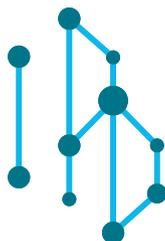


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INNOVATIVE PHARMACEUTICAL BIOTECH LIMITED

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 2021

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 2021 (the “Financial Period”) together with the comparative figures for the six months ended 30 September 2020 (the “Previous Financial Period”) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2021

		Six months ended	
		30 September	
		2021	2020
		HK\$'000	HK\$'000
	<i>Notes</i>	(unaudited)	(unaudited)
Revenue	3	6,632	7,152
Cost of sales and services		(5,891)	(6,387)
Gross profit		741	765
Other income		—	221
Other gains and losses, net	4	250,654	—
Selling expenses		(82)	(122)
Administrative expenses		(8,856)	(7,742)
Research and development expenses		(6,519)	—
Finance costs	5	(114,827)	(87,329)

		Six months ended	
		30 September	
		2021	2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Profit (loss) before tax		121,111	(94,207)
Income tax		<u>—</u>	<u>—</u>
Profit (loss) for the period	6	<u>121,111</u>	<u>(94,207)</u>
Other comprehensive income (expense)			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference on translation of foreign operations		<u>181</u>	<u>(26)</u>
		<u>181</u>	<u>(26)</u>
Total comprehensive income (expense) for the period		<u>121,292</u>	<u>(94,233)</u>
Profit (loss) for the period attributable to:			
Owners of the Company		125,076	(93,449)
Non-controlling interests		<u>(3,965)</u>	<u>(758)</u>
		<u>121,111</u>	<u>(94,207)</u>
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		125,257	(93,475)
Non-controlling interests		<u>(3,965)</u>	<u>(758)</u>
		<u>121,292</u>	<u>(94,233)</u>
Earnings (loss) per share		<i>HK cents</i>	<i>HK cents</i>
Basic	8	<u>8.54</u>	<u>(6.38)</u>
Diluted		<u>8.54</u>	<u>(6.38)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2021

		At 30 September 2021 <i>HK\$'000</i> (unaudited)	At 31 March 2021 <i>HK\$'000</i> (audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	9	—	—
Right-of-use assets		49	1,186
Intangible assets	10	<u>1,373,224</u>	<u>1,373,224</u>
		<u>1,373,273</u>	<u>1,374,410</u>
Current assets			
Trade receivables	11	19,775	15,323
Prepayments, deposits and other receivables		5,058	4,485
Bank and cash balances		<u>2,411</u>	<u>8,992</u>
		<u>27,244</u>	<u>28,800</u>
Current liabilities			
Trade payables	12	8,378	5,479
Lease liabilities		41	1,118
Accruals and other payables		1,724	1,686
Amounts due to non-controlling interests		3,092	3,092
Amounts due to former non-controlling interests		823	823
Loan from a substantial shareholder		30,000	20,000
Amount due to a former associate		41,947	41,947
Convertible Bonds	13	<u>—</u>	<u>726,528</u>
		<u>86,005</u>	<u>800,673</u>
Net current liabilities		<u>(58,761)</u>	<u>(771,873)</u>
Total assets less current liabilities		<u>1,314,512</u>	<u>602,537</u>

		At 30 September 2021 <i>HK\$'000</i> (unaudited)	At 31 March 2021 <i>HK\$'000</i> (audited)
Non-current liabilities			
Convertible bonds	13	797,099	206,784
Loan from a non-controlling interest		20,929	20,929
Loan from a former associate		16,486	16,118
		<u>834,514</u>	<u>243,831</u>
NET ASSETS		<u>479,998</u>	<u>358,706</u>
Capital and reserves			
Share capital	14	14,642	14,642
Reserves		(484,737)	(609,994)
		<u>(470,095)</u>	<u>(595,352)</u>
Equity attributable to owners of the Company		950,093	954,058
Non-controlling interests		<u>950,093</u>	<u>954,058</u>
TOTAL EQUITY		<u>479,998</u>	<u>358,706</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

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 2021 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2021.

