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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2018

Reference is made to the annual results announcement published by Innovative Pharmaceutical Biotech Limited (the "**Company**", and together with its subsidiaries, the "**Group**") on 29 June 2018 for the year ended 31 March 2018 (the "**Annual Results Announcement**"). This announcement is made by the Company to provide further information to the shareholders and potential investors of the Company to supplement the Annual Results Announcement.

AUDITOR'S DISCLAIMER OF OPINION

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

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

Certain key parameters adopted in the Cash Flow Projection and the Valuation are as follows:

	2018	2017
Discount rate (post-tax)	**26.08%**	24.82%
Growth rate	**3%**	3%
Gross profit ratio	**57.75%**	57.97%

The Company's response to the Auditor's disclaimer of opinion

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

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

View of the Audit Committee

The audit committee of the Company (the "**Audit Committee**"), having discussed with the Auditor, also concurs with the view of the management of the Company and is of the view that:

(i) taking into consideration of the latest manpower and funding arrangement for the project, the estimated time schedule for the commercialization of the Product by mid-2020 is feasible and reasonable;

(ii) having reviewed the Assumptions and the underlying documents as well as the follow-up discussion with the management of the Company, the Assumptions used for the preparation of the Cash Flow Projection are reasonable; and

(iii) based on the Valuation, there is no indication that the In-process R&D had suffered any impairment loss as the value assessed by the valuer is higher than its carrying value.

Company's plan for the removal of the disclaimer of opinion

As aforesaid, the removal of the disclaimer of opinion would be subject to the latest progress of the clinical trials, the provision of sufficient evidence as to the timing of the completion of the clinical trials, the obtaining of regulatory approval and the launching of the Product as adopted in the Cash Flow Projection. Once the Company has commenced Part B of phase III clinical trials, which is currently expected to commence in the third quarter of 2018, the Company will be in a better position to ascertain the expected launch progress of the Product and to provide the Auditor with additional supporting evidence to support the Assumptions adopted in the Cash Flow Projection.

As at the date of this announcement, other than the uncertainties and risks arising from the results of the clinical trials of the Product as well as related governmental assessment, there is no other foreseeable obstacles or issues leading to the Company's expectation of a further delay in the timetable for the launching of the Product.

STATUS OF THE COMMERCIALIZATION OF THE PRODUCT

Reference is also made to the announcement of the Company dated 9 January 2018 in relation to, among other things, the then estimated funding and expected timeline for the commercialization of the Product.

As stated in the Annual Results Announcement, in order to better prepare for the clinical trials for the Product, the timetable for obtaining the Certificate of New Medicine and the Pharmaceutical Manufacturing Permit for the Product, subject to the approval of State Drug Administration and the generating revenue of the Product would be slightly delayed from the third quarter of 2019 and around end of 2019 to early of 2020 and around mid of 2020, respectively. The delay was mainly due to certain re-structuring of the relevant organization of experts which slowed down the communication process and as a result the Company has been spending more time to finalize the plan of Part B, Phase III of the clinical trials for the Product. In particular, the Company has been spending additional time in terms of the sample size and related costs in order to obtain the positive results of the clinical trials. Additional time has been spent to ensure that the clinical trials will be able to demonstrate efficacy and superiority of the Product relative to other drugs and to ensure that quality of the testing results for statistical evaluation, sample size planning, costs and economic reasons were taken into account so that the overall planning is done on a justifiable and rational basis. During the year ended 31 March 2018 and up till the date of the release of the Annual Results Announcement, the following works have been undertaken by the Company to finalize the plan of Part B, Phase III of the clinical trials for the Product:

(i) re-designing the methodology of the tests for the clinical trials;

(ii) determining the number of samples;

(iii) determining the number of hospitals and the sample size for each hospital; and

(iv) finalizing the cost and budget.

As at the date of this announcement, the plan has been finalized and a total of approximately HK$1.4 million has been incurred for research and development during the year ended 31 March 2018 and up till the date of the release of the Annual Results Announcement. Further, the Company expects to finalize the engagement of the contract research organization around the end of August 2018, upon which, the engagement of hospitals to conduct the Part B of Phase III clinical trials and recruitment of supervisors to monitor the progress can be commenced.

Based on the currently available information and expected timeline, the estimated funding required to complete the research and development and commercialization of the Product by stages are as follow:

Original timeline	Expected delayed timeline	Event	Estimated funding required
Early 2018	Third quarter of 2018	Upon finalization of the plan of Part B, Phase III of the clinical trials, the Company will commence the engagement of hospitals to conduct the Part B of phase III clinical trials and recruitment of supervisors to monitor the progress	RMB5 million
Early 2018 till mid of 2019	Late 2018 till end of 2019	Part B of phase III clinical trials	RMB25 million
On or around end of 2019	Early of 2020	Commercialization of the Product	RMB20 million

In terms of human resources, given the plan of Part B, Phase III of the clinical trials for the Product has been finalized, the Company will allocate more human resources and strengthen its project team so that the 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 that the In-process R&D can be completed according to the revised timeline. The Company is also in negotiation for an expert to join the project team.

In terms of funding arrangement for the purpose of the commercialization of the Product, on 27 July 2018, a shareholders' loan agreement was entered into between the Company and Extrawell Pharmaceutical Holdings Limited ("**Extrawell**"), a company listed on the main board of The Stock Exchange of Hong Kong Limited, pursuant to which, the Company and Extrawell agreed to advance a total sum of HK$30 million to Smart Ascent Limited in the proportion of 51% and 49%, respectively. Upon completion such funding arrangement, Extrawell has allocated its human resources to assist the Group in the operation of the clinical trials.

The Company remains positive of the Group's prospects and the successful commercialization of the Product. Further announcement(s) will be made by the Company to keep the market informed of the latest development on a quarterly basis.

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

Hong Kong, 15 August 2018

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