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SHENZHEN HEPALINK PHARMACEUTICAL GROUP CO., LTD.
(深圳市海普瑞藥業集團股份有限公司)

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 9989)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED DECEMBER 31, 2023

The board of directors (the “**Board**”) of Shenzhen Hepalink Pharmaceutical Group Co., Ltd. (the “**Company**” or “**Hepalink**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (the “**Group**”, “**we**”, “**our**” or “**us**”) for the year ended December 31, 2023 (the “**Reporting Period**” or the “**Year**”), together with comparative figures for the year ended December 31, 2022.

RESULTS HIGHLIGHTS

1. The revenue was RMB5,431.0 million (2022: RMB7,151.0 million);
2. The cost of sales included the inventory impairment provision of approximately RMB855.4 million (2022: approximately RMB36.4 million). Excluding this provision, for the year 2023, the adjusted gross profit was approximately RMB1,796.3 million (2022: approximately RMB2,326.5 million), and the adjusted gross profit margin was approximately 33.1% (2022: approximately 32.5%). The increase in the adjusted gross profit margin was primarily due to the increase in unit price of the finished dose pharmaceutical products which resulted in an improvement in its gross profit margin.
3. Gross profit was RMB940.9 million (2022: RMB2,290.2 million); gross profit margin was 17.3% (2022: 32.0%), the decrease in gross profit and gross profit margin was mainly due to the increase in a provision for inventory impairment of RMB855.4 million in cost of sales based on the accounting standard;
4. The sales revenue of the finished dose pharmaceutical products business was RMB2,979.0 million (2022: RMB3,210.5 million);
5. The sales revenue of the API business was RMB1,307.3 million (2022: RMB2,673.8 million);
6. The sales revenue of the CDMO business was RMB967.0 million (2022: RMB1,084.1 million); and
7. The loss attributable to equity holders of the parent was RMB783.3 million (2022: profit attributable to equity holders of the parent was RMB727.4 million).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended December 31, 2023

	Notes	2023 RMB'000	2022 RMB'000 (Restated)*
REVENUE	4	5,430,974	7,151,039
Cost of sales		<u>(4,490,078)</u>	<u>(4,860,850)</u>
Gross profit		940,896	2,290,189
Other income and gains	5	222,317	207,431
Selling and distribution expenses		(517,416)	(518,502)
Administrative expenses		(674,546)	(742,461)
Impairment losses on financial and contract assets		(22,548)	(61,067)
Impairment losses on goodwill		(68,155)	–
Impairment losses on property, plant and equipment and other intangible assets		(44,515)	–
Impairment losses on an investment in an associate		(9,801)	–
Other expenses		(78,528)	(1,648)
Finance costs	6	(228,087)	(245,629)
Share of losses of associates		(447,951)	(98,462)
(LOSS)/PROFIT BEFORE TAX	7	(928,334)	829,851
Income tax credit/(expense)	8	126,175	(114,816)
(LOSS)/PROFIT FOR THE YEAR		<u>(802,159)</u>	<u>715,035</u>
Attributable to:			
Owners of the parent		(783,258)	727,425
Non-controlling interests		(18,901)	(12,390)
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted			
– for (loss)/profit for the year		<u>RMB(0.53)</u>	<u>RMB0.50</u>

* Details of restatement are set out in note 2.2 on page 23

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2023

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
(LOSS)/PROFIT FOR THE YEAR	(802,159)	715,035
OTHER COMPREHENSIVE INCOME		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods (net of tax):		
Exchange differences on translation of foreign operations	51,000	260,977
Share of other comprehensive loss of associates	(6,192)	(13,481)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	44,808	247,496
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods (net of tax):		
Change in fair value of equity investments designated at fair value through other comprehensive income	(9,234)	(5,554)
Remeasurement (loss)/income on defined benefit pension schemes	(2,592)	67,688
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods	(11,826)	62,134
Other comprehensive income for the year, net of tax	32,982	309,630
Total comprehensive (loss)/income for the year, net of tax	(769,177)	1,024,665
Attributable to:		
Owners of the parent	(750,324)	1,036,305
Non-controlling interests	(18,853)	(11,640)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2023

