,540 | <hr/> 567,773 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

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 2020 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2020.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 April 2020 for the preparation of the Group’s condensed consolidated financial statements:

| | |
|--|---------------------------------------|
| Amendments to HKFRS 3 | <i>Definition of a Business</i> |
| Amendments to HKAS 1 and HKAS 8 | <i>Definition of Material</i> |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | <i>Interest Rate Benchmark Reform</i> |

The application of the amendment to HKFRSs in the current period has had no material impact on the interim condensed consolidated financial information. The Group has not early adopted any new and revised HKFRSs that have been issued by HKICPA but are not yet effective.

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 | |
|--------------------------------------|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 2020 HK\$’000 (unaudited) | 2019 HK\$’000 (unaudited) | 2020 HK\$’000 (unaudited) | 2019 HK\$’000 (unaudited) | 2020 HK\$’000 (unaudited) | 2019 HK\$’000 (unaudited) | 2020 HK\$’000 (unaudited) | 2019 HK\$’000 (unaudited) |
| Six months ended 30 September | | | | | | | | |
| Revenue from external customers | <u>7,152</u> | <u>11,126</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>7,152</u> | <u>11,126</u> |
| Segment (loss) profit after tax | <u>643</u> | <u>916</u> | <u>(8)</u> | <u>(8)</u> | <u>(1,801)</u> | <u>(1,668)</u> | <u>(1,166)</u> | <u>(760)</u> |

| | Six months ended | |
|---|-------------------------|-------------------------|
| | 30 September | |
| | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (unaudited) | (unaudited) |
| Reconciliation of reportable segment profit (loss) after tax: | | |
| Total segment profit/(loss) | (1,166) | (760) |
| Corporate and other expenses | (93,041) | (86,723) |
| Share of results of associates | — | 6,312 |
| Unallocated other income, gains and losses, net | — | (30,125) |
| | <u> </u> | <u> </u> |
| Consolidated loss for the period | <u>(94,207)</u> | <u>(111,296)</u> |

4. OTHER GAINS AND LOSSES, NET

| | Six months ended | |
|--|-------------------------|------------------------|
| | 30 September | |
| | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (unaudited) | (unaudited) |
| Change in fair value of investments in convertible bonds | — | (14,281) |
| Impairment loss on interest in an associate | — | (16,378) |
| | <u> </u> | <u> </u> |
| | <u>—</u> | <u>(30,659)</u> |

5. FINANCE COSTS

| | Six months ended | |
|--|------------------|-----------------|
| | 30 September | |
| | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (unaudited) | (unaudited) |
| Effective interest expense on convertible bonds | 86,913 | 74,131 |
| Imputed interest expense on loan from a non-controlling interest of a subsidiary | — | 1,332 |
| Interest expense on loan from the subsidiary of a former associate | 369 | 189 |
| Interest on lease liability | 47 | — |
| | <u>87,329</u> | <u>75,652</u> |

6. LOSS FOR THE PERIOD

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

| | Six months ended | |
|---|------------------|-----------------|
| | 30 September | |
| | 2020 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (unaudited) | (unaudited) |
| Depreciation of property, plant and equipment | 35 | 30 |
| Depreciation of right-of-use assets | 592 | — |
| Operating lease charges of land and buildings | — | 1,114 |
| Cost of inventories recognised as an expense | 6,387 | 10,074 |
| Staff costs including directors' emoluments | (4,070) | 3,852 |
| | <u>(4,070)</u> | <u>3,852</u> |

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 (2019: 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 | |
|---|--|-------------------------|
| | 2020 | 2019 |
| | 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) | <u>(93,449)</u> | <u>(110,479)</u> |

| | Six months ended 30 September | |
|--|--|--------------------------------------|
| | 2020 | 2019 |
| | Number of shares '000 | Number of shares '000 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | <u>1,464,193</u> | <u>1,464,193</u> |

The computation of diluted loss per share for the six months ended 30 September 2020 and 2019 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 2020 period (six months ended 30 September 2019: Nil).

10. 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 22.98% 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.

11. 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 2020 <i>HK\$'000</i> (unaudited) | At 31 March 2020 <i>HK\$'000</i> (audited) |
|-----------------|--|--|
| 30 days or less | 1,262 | — |
| 31 to 60 days | 1,113 | — |
| 61 to 90 days | 1,321 | 725 |
| Over 90 days | 9,174 | 14,883 |
| | <u>12,870</u> | <u>15,608</u> |

12. TRADE PAYABLES

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

| | At 30 September 2020 <i>HK\$'000</i> (unaudited) | At 31 March 2020 <i>HK\$'000</i> (audited) |
|-----------------|--|--|
| 30 days or less | 1,125 | — |
| 31 to 60 days | 1,033 | — |
| Over 180 days | 2,978 | 10,253 |
| | <u>5,136</u> | <u>10,253</u> |