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 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 16	<i>Covid-19 related Rent Concessions</i>
Amendments to HKFRS 16	<i>Covid-19 related Rent Concessions beyond 30 June 2021</i>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</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 two reportable and operating segments as follows:

- (a) trading of beauty equipment and products in Hong Kong (“Trading of beauty equipment and products”)
- (b) 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		Research and development		Total	
	2021	2020	2021	2020	2021	2020
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Six months ended 30 September						
Revenue from external customers	<u>6,632</u>	<u>7,152</u>	<u>—</u>	<u>—</u>	<u>6,632</u>	<u>7,152</u>
Segment (loss) profit after tax	<u>659</u>	<u>643</u>	<u>(8,091)</u>	<u>(1,801)</u>	<u>(7,432)</u>	<u>(1,166)</u>

	Six months ended	
	30 September	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Reconciliation of reportable segment profit (loss) after tax:		
Total segment profit (loss)	(7,432)	(1,166)
Corporate and other expenses	(122,111)	(93,041)
Unallocated other income, gains and losses, net	250,654	—
	<u>121,111</u>	<u>(94,207)</u>

4. OTHER GAINS AND LOSSES, NET

	Six months ended	
	30 September	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Gain on modification of convertible bonds	250,654	—
	<u>250,654</u>	<u>—</u>

5. FINANCE COSTS

	Six months ended 30 September	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Effective interest expense on convertible bonds	114,441	86,913
Interest expense on loan from the subsidiary of a former associate	369	369
Interest on lease liability	17	47
	<u>114,827</u>	<u>87,329</u>

6. PROFIT (LOSS) FOR THE PERIOD

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

	Six months ended 30 September	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	—	35
Depreciation of right-of-use assets	1,137	592
Cost of inventories recognised as an expense	5,891	6,387
Staff costs including directors' emoluments	3,679	4,070
	<u>3,679</u>	<u>4,070</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 (2020: Nil).

8. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit (loss)		
Profit for the purposes of basic and diluted earnings per share (profit (loss) for the period attributable to owners of the Company)	<u>125,076</u>	<u>(93,449)</u>

	Six months ended 30 September	
	2021	2020
	Number of shares '000	Number of shares '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	<u>1,464,193</u>	<u>1,464,193</u>

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds because the conversion prices of those convertible bonds were higher than the average market price for shares for the period ended 30 September 2021.

The computation of diluted loss per share for the six months ended 30 September 2020 does not assume the conversion of the Company's outstanding convertible bonds since their assumed conversion would decrease the loss per share for that period.

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 2021 period (six months ended 30 September 2020: 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 25.23% 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 2021 <i>HK\$'000</i> (unaudited)	At 31 March 2021 <i>HK\$'000</i> (audited)
30 days or less	2,036	2,234
31 to 60 days	904	869
61 to 90 days	1,553	1,640
Over 90 days	15,282	10,580
	<u>19,775</u>	<u>15,323</u>

12. TRADE PAYABLES

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

	At 30 September 2021 <i>HK\$'000</i> (unaudited)	At 31 March 2021 <i>HK\$'000</i> (audited)
30 days or less	1,926	2,070
31 to 60 days	821	810
Over 180 days	5,631	2,599
	<u>8,378</u>	<u>5,479</u>

13. CONVERTIBLE BONDS

	At 30 September 2021 <i>HK\$'000</i>	At 31 March 2021 <i>HK\$'000</i>
Current liabilities		
Convertible Bonds III	—	726,528
Non-current liabilities		
Convertible Bonds I	157,938	139,963
Convertible Bonds II	71,826	66,821
Convertible Bonds III	567,335	—
	<u>797,099</u>	<u>206,784</u>
	<u>797,099</u>	<u>933,312</u>

Convertible Bonds 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 2020 (audited)	256,000	110,977
Interest charge (<i>Note 5</i>)	—	12,823
	<u>256,000</u>	<u>123,800</u>
30 September 2020 (unaudited)	<u>256,000</u>	<u>123,800</u>
As at 1 April 2021 (audited)	256,000	139,963
Interest charge (<i>Note 5</i>)	—	17,975
	<u>256,000</u>	<u>157,938</u>
30 September 2021 (unaudited)	<u>256,000</u>	<u>157,938</u>

Convertible Bonds 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, 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 Bonds II for both periods is set out below:

	Principal amount <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
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>
As at 1 April 2021 (audited)	103,600	66,045
Interest charge (<i>Note 5</i>)	—	5,005
	<hr/>	<hr/>
30 September 2021 (unaudited)	<u>103,600</u>	<u>71,826</u>

Convertible Bonds 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.

On 16 August 2021, the Company completed the second amendment of the term and condition of the Convertible Bonds III with Extrawell. Under the second amendment, Extrawell agreed the maturity date of the Convertible Bond III shall be extended to 28 July 2023. The annual interest payment of HK\$25,25,000 due on 27 July 2019 to 2023 amended to 28 July 2023; and additional interest of HK\$40,915,875 shall be paid by the Company on 28 July 2023. Detail of the second amendments of term and condition of the Convertible Bonds III are set out in the Company circular dated 13 July 2021.

At 16 August 2021, the fair value of the liability component was HK\$550,682,000 for the Convertible Bonds III, 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. No fair value of the conversion option for the Convertible Bonds III and is calculated using Binomial Model. The inputs into the model were as follows:

	16 August 2021
	Principal of
	HK\$715,000,000
Stock price	HK\$0.225
Exercise price	HK\$2.5
Discount rate	24.125%
Risk-free rate (<i>Note a</i>)	0.133%
Expected volatility (<i>Note b</i>)	27.294%
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.