		31 December 2023 <i>RMB'000</i>	31 December 2022 <i>RMB'000</i> (Restated)*	1 January 2022 <i>RMB'000</i> (Restated)*
NON-CURRENT ASSETS				
Property, plant and equipment		2,628,121	2,454,845	2,526,672
Right-of-use assets		220,883	244,443	239,854
Goodwill		2,322,375	2,350,992	2,152,201
Other intangible assets		389,423	462,908	472,969
Investments in associates		1,004,046	989,386	1,146,465
Equity investments designated at fair value through other comprehensive income		503,565	507,146	474,885
Financial assets at fair value through profit or loss		1,006,367	967,576	996,500
Deferred tax assets		320,503	141,475	123,197
Other non-current assets		203,865	224,948	206,016
		8,599,148	8,343,719	8,338,759
CURRENT ASSETS				
Inventories		6,654,111	6,843,906	4,707,549
Trade and bills receivables	10	1,263,584	1,606,211	1,525,209
Contract assets		10,947	19,534	14,993
Prepayments, other receivables and other assets		364,429	507,405	566,687
Due from related parties		45,371	44,833	44,088
Financial assets at fair value through profit or loss		414,184	1,311,633	980,909
Derivative financial instruments		–	10	248
Pledged deposits		80	69,388	11,581
Time deposits		85,918	749,684	1,440,000
Cash and cash equivalents		1,765,645	1,319,707	1,479,633
		10,604,269	12,472,311	10,770,897
CURRENT LIABILITIES				
Trade payables	11	302,223	427,433	385,787
Derivative financial instruments		388	–	–
Other payables and accruals		497,560	545,512	608,729
Contract liabilities		362,052	428,218	377,814
Interest-bearing bank and other borrowings		3,624,575	4,020,784	3,268,166
Tax payable		157,178	112,257	112,997
Due to related parties		4,403	5,902	6,223
Lease liabilities		37,803	35,690	31,754
		4,986,182	5,575,796	4,791,470

* *Details of restatement are set out in note 2.2 on page 23*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2023

	31		
	December	December	January
	2023	2022	2022
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Restated)*	(Restated)*
NET CURRENT ASSETS	<u>5,618,087</u>	<u>6,896,515</u>	<u>5,979,427</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>14,217,235</u>	<u>15,240,234</u>	<u>14,318,186</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	1,810,021	2,296,680	2,250,270
Deferred income	30,426	32,547	16,673
Deferred tax liabilities	252,568	328,920	275,358
Long-term employee benefits	35,273	51,938	138,020
Other non-current liabilities	10,153	9,935	9,070
Lease liabilities	90,417	110,749	104,001
Total non-current liabilities	<u>2,228,858</u>	<u>2,830,769</u>	<u>2,793,392</u>
Net assets	<u>11,988,377</u>	<u>12,409,465</u>	<u>11,524,794</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>13</i> 1,467,296	1,467,296	1,467,296
Reserves	10,445,852	10,845,445	9,945,537
Total equity attributable to owners of the parent	<u>11,913,148</u>	<u>12,312,741</u>	<u>11,412,833</u>
Non-controlling interests	<u>75,229</u>	<u>96,724</u>	<u>111,961</u>
Total equity	<u>11,988,377</u>	<u>12,409,465</u>	<u>11,524,794</u>

* *Details of restatement are set out in note 2.2 on page 23*

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

2023 was a year of pandemic abatement and the return of normalcy in the economy. As the world's major economies enter the post-pandemic era, "recovery" has become an increasingly important keyword. Looking around the world, core inflation declined slowly, monetary policy continued to be tightened, and economic growth still faced considerable uncertainty. Although overall inflation eased slightly in 2023, it remained above the historical average level. Meanwhile, with no interest rate cuts announced by the central banks of the United States, Europe and the United Kingdom and rising operating costs in all sectors, including tight labor markets and fluctuations in commodity prices, high inflation persisted throughout the year and became more difficult to tame. At the same time, rising interest rates and tightening credit in major markets posed challenges to growth. During the year, debt distress in major developing countries deepened, triggering banking crises in Europe and the United States in the first half of the year. On the production side, global manufacturing and industrial production weakened, with the global manufacturing PMI averaging 48.5%, down 3.3 percentage points from 2022. Throughout the year, the PMI remained below 50%, indicating a slowdown in global economic growth as compared to 2022. On the demand side, demand from the service sector in major economies declined and private consumption lost momentum in driving the economy. According to the Global Trade Update report released by the United Nations Conference on Trade and Development, global trade in 2023 decreased by 5% compared to the previous year, with the global trade volume reaching approximately USD30.7 trillion. Trade in goods in 2023 decreased by approximately USD2 trillion, representing a decline of 8%.