13. CONVERTIBLE BONDS

| | At 30 September 2020 <i>HK\$'000</i> | At 31 March 2020 <i>HK\$'000</i> |
|--------------------------------|---|---|
| Current liabilities | | |
| Convertible Bonds III | 665,896 | — |
| Non-current liabilities | | |
| Convertible Bonds I | 123,800 | 135,928 |
| Convertible Bonds II | 40,359 | 84,764 |
| Convertible Bonds III | — | 512,071 |
| | <u>164,159</u> | <u>732,763</u> |
| | <u>830,055</u> | <u>732,763</u> |

Convertible Bond I

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 the convertible bonds issued by Extrawell in aggregate principal amount of HK\$320,650,000 (“Sale CB-I”) and 450,000,000 ordinary shares of Extrawell. Both Sale CB-1 and 450,000,000 ordinary shares of Extrawell were disposed in October 2019. 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.

None of the Convertible Bond I was converted into ordinary shares of the Company during both interim period.

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

| | Principal amount <i>HK\$'000</i> | Carrying amount <i>HK\$'000</i> |
|-----------------------------------|--|---|
| As at 1 April 2019 (audited) | 351,600 | 120,978 |
| Interest charge (<i>Note 5</i>) | — | 14,950 |
| | <hr/> | <hr/> |
| 30 September 2019 (unaudited) | <u>351,600</u> | <u>135,928</u> |
| As at 1 April 2020 (audited) | 256,000 | 110,977 |
| Interest charge (<i>Note 5</i>) | — | 12,823 |
| | <hr/> | <hr/> |
| 30 September 2020 (unaudited) | <u>256,000</u> | <u>123,800</u> |

Convertible Bond II

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 the convertible bonds issued by Extrawell in an aggregate principal amount up to HK\$256,520,000 (“Sale CB-II”) first, second, third and fourth batches respectively which was disposed in October 2019. 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 (<i>Note a</i>) | 2.20% | 1.84% | 1.85% | 1.48% |
| Expected volatility (<i>Note b</i>) | 84.57% | 82.53% | 80.79% | 79.49% |
| Expected dividend yield (<i>Note c</i>) | 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 <i>HK\$'000</i> | Carrying amount <i>HK\$'000</i> |
|-----------------------------------|--|---|
| As at 1 April 2019 (audited) | 256,000 | 75,970 |
| Interest charge (<i>Note 5</i>) | — | 8,794 |
| | <hr/> | <hr/> |
| 30 September 2019(unaudited) | <u>256,000</u> | <u>84,764</u> |
| As at 1 April 2020 (audited) | 103,600 | 36,314 |
| Interest charge (<i>Note 5</i>) | — | 4,045 |
| | <hr/> | <hr/> |
| 30 September 2020 (unaudited) | <u>103,600</u> | <u>40,359</u> |

Convertible Bond III

The Company issued convertible bonds in an aggregate principal 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 (<i>Note a</i>) | 1.63% |
| Expected volatility (<i>Note b</i>) | 80.04% |
| Expected dividend yield (<i>Note c</i>) | 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.

On 28 October 2019, the Company completed the amendment of the term and condition of the Convertible Bond III with Extrawell. Under the amendment, Extrawell agreed the due date for annual interest payment of HK\$25,025,000 due on 27 July 2019, 2020 and 2021 amended to on or before 28 July 2021; and additional interest of HK\$11,261,250 shall be paid by the Company on 28 July 2021. Detail of the amendments of the term and condition of the Convertible Bond III are set out in the Company's circular dated 13 September 2019.

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 <i>HK\$'000</i> | Carrying amount <i>HK\$'000</i> |
|-----------------------------------|--|---|
| As at 1 April 2019 (audited) | 715,000 | 461,684 |
| Interest charge (<i>Note 5</i>) | — | 50,387 |
| | <u>715,000</u> | <u>512,071</u> |
| 30 September 2019 (unaudited) | <u>715,000</u> | <u>512,071</u> |
| As at 1 April 2020 (audited) | 715,000 | 595,851 |
| Interest charge (<i>Note 5</i>) | — | 70,045 |
| | <u>715,000</u> | <u>665,896</u> |
| 30 September 2020 (unaudited) | <u>715,000</u> | <u>665,896</u> |

14. 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 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP RESULTS

Revenue of the Group for the Financial Period amounted to approximately HK\$7.1 million, representing an decrease of approximately 36% as compared with the total revenue of approximately HK\$11.1 million that was recorded in the Previous Financial Period. The increase was mainly attributable to the decrease 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\$93.45 million for the Financial Period, representing a decrease from the loss of HK\$110.48 million that was recorded in the Previous Financial Period. The decrease of loss was primarily due to the Group disposed the investments in convertible bonds and interest in an associate in October 2019. The change in fair value of investments in convertible bonds and impairment loss on interest in an associate were not required 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\$7.1 million, representing a decrease of approximately 36% from the revenue in the amount of approximately HK\$11.1 million that was recorded in the Previous Financial Period. The trading revenue was adversely affected by the surge of the COVID-19 pandemic.