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 Bonds III for both periods is set out below:

	Principal amount <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
As at 1 April 2020 (audited)	715,000	595,851
Interest charge (<i>Note 5</i>)	—	70,045
	<hr/>	<hr/>
30 September 2020 (unaudited)	<u>715,000</u>	<u>665,896</u>
As at 1 April 2021 (audited)	715,000	726,528
Interest charge (<i>Note 5</i>)	—	91,461
Modification of Convertible bond	—	(250,654)
	<hr/>	<hr/>
30 September 2021 (unaudited)	<u>715,000</u>	<u>567,335</u>

14. SHARE CAPITAL

	Number of shares <i>'000</i>	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
As at 1 April 2019, 30 September 2019, 1 April 2020 and 30 September 2020	<u>50,000,000</u>	<u>500,000</u>
Issued and fully paid:		
As at 1 April 2020 (audited)	<u>1,464,193</u>	<u>14,642</u>
As at 30 September 2020 (unaudited)	<u>1,464,193</u>	<u>14,642</u>
As at 1 April 2021 (audited)	<u>1,464,193</u>	<u>14,642</u>
As at 30 September 2021 (unaudited)	<u>1,464,193</u>	<u>14,642</u>

15. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with related parties:

	Six months ended	
	30 September	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Service fee expense paid and payable to Dr. Mao, a shareholder of the Company	336	336
Compensation of key management personnel:		
Short-term employment benefits	1,623	1,375
Post-employment benefits	14	18
	<u>14</u>	<u>18</u>

At the end of reporting period, the amount due to Dr. Mao, a shareholder of the Company was HK\$30,000,000 (at 31 March 2021: HK\$20,000,000). The amount is unsecured, non-interest bearing and repayment term was one year after drawdown date.

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP RESULTS

Revenue of the Group for the Financial Period amounted to approximately HK\$6.6 million, representing an decrease of approximately 7% as compared with the total revenue of approximately HK\$7.1 million that was recorded in the Previous Financial Period. The decrease was mainly attributable to the decrease in business of the trading of beauty equipment and products segment during the Financial Period. The Group recorded a profit attributable to the owners of the Company amounted to approximately HK\$147.0 million for the Financial Period as compared to loss of HK\$93.5 million in Previous Financial Period. The change from loss to profit is mainly due to the non-cash item result from the completion of the second amendment of Convertible Bonds III. The Convertible Bonds III were restated to the fair value of the liability component at completion date of the Convertible Bonds III which was less than their carrying value. The difference of the carrying value and the fair value of the liability component amounted to approximately HK\$250,654,000 was credited into income statements for the 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\$6.6 million, representing a decrease of approximately 7% from the revenue in the amount of approximately HK\$7.1 million that was recorded in the Previous Financial Period. Although the COVID-19 pandemic has ebbed away, the market has not yet recovered.

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 2021.

The enrolment of the first batch of patients for the Clinical Trial testing has commenced in July 2020. Currently, about 223 patients have been enrolled in selected participating hospitals to take place in the Clinical Trial. The enrolment of patients will be an ongoing process.

Currently, 19 hospitals are participating in the Clinical Trial. The normal operations of the participating hospitals for the Clinical Trial had been disrupted by the coronavirus pandemic. Based on the latest information available to the Company, the Product is expected to be launched in the market and available for sale at selected hospitals by mid of 2023. The Group is expected to generate a stable source of revenue and profit after the launch of the Product taking into account that (i) there is massive demand in the PRC for innovative insulin products in light of the growing diabetic population; (ii) once the Product is launched, it is expected to become the first oral insulin drug available in the market; (iii) the Product is expected to be sold at a reasonable price range and will provide a superior and effective treatment method for diabetes patients; and (iv) once the Product is launched, it will be protected for a period of 5 years under the current regulations in the PRC which prohibits other companies from manufacturing and/or undergoing clinical trial for similar products.

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.