China's economic growth in 2023 is characterized by a wavy and zigzagging pattern, with GDP growth of 4.5% in the first quarter, 6.3% in the second quarter, 4.9% in the third quarter and 5.2% in the fourth quarter, and 5.2% for the year as a whole. This has driven the macroeconomic recovery growth and the deepening of micro-foundation, propelling China's economy and production back onto an expansionary growth trajectory. Overall, China's domestic economic performance was in line with expectations, and the major targets for the year were largely accomplished. At the same time, with the rising complexity, severity and uncertainty of the external environment, the supply-demand imbalance and weak demand from the domestic economy, production and exports, the lack of sufficient coordination between the traditional and emerging industries in terms of structure, coupled with the continued pressure on the real estate market, there was insufficient internal driving force for household consumption, and the social expectations and market confidence among business entities were relatively weak.

The past year has been undoubtedly challenging and testing for the Group. The uncertainties in geopolitics and economic cycles, as well as the continued impact of the post-pandemic situation, have profoundly reshaped the structure of the global heparin industry chain and the operating environment, which had a greater impact on the Group. During the Reporting Period, the global heparin industry chain was impacted by the post-pandemic situation and the normalization of medication usage in various regions, coupled with rising operating costs, overseas heparin API customers became more prudent and adjusted their inventory strategies. Downstream enterprises in the heparin industry faced destocking pressures, resulting in a significant decline in demand for upstream products. Market competition intensified, and the entire heparin industry was greatly affected with heparin export prices substantially declining in the fourth quarter of 2023. According to the data from the General Administration of Customs, in July 2023, the average monthly export price of heparin from China was USD11,779 per kg. However, the supply for that month was only 5 tons, which was at a historical low. Due to the supply-demand dynamics, the heparin price plummeted to USD4,805 per kg as of October 2023. The market operating pressures became more pronounced in the fourth quarter, and the Group's API business was also affected, experiencing a significant decline in sales throughout the year. Additionally, the substantial decline in heparin product prices led to signs of impairment in some of the heparin products in the Company's inventory in the fourth quarter of 2023. After evaluating the orders on hand in 2024 and taking into account the market forecast, the Company made corresponding provision for inventory write-downs in accordance with the relevant accounting standards, which resulted in a provision for inventory impairment of RMB855.4 million during the year. For the CDMO business, the revenue has returned to normal levels. However, in the first half of the year, after the completion of orders for the key enzyme required for mRNA COVID-19 vaccines, new service contracts took longer to generate revenue at various developmental milestones, putting pressure on the growth of revenue and profits in our CDMO business. During the Reporting Period, the net loss of the Company further widened due to the changes in fair value of financial liabilities resulting from the application for listing on the Hong Kong Stock Exchange and the valuation changes of the Company's associate HighTide Therapeutics, Inc. ("**HighTide**") in 2023. The Company recognized an investment loss of more than RMB368.6 million (2022: RMB83.9 million) in accordance with the accounting treatment for equity method. As this loss is reflected in the Company's profit and loss, the net profit during the Reporting Period has been significantly impacted. As disclosed in the inside information announcement of the Company dated January 15, 2024, Techdow Pharma Italy S.R.L. ("**Techdow Italy**"), a wholly-owned subsidiary of the Company, was the unfortunate victim of telecommunication fraud committed by a criminal syndicate, involving an amount of approximately EUR11.74 million (the "**Italy Incident**"). In order to minimize the impact of the Italy Incident on the Company, the following actions were taken: 1) on 14 March 2024, the Company received funds advanced by Mr. Li Li ("**Mr. Li**"), through Shenzhen Leren Technology Co., Ltd. ("**Shenzhen Leren**"), amounting to RMB89,809,600 (equivalent to the value of approximately EUR11.74 million); and 2) the Company took various measures to safeguard the interests of the Company and its shareholders, in an effort to minimize and eliminate the impact of the Italy Incident on the Company. The subsidiary of our group, Techdow Italy has encountered telecommunications fraud, involving an amount of approximately Euros 11.7 million. Out of this, about 9.74 million euros (equivalent to RMB 74.5 million) were fraudulently transferred in 2023. This amount was recorded as other expenses in 2023.

The Company confirmed that if the Company or its affiliates (including but not limited to Techdow Italy) recovers all or part of the payments or obtains any compensation of any nature from any relevant liable party through criminal, civil or other legal proceedings or by any other means, after such payments or compensation are recovered or obtained, the Company shall return to Shenzhen Leren the equivalent of the abovementioned amount in RMB, calculated at a fixed exchange rate of 1 euro to RMB7.6500, and the total returned amount shall not exceed the total amount of the payments actually advanced by Shenzhen Leren to the Company, and no interest of any form shall accrue on such advance payments during the relevant period.