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 2020.

The enrolment of patients has commenced in July 2020. The enrolment of patients will be an ongoing process and is expected to be completed during the period from January 2021 to March 2021. The Group has invited 23 hospitals to participate in the Clinical Trial, of which 18 hospitals (including Jiangsu Hospital) have already accepted the invitation whereas the remaining 2 hospitals are still undergoing internal approval procedures required by the respective hospital’s ethical committee at the end of the Financial Period.

The clinical trial testing for the first group of subjects has also commenced in August 2020 and will take approximately 24 weeks to complete. Based on the current timetable, all of the 650 subjects are expected to complete the clinical trial testing by the fourth quarter of 2021.

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 the fourth quarter 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 COVID-19 pandemic 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 in fourth quarter 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 in fourth quarter of 2022.

FINANCIAL REVIEW

Capital structure

| | 30.9.2020 | 31.3.2020 |
|--|-----------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Authorised: 50,000,000,000 ordinary shares of HK\$0.01 each (the "Shares") | <u>500,000</u> | <u>500,000</u> |
| Issued and fully paid: 1,464,193,024 Shares (As at 31 March 2020 1,464,193,024 Shares) | <u>14,642</u> | <u>14,642</u> |

Liquidity and financial resources

As at 30 September 2020, the Group had bank and cash balances of approximately HK\$11.9 million (31 March 2020: approximately HK\$22.9 million).

As at 30 September 2020, total borrowings of the Group were approximately HK\$921.7 million (31 March 2020: approximately HK\$835.7 million) which reflected the debt value of the Company's unconverted convertible bonds, lease liabilities, amounts due to non-controlling interests, amounts due to former non-controlling interests, loans from a substantial shareholder, amount due to a former associate, and loans from a former associate and a non-controlling interest.

The ratio of current assets to current liabilities of the Group was 0.04 as at 30 September 2020 as compared to the 0.60 as at 31 March 2020. The Group's gearing ratio as at 30 September 2020 was 0.66 (31 March 2020: 0.60) which is calculated based on the Group's total liabilities of approximately HK\$930.9 million (31 March 2020: approximately HK\$851.1 million) and the Group's total assets of approximately HK\$1,404.5 million (31 March 2020: approximately HK\$1,418.9 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 2020, the Group and the Company did not have any charges on their assets (31 March 2020: Nil).

Contingent liabilities

Details of litigation and contingent liabilities are set out in note 14 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 2020, the Group had 28 full time employees (31 March 2020: 29), 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\$4.1 million (Previous Financial Period: approximately HK\$3.9 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.

Code provision E.1.5

Code provision E.1.5 stipulates that the Company should have a policy on payment of dividends. The Company has not established a dividend policy as the Company considers it more appropriate to determine a dividend payment after taking into account those factors including the Company's then financial performance, operating and capital requirements and market conditions, to enable the Company be in a better position to cope with its future development, which is to the best interest of the Company and its shareholders as a whole.

Non-compliance after the financial period

Following the resignation of Dr. Zhang Zhihong, an independent non-executive director, on 11 November 2020, the Company has (i) two independent non-executive Directors, which is below the minimum requirements under Rule 3.10(1) and Rule 3.10A of the Listing Rules; (ii) two members of audit committee of Company (the "Audit Committee"), which is below the minimum requirement under Rule 3.21 of the Listing Rules; (iii) two members of remuneration committee of the Company (the "Remuneration Committee") but the position of chairman is vacant and the Remuneration Committee does not comprise a majority of independent non-executive directors, which do not comply with the requirements under Rule 3.25 of the Listing Rules; and (iv) two members of nomination committee of the Company (the "Nomination Committee") but the position of chairman is vacant, which does not comply with Code Provision A.5.1. The Company is endeavoring to identify a suitable candidate to fill the vacancy to meet the relevant requirements of the Listing Rules and the Code and will make further announcement(s) as and when appropriate.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules and code provision C.3 of the CG Code. The Audit Committee reviews with the management the accounting policies and practices adopted by the Group and discusses the auditing, internal control and financial reporting matters. The Group's unaudited interim financial statements for the Financial Period have been reviewed by the Audit Committee.

The Audit Committee consists of two independent non-executive Directors after the resignation of Dr Zhang Zhihong on 11 November 2020.

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, 27 November 2020

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. Xiao Yan (non-executive Director), Ms. Wu Yanmin (non-executive Director), Ms. Chen Weijun (independent non-executive Director) and Mr. Wang Rongliang (independent non-executive Director).