Convertible bond issued by the Company

On 12 May 2021, the Company and the Bondholder entered into a second deed of amendment (the “Second Deed Amendment”) pursuant to which the Company and the Bondholder have conditionally agreed to amend the terms of the Convertible Bonds (as amended by the Amendment Deed) (the “Second Amendment”) to the effect that:

- (a) the Maturity Date shall be extended from 28 July 2021 to 28 July 2023;
- (b) the interest payment date of the Convertible Bond shall be further amended and superseded as follows:
 - (i) the Convertible Bond shall bear interest on the principal amount thereof in accordance with the following interest rate and payment schedule:

Interest Period	Interest Rate	Payment due dates
28 July 2014 to 27 July 2015	3.5% per annum on the principal amount of the Convertible Bonds	On or before 28 July 2015
28 July 2015 to 27 July 2016	3.5% per annum on the principal amount of the Convertible Bonds	On or before 28 July 2016

Interest Period	Interest Rate	Payment due dates
28 July 2016 to 27 July 2017	3.5% per annum on the principal amount of the Convertible Bonds	On or before 28 July 2017
28 July 2017 to 27 July 2018	3.5% per annum on the principal amount of the Convertible Bonds	On or before 28 July 2018
28 July 2018 to 27 July 2019	3.5% per annum on the principal amount of the Convertible Bonds	28 July 2023
28 July 2019 to 27 July 2020	3.5% per annum on the principal amount of the Convertible Bonds	28 July 2023
28 July 2020 to 27 July 2021	3.5% per annum on the principal amount of the Convertible Bonds	28 July 2023
28 July 2021 to 27 July 2022	3.5% per annum on the principal amount of the Convertible Bonds	28 July 2023
28 July 2022 to 27 July 2023	3.5% per annum on the principal amount of the Convertible Bonds	28 July 2023

- (ii) the Company shall pay the Bondholder a sum of additional interest in the amount of HK\$3,753,750 on 28 July 2023 (representing 15% per annum on the annual interest payment under the Convertible Bond), being the additional interest for one-year extension for payment of interest for the period from 28 July 2021 to 27 July 2022; and
- (iii) in addition to (ii) above, the Company shall pay the Bondholder a sum of additional interest in the amount of HK\$25,900,875 on 28 July 2023 (representing 15% per annum on the aggregate amount of interest and the Additional Interest of HK\$86,336,250 multiplied by two). The Company and the Bondholder agreed that the said amount of HK\$25,900,875 is the additional interest for two-year further extension for payment of (a) the interest in the aggregate amount of HK\$75,075,000 for the periods from 28 July 2019, 2020 and 2021; and (b) the Additional Interest mentioned in the Amendment Deed in the amount of HK\$11,261,250.

Save for the Second Amendment, the terms and conditions of the Convertible Bond remain intact and unchanged.

The Second Amendment shall be conditional upon and subject to:

- (a) the approval having been obtained from the Stock Exchange in respect of the Second Amendment;
- (b) all necessary consents and approvals required to be obtained on the part of the Company and the Bondholder in respect of the Second Amendment having been obtained and remained in full force and effect;
- (c) the passing of the necessary resolution(s) by the shareholders of each of the Company and the Bondholder at a special general meeting of each of the Company and the Bondholder to be convened and held to approve the Second Deed of Amendment and the transactions contemplated thereunder; and
- (d) the Bondholder having passed a written resolution of the bondholder meeting to approve the Second Deed of Amendment and the transactions contemplated thereunder.

The Second Deed of Amendment Deed was approved in special general meeting held on 30 July 2021 and all conditions precedent under the Second Amendment have been fulfilled and those amendments took effect from 16 August 2021.

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.

The management is going to have been more proactive about diversification on the product range in the trading business which may bring high profit margin and contribution to the Group.

Research and development

To further ensure that the Product will be able to commercialise in mid of 2023, the project team of the Group 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 mid of 2023.

FINANCIAL REVIEW

Capital structure

	30.9.2021 <i>HK\$'000</i>	31.3.2021 <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 2021: 1,464,193,024 Shares)	<u>14,642</u>	<u>14,642</u>

Liquidity and financial resources

As at 30 September 2021, the Group had bank and cash balances of approximately HK\$2.4 million (31 March 2021: approximately HK\$9.0 million).

As at 30 September 2021, total borrowings of the Group were approximately HK\$910.4 million (31 March 2021: approximately HK\$1,037.3 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 0.32 as at 30 September 2021 as compared to the 0.04 as at 31 March 2021. The Group's gearing ratio as at 30 September 2021 was 0.64 (31 March 2021: 0.75) which is calculated based on the Group's total liabilities of approximately HK\$920.5 million (31 March 2021: approximately HK\$1,044.5 million) and the Group's total assets of approximately HK\$1,400.5 million (31 March 2021: approximately HK\$1,403.2 million).

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

Significant acquisition and investments

The Group had no 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 2021, the Group and the Company did not have any charges on their assets (31 March 2021: Nil).

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 2021, the Group had 27 full time employees (31 March 2021: 27), 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\$3.7 million (Previous Financial Period: approximately HK\$4.1 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, A.4.1 and E.1.5.

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

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

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.

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.

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 2021

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), Mr. Wang Rongliang (independent non-executive Director) and Mr. Chen Jinzhong (independent non-executive Director).