For the year 2023, Hepalink's revenue reached RMB5,431.0 million, representing a year-on-year decrease of 24.1%. The loss attributable to equity holders was RMB783.3 million. Excluding the investment losses caused by HighTide, the loss from the Italy Incident and the impairment of inventories, the adjusted profit attributable to equity holders adjusted to RMB387.0 million (2022: RMB841.9 million).

Even under the influence of several unfavorable factors in the macro environment, the Group actively implemented its strategic goals as originally planned while also continuing to increase its efforts to expand its presence in overseas markets. During the Reporting Period, the Group achieved several significant business milestones. The Group's finished dose enoxaparin sodium pharmaceutical product won the bid and secured first place in China's 8th national volume-based procurement (VBP) (the "**8th VBP**"), and became the main supplier of various provinces and cities, such as Sichuan, Jiangsu, Beijing, Shaanxi and Ningxia. The Group considered that this successful bidding facilitated faster market penetration, formed scale sales and increased market share, which had a positive impact on the Group's sales growth in the PRC market during the year. In March 2023, the abbreviated new drug application from Shenzhen Techdow Pharmaceutical Co., Ltd., a wholly-owned subsidiary of Hepalink, for its enoxaparin sodium injection was approved by the United States Food and Drug Administration ("**FDA**"), allowing the products to be sold through our own marketing channels in the United States and furthering the Group's expansion in the United States market. Meanwhile, Techdow USA Inc. ("**Techdow USA**"), a subsidiary of the Group, entered into a distribution agreement with Chia Tai Tianqing Pharmaceutical Group Co. Ltd. ("**CTTQ**"), which was in line with the Group's strategic direction of adhering to the internationalization of its business operations and assisting Chinese pharmaceutical companies in exporting their pharmaceutical products to the European and American markets. Relying on its well-established self-operated teams, self-operated sales networks and channels in Europe and the United States, Hepalink will join hands with more multinational overseas pharmaceutical companies to seek new business growth points. In addition, the Group's majority-controlled subsidiary, Shenzhen OncoVent Biomedical Technology Co., Ltd., has also entered into a license agreement for Oregovomab with Orient EuroPharma Co., Ltd. (a biotechnology company). We will continue to explore cooperation opportunities, accelerate the strategic layout of innovative drugs and build diversified commercialization capabilities.

Sales

The Group mainly operates three main business segments, including (i) heparin industrial chain business; (ii) CDMO business; and (iii) innovative drugs and innovative business.

Heparin Industrial Chain Business

During the Reporting Period, the Group's heparin industrial chain business achieved sales revenue of RMB4,286.3 million (2022: RMB5,884.3 million).

During the Reporting Period, the Group remained stable in sales of finished dose

In terms of the United States market, the Group continued to collaborate with United States partners and adhere to a diversified business model to better leverage our respective channel layouts and sales strategies. At the same time, our United States self-operated sales team actively built sales networks and filled market gaps, as well as sold finished dose enoxaparin sodium pharmaceutical products and standard heparin finished doses. During the Reporting Period, we successfully established partnerships with different medical systems and distributors, effectively promoting future business growth. In addition, the Group leveraged our self-operated sales resources and platforms to advance the commercialization of Fosaprepitant Dimeglutide in the United States market, aiming to enhance synergies and create new sources of income.

During the Reporting Period, de-stocking in the non-European and American overseas markets continued, and it took time for markets and channels to digest products, resulting in weak demand in non-European and American overseas markets, and a decline in the Group's sales in these markets compared to the same period last year. During the Reporting Period, on the basis of continuing to strengthen the relationship with existing customer partners, the Group actively explored other new markets, and further strengthened our market access and registration work, so as to increase the number of countries where our products are sold. At the same time, the Group explored sales channels, closely kept track of the bidding progress, enhanced cooperation with local sales partners, and supplemented our operations through multi-channel collaboration to promote market development and marketing.

