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)

BUSINESS UPDATE
LATEST UPDATE ON THE DEVELOPMENT OF THE BUSINESS OF THE GROUP

This announcement is made by Innovative Pharmaceutical Biotech Limited (the "**Company**", together with its subsidiaries, the "**Group**") to keep the shareholders and potential investors of the Company informed of the latest business development of the Group.

As disclosed in the annual report for the year ended 31 March 2017 (the "**2017 Annual Report**"), the Group has five reportable and operating segments as follows:

(a) provision of genetic testing services in the People's Republic of China (the "**PRC**") and Hong Kong ("**Provision of Genetic Testing Services Segment**");

(b) distribution of bio-industrial products in the PRC ("**Distribution of Bio-industrial Products Segment**");

(c) trading of beauty equipment and products in Hong Kong ("**Trading of Beauty Equipment and Products Segment**");

(d) securities investment in Hong Kong and outside Hong Kong ("**Securities Investment Segment**"); and

(e) research, development and commercialization of the oral insulin product ("**Research and Development Segment**").

LATEST UPDATE ON THE DEVELOPMENT OF THE BUSINESS OF THE GROUP

The board of directors of the Company (the "**Board**") wish to inform its shareholders and potential investors in relation to the latest development for each of its business segments as follows:

Provision of Genetic Testing Services Segment

For the Provision of Genetic Testing Services Segment, the Group has held (i) the permanent and exclusive distribution rights for genetic testing services in the regions of the PRC, Hong Kong, and Macau; (ii) permanent non-exclusive distribution rights for genetic testing services in other regions; and (iii) the right to use certain logos on genetic testing products and for genetic testing services that are distributed by the Group since 2011.

In early 2011, the relevant regulatory department in the PRC announced the restriction for private companies to engage in any kind of genetic testing services business and promulgated a set of new regulations during the last quarter of 2011, which requires companies to obtain licenses and permits from the China Food and Drug Administration (the "**CFDA**") to engage in different types of genetic testing services in the PRC. As a result of the legal restrictions imposed and taking into consideration that additional capital and resources would be required to obtain such necessary licenses and permits, the Group has ceased its operation for the Provision of Genetic Testing Services Segment since then.

Going forward, the Company will continue to closely monitor the regulatory environment and consider whether it should continue with the development of this business segment.

Distribution of Bio-industrial Products Segment

For the Distribution of Bio-industrial Products Segment, the Group has held the exclusive distribution rights for the distribution of bone chips and fat in the PRC since 1 January 2010 for an initial term of 5 years, the term of which was automatically extended by an additional 10 years upon the expiry of the initial term.

Initially, it was then the intention of the Company to build its own production plant, research and development workshop and office in Pinghu, the PRC to develop the bio-industrial products. However, due to the litigation between 江蘇瑞峰建設集團有限公司(Jiangsu Ruifeng Construction Group Co., Limited) in the PRC as the plaintiff against CNL (Pinghu) Biotech Co. Ltd. ("**CNL (Pinghu)**"), an indirect non-wholly owned subsidiary of the Company, as the defendant in relation to the disputes arising from the related construction services, the construction of the production plant, research and development workshop and office in Pinghu, the PRC had since then been put on hold. Please also refer to note 31 to the financial statements of the 2017 Annual Report for details of the litigation.

Upon the settlement of the aforesaid litigation in 2014, the Company re-assessed the feasibility of this business segment and found that the PRC market environment for this business segment has been deteriorating. In particular, bio-industrial products have been facing fierce price competition within the market. Accordingly, taking into consideration that the Company has been putting in substantial efforts and capital for settling the aforesaid litigation, the Company decided not to exert additional resources and capital into a business which may not generate promising returns. In September 2017, CNL (Pinghu) disposed of the production plant to the local government at a consideration of RMB22 million. As at the date of disposal, the net book value of the production plant amounted to approximately RMB26.3 million, and an amount of approximately RMB4.3 million was recognised as loss by the Group as a result of the disposal.

Trading of Beauty Equipment and Products Segment

The Group commenced the Trading of Beauty Equipment and Products Segment since June 2013. Initially upon commencement, the Group focused on trading of beauty equipment and later on shifted its focus on trading of facial mask and skincare products in 2016.

For the year ended 31 March 2017 and the six months ended 30 September 2017, revenue of approximately HK$9.2 million and 9.7 million was recorded from the Trading of Beauty Equipment and Products Segment respectively. Going forward, it is expected that the Group will continue to look for potential suppliers and customers to expand its product lines for its Trading of Beauty Equipment and Products Segment, so as to generate additional and stable revenue stream in a long-run.

Securities Investment Segment

The Securities Investment Segment mainly comprises of the Company's investment in the shares and convertible bonds issued by Extrawell Pharmaceutical Holdings Limited ("**Extrawell**"), a company of which shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. For the year ended 31 March 2017 and the six months ended 30 September 2017, the Company's investment in Extrawell recorded the share of associate profit of HK$10 million and HK$5.3 million, respectively. However, due to the drop of share price of Extrawell, the Group provided the impairment loss on interest in an associate amounted to HK$23 million and HK$38 million as well as the loss on change in fair value derivative components of the convertible bonds in the amount of HK$40 million and HK$65 million for the year ended 31 March 2017 and the six months period ended 30 September 2017, respectively. Going forward, the management of the Group will remain cautious of the short-term market fluctuation while being optimistic on the long-term recovery of the markets.

Research and Development Segment

The Research and Development Segment represents an in-process research and development projects involving an oral insulin product (the "**Product**") that the Group is developing. It is currently expected that the Part B of phase III clinical trials for the Product will commence in early 2018, and the Certificate of New Medicine and the Pharmaceutical Manufacturing Permit will be obtained in the third quarter of 2019, subject to the approval of CFDA. Based on the aforesaid, with the Product to be launched in or around end of 2019, it is expected that the product would commence to generate revenue for the Group on or around end of 2019. As at the date of this announcement, the Company does not foresee any obstacles and/or issues which may lead to any further delay to the timetable.

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:

Expected timeline	**Event**	**Estimated funding required**
Early 2018	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	Part B of phase III clinical trials	RMB25 million
On or around end of 2019	Commercialization of the Product	RMB20 million

The Company will propose that the total funding required for the research and development as well as the commercialization of the Product will be shared among the Company and Extrawell in the proportion of 51% and 49%, respectively. This arrangement is subject to the result of the discussion with Extrawell. Based on the currently available liquid fund of the Company in the amount of approximately of HK$83.4 million (equivalent to approximately RMB70.9 million) as at the date of this announcement, the Company considers that it will have sufficient funding for this purpose. Further, as it is expected that the Product will be one of the first oral insulin medicines available in the market, the Company anticipates that it will not be difficult to obtain external funding once the Product is commercialized. The Company is identifying potential investors/partners to cooperate for the commercialization of the Product. If cooperation with potential investors/partners for the commercialization of the Product cannot be materialized, the Company will also look for other funding sources, including obtaining financial assistance from the Company's associated company and business partner, Extrawell.

In terms of human resources, the Company may utilize its existing employee and working teams to undergo the process for the completion of the research and development of the Product and therefore the Company considers that it will have sufficient human resource for this purpose.

Despite that the Group has ceased its operation for the Provision of Genetic Testing Services Segment and Distribution of Bio-industrial Products Segment, the Board is confident that the Research and Development Segment will be able to bring in promising revenue source to the Group once the Product is launched in 2019. Accordingly, the Company remains positive of the Group's prospects and will make further announcement to keep the market informed of material development (if any) as and when appropriate.

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

Hong Kong, 9 January 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).