During the Reporting Period, the Group's heparin API business was significantly affected by the complex operating environment, with sales revenue of approximately RMB1,307.3 million (2022: RMB2,673.8 million), accounting for 24.1% of the Group's total revenue. During the Reporting Period, the global heparin industry supply chain was affected by macro disruptions due to the aftermath of the pandemic, resulting in overall weak demand. According to China Customs data, heparin shipments in China fell over 30% year-on-year in 2023, reaching the lowest in nearly a decade. This was mainly due to the post-pandemic aftermath, the backlog of drugs and inventory during the pandemic, the normalization of terminal demand, coupled with the rising operating costs, the more cautious procurement strategy of API customers, who postponed and suspended their purchases during the Reporting Period, resulting in a greater impact on the domestic API industry, and a significant effect on the overall shipments of the Group's API business, leading to a substantial decline in the Group's API business revenue during the Reporting Period.

CDMO Business

During the Reporting Period, the sales revenue of CDMO business was approximately RMB967.0 million (2022: RMB1,084.1 million) while the gross profit margin decreased to 22.0% (2022: 38.5%). Sales of CDMO business dropped significantly in the first half of the year due to the termination of the service contract related to the provision of enzymes for mRNA vaccines. The Group actively expanded its business to fill the gap, and the impact of the first half of the year was offset by a significant increase in sales revenue in the fourth quarter. The decrease in gross margin was mainly due to the termination of a service contract for the provision of enzymes for mRNA vaccines, which had a higher gross margin. The Group's CDMO business relied on the synergies of its wholly-owned subsidiaries, Cytovance and SPL. During the Reporting Period, the Group integrated the R&D resources and capacity allocation of the two platforms, and invested more holistically in the drug development process to help customers complete their projects faster and better, increasing customer retention rate and deepening and broadening the cooperation. During the Reporting Period, the Group actively enhanced the marketing efforts of the two subsidiaries, engaged in acquisition and business development activities for potential front-end customers, explored both new business and customers, accumulated early-stage project reserves, as well as promoting the expansion layout of ongoing projects, laying a foundation for the continued development of the Group's CDMO business in the future.

Innovative Drugs and Innovative Business

During the Reporting Period, Techdow USA, a subsidiary of the Group, successfully entered into a distribution agreement with CTTQ, pursuant to which CTTQ agreed to grant to Techdow USA a license to commercialize Fosaprepitant Dimeglutide in the United States. Techdow USA will be responsible for the commercialization of Fosaprepitant Dimeglutide in the United States market, including marketing, promotion, sale and distribution of the product. The Group, by leveraging its own sales network and channels, will more effectively advance the commercialization of Fosaprepitant Dimeglumine in the US market, demonstrating the Group's commitment to international operations and supporting Chinese pharmaceutical companies to export their products to the European and American markets. The Group has established comprehensive self-operated teams in five European countries and the United States, and has a self-operated sales network and channels. This cooperation is a recognition of the Group's marketing capabilities in overseas markets, and also an important opportunity for the Group to accumulate experience in exploring overseas marketing, which has far-reaching and positive significance for the Group's future cooperation with other pharmaceutical companies. We will actively explore collaboration with pharmaceutical companies to seek new business growth points.

Oregovomab

Oregovomab, a murine monoclonal antibody, is an anti-CA125 immunotherapy drug candidate being developed by our shareholding subsidiary OncoQuest Inc. It has completed a Phase II clinical trial as a standard treatment combined with chemotherapy in patients with advanced primary ovarian cancer. The Group has exclusive development and commercial rights for Oregovomab in the Greater China region. During the Reporting Period, an interim analysis of Oregovomab Phase III clinical trial suggested that the study did not meet its intended objectives and a patient follow-up on survival statistics is being conducted as recommended by the Data and Safety Monitoring Board (DSMB). The Group will actively explore options to advance the development of new drugs for Oregovomab. The Group's majority-controlled subsidiary, Shenzhen OncoVent Biomedical Technology Co., Ltd., has also entered into a license agreement for Oregovomab with Orient EuroPharma Co., Ltd. (a biotechnology company). We will continue to explore cooperation opportunities, accelerate the strategic layout of innovative drugs and build up diversified commercialization capabilities.

AR-301 (Salvecin)

AR-301 is a fully human monoclonal IgG1 antibody (mAb) that specifically targets *S. aureus* alpha-toxin. It is being developed by our shareholding subsidiary Aridis Pharmaceuticals, Inc. ("**Aridis**"). The Group has exclusive development and commercial rights in the Greater China region. AR-301 was granted Fast Track Designation by the FDA and Orphan Drug Designation by the European Medicines Agency (the "**EMA**"). During the Reporting Period, the Global Phase III Study of Tosatoxumab (AR-301) in Combination with Antibiotics (SOC) for the Treatment of Staphylococcus aureus Ventilator-associated Pneumonia did not reach the primary study endpoint, however the study data revealed that Tosatoxumab significantly improves outcomes for patients over 65 with ventilator-associated pneumonia, and also demonstrates efficacy against Methicillin-resistant Staphylococcus aureus (MRSA) infections. Based on this finding, Aridis has discussed with and obtained guidance from the FDA and the EMA on the design of a second Phase III study for the treatment of hospitalized patients who are diagnosed with pneumonia caused by Staphylococcus aureus and require mechanical ventilation by combining it with standard of care antibiotics.

RVX-208 (Apabetalone)

RVX-208 is a selective inhibitor of bromodomain and BET proteins with selectivity for the second bromodomain. It is the first small molecule drug being developed by the shareholding subsidiary Resverlogix Corp. (a public company listed on the Toronto Stock Exchange, stock code: RVX). RVX-208 has completed phase III clinical trial (BETonMACE) in combination with standard of care to reduce major adverse cardiovascular events among high-risk cardiovascular disease patients with type II diabetes mellitus, recent acute coronary syndrome, and low levels of high-density lipoprotein (HDL). RVX-208 was granted Breakthrough Therapy Designation by the FDA in February 2020 and the clinical plan for pivotal phase III was approved by the FDA in June 2020. Apabetalone, the first drug in its class to receive FDA Breakthrough Therapy approval for a major cardiovascular indication, will further advance its drug development progress, including the planned clinical trials, and the implementation of an accelerated development strategy. The Group has exclusive development and commercial rights in the Greater China region.

H1710

H1710 is a potent acetyl heparinase inhibitor self-developed by the Group. The inhibitor's chain length is suitable for binding to both heparin binding domains (HBDs) of heparanase, and its unique flexible chain and structure enable penetration into the heparanase catalytic bag and prevent its degradation. H1710 reduces the accessibility of the heparanase catalytic bag and its ability to degrade the natural matrix acetyl heparan sulfate (HS) in this manner. The drug candidate is currently in the preclinical stage with non-clinical pharmacodynamic studies demonstrating significant tumor suppression in multiple tumor models compared to standard therapies. We are preparing for the IND filing of H1710 in China and the United States. The Group has exclusive worldwide development and commercial rights.

Outlook

Over the past year, we have experienced a year of significant external disruptions. The complex trajectory of the post-pandemic era, the reshaping of the global heparin supply chain, and the changes in macroeconomic and market environments have brought about tremendous uncertainty, profoundly impacting Hepalink's choices and development in the future. Faced with great uncertainty, we have further emphasized the resilience and flexibility of the company's development strategy. Through rolling adjustments, we aim to better adapt to changes in the external environment, iterating and breaking through as we navigate through these changes. We remain unwavering in our goal to be a global leader. We are even more determined in our strategic positioning and development objectives among challenges. Despite the unpredictable market environment, we maintain a proactive attitude, seeking breakthroughs in various aspects, including market size, production technology, product portfolio, channel expansion, and brand influence. We are resolute in our commitment to maintain our position as the leader in the global heparin industry chain.

With regard to innovative drugs and innovative business, the Group will continue to actively search for suitable pharmaceutical products for overseas markets. On one hand, we will leverage our own advantages in overseas sales to increase new revenue sources. On the other hand, we will assist mainland pharmaceutical companies in rapidly expanding their overseas sales, achieving mutual benefits and win-win results for the industry. At the same time, we will continue to review the existing pipeline, adhere to the R&D principles of rational investment, effective allocation, forward-looking planning and sophisticated management of innovative drugs, and promote the clinical development of innovative drugs for substantive progress.

Looking forward to 2024, Heparin will continue to deepen its presence in the heparin industry chain. Expanding the sales scale will be our primary focus as we persistently implement and advance our sales layout, increase the market share of our products, and maintain the steady development of our business for enhancement in our operational efficiency and improvement in financial indicators. In the foreseeable and constantly changing operating environment, we will uphold our industry chain advantages with the enhancement of the value of each business segment. While consolidating its existing foundation, the Group actively explored suitable opportunities to achieve a new breakthrough in the Group's business and demonstrate to the market the business expertise, strategic vision, and development potential of Hepalink as an industry leader. Simultaneously, the Group will further enhance the internal monitoring system and implement a comprehensive risk management framework and mechanisms. We will rigorously adhere to operational systems and internal control processes, elevate the level of risk management information, and significantly strengthen internal monitoring and risk management capabilities. In this new year, despite the changing and complex market conditions, the Group is optimistic about the future prospects and opportunities, it will continue to unswervingly implement the existing strategy, review the situation and observe the market trend, proactively integrate the Group's resources to realize investment value, and steadily move towards its strategic goal of becoming a world-leading innovative multinational pharmaceutical enterprise.

Financial Review

Revenue

	For the year ended December 31,				Year-on-year increase/ decrease (%)
	2023		2022		
	Sales amount RMB'000	% of Revenue	Sales amount RMB'000	% of Revenue	
Sale of goods	4,415,058	81.3%	6,012,848	84.1%	-26.6%
Finished dose pharmaceutical products	2,979,030	54.9%	3,210,465	44.9%	-7.2%
API	1,307,343	24.1%	2,673,754	37.4%	-51.1%
Others ⁽¹⁾	128,685	2.4%	128,629	1.8%	0.0%
CDMO services	966,952	17.8%	1,084,066	15.2%	-10.8%
Others ⁽²⁾	48,964	0.9%	54,125	0.8%	-9.5%
Total	5,430,974	100.0%	7,151,039	100%	-24.1%

Revenue from manufacturing and sales of goods decreased by RMB1,597.8 million to RMB4,415.1 million, accounting for 81.3% of the total revenue during the Reporting Period, as compared with RMB6,012.9 million or 84.1% of the Group's revenue in 2022. The decrease in revenue from manufacturing and sales of goods was mainly due to the year-on-year decrease in sales revenue of APIs during the year.

Cost of sales

For the Reporting Period, cost of sales decreased by RMB370.8 million to RMB4,490.1 million, as compared with RMB4,860.9 million in 2022. The decrease in cost of sales during the Reporting Period mainly due to the decrease in the scale of sales revenue, but at the same time, there was an increase in the provision for inventory impairment for APIs.

Gross Profit

	For the year ended December 31,			
	2023	2023	2022	2022
	Gross profit	Gross profit	Gross profit	Gross profit
	<i>RMB'000</i>	margin	<i>RMB'000</i>	margin
		(%)		(%)
Sale of goods	693,525	15.7%	1,821,343	30.3%
Finished dose pharmaceutical products	1,284,627	43.1%	1,132,402	35.3%

Impairment losses on goodwill

The Group confirmed a goodwill impairment loss of RMB68.2 million during the year, primarily related to the goodwill impairment of CDMO assets. The reason for this provision of goodwill impairment loss was mainly due to the impact of the end of the epidemic, which was expected to pose greater challenges for the future development of CDMO asset business. Additionally, decreased downstream investment activity has resulted in a reduction in orders for innovative drugs, prompting the Company to lower its performance expectations for the future CDMO asset group.

Impairment losses on property, plant and equipment and other intangible assets

The Group recognized a impairment loss of RMB44.5 million on property, plant, and

Liquidity and Financial Resources

Treasury Policies

The primary objective of the Group's capital management is to maintain its ability to continue as a going concern so that the Group can constantly provide returns for shareholders of the Company and benefits for other stakeholders by implementing proper product pricing and securing access to financing at reasonable costs. The Group actively and regularly reviews and manages its capital structure and makes adjustments by taking into consideration the changes in economic conditions, its future capital requirements, prevailing and expected profitability and operating cash flows, expected capital expenditures and expected strategic investment opportunities. The Group closely monitors its debt-to-asset ratio, which is defined as total borrowings divided by total assets.

Liquidity and Financial Resources

The Group's liquidity remains strong. During the Reporting Period, the Group's funds were primary from its ordinary business. As at December 31, 2023, the Group's cash and bank balances were approximately RMB1,765.6 million (December 31, 2022: approximately RMB1,319.7 million).

Capital Structure

As at December 31, 2023, the Group recorded short-term loans of approximately RMB3,624.6 million (December 31, 2022: approximately RMB4,020.8 million) and long-term loans of approximately RMB1,810.0 million (December 31, 2022: approximately RMB2,296.7 million).

Pledge of Assets

As at December 31, 2023, the Group's assets of approximately RMB2,995.5 million were pledged to banks and other financial institutions to secure the credit facilities granted to the Group (December 31, 2022: approximately RMB3,182.0 million).

Contingent Liabilities

As at December 31, 2023, neither the Group nor the Company had material contingent liabilities (December 31, 2022: nil).

Asset-liability Ratio

As at December 31, 2023, the Group's total assets amounted to approximately RMB19,203.4 million, (December 31, 2022: approximately RMB20,816.0 million), whereas the total liabilities amounted to approximately RMB7,215.0 million (December 31, 2022: approximately RMB8,406.6 million). The asset-liability ratio (i.e., total liabilities divided by total assets) was approximately 37.6% (December 31, 2022: approximately 40.4%).

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates to the interest-bearing bank and other borrowings with floating interest rates. The Group's policy is to manage our interest cost using a mix of fixed and variable rate debts. As at December 31, 2023, the Group had approximately 96.6% interest-bearing borrowings bearing interest at fixed rates (December 31, 2022: approximately 92.7%).

Indebtedness

	As at December 31, 2023 RMB'000	As at December 31, 2022 RMB'000
Interest-bearing bank and other borrowings	5,434,596	6,317,464
Lease liabilities	128,220	146,439
Total financial indebtedness	5,562,816	6,463,903
Pledged bank deposits	(80)	(69,388)
Net financial indebtedness	5,562,736	6,394,515

The maturity profile of the Group's interest-bearing bank and other borrowings is set out as follows:

	As at December 31, 2023 RMB'000	As at December 31, 2022 RMB'000
Repayable:		
Within one year or on demand	3,624,575	4,020,784
After one year but within two years	772,003	1,404,818
After two years but within five years	642,237	435,195
After five years	395,781	456,667
Total	5,434,596	6,317,464

The Group's bank lending as at December 31, 2023 was approximately RMB4,365.9 million (December 31, 2022: RMB4,311.0 million). As at December 31, 2023, the Group's corporate bond was approximately RMB512.7 million (December 31, 2022: RMB1,403.0 million). As at December 31, 2023, the Group's total amount of other lending was RMB556.0 million (December 31, 2022: RMB603.4 million).

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

December 31, 2023

1. Corporate Information

The Company is a joint stock company with limited liability established in the People's Republic of China (hereafter, the "PRC") on April 21, 1998. With the approval of the China Securities Regulatory Commission, the Company completed its initial public offering and was listed on the Shenzhen Stock Exchange (stock code: 002399.SZ) on May 6, 2010. The Company completed its public offering in Hong Kong and its H shares were listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (stock code: 9989) on July 8, 2020. The registered address of the office of the Company in the PRC is No.21 Langshan Road, Nanshan District, Shenzhen. The Company's principal place of business in Hong Kong is at Room 4724, 47/F, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong. The Company is ultimately controlled by Mr. Li Li and Ms. Li Tan who are acting in concert.

The Group is principally engaged in biopharmaceutical production, biopharmaceutical services, biopharmaceutical trading and biopharmaceutical research and development in Asia, Europe, North America and Australia, and investment business in Asia and North America.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance.

They have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income, derivative financial instruments and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended December 31, 2023. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The nature and the impact of the new and revised IFRSs that are applicable to the Group are described below:

- (a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.
- (b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.
- (c) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

Prior to the initial application of these amendments, the Group applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. The Group has applied the amendments on temporary differences related to leases as at 1 January 2022. Upon initial application of these amendments, the Group recognised (i) a deferred tax asset for all deductible temporary differences associated with lease liabilities (provided that sufficient taxable profit is available), and (ii) a deferred tax liability for all taxable temporary differences associated with right-of-use assets at 1 January 2022, with cumulative effect recognised as an adjustment to the balances of retained profits and non-controlling interests at that date. The quantitative impact on the financial statements is summarised below.

Impact on the consolidated statements of financial position:

	Increase/(decrease)		
	As at	As at	As at
	31 December	31 December	1 January
	2023	2022	2022
	RMB'000	RMB'000	RMB'000
Assets			
Deferred tax assets (Note)	<u>2,244</u>	1,826	<u>1,479</u>
Total non-current assets	<u>2,244</u>	1,826	<u>1,479</u>
Total assets	<u><u>2,244</u></u>	<u>1,826</u>	<u><u>1,479</u></u>
Net assets	<u><u>2,244</u></u>	<u>1,826</u>	<u><u>1,479</u></u>
Equity			
Retained profits (included in reserves)	<u>2,244</u>	1,826	<u>1,479</u>
Equity attributable to owners of the parent	<u>2,244</u>	1,826	<u>1,479</u>
Non-controlling interests	<u>–</u>	–	<u>–</u>
Total equity	<u><u>2,244</u></u>	<u>1,826</u>	<u><u>1,479</u></u>

Note: The deferred tax asset and the deferred tax liability arising from lease contracts of the same subsidiary have been offset in the statement of financial position for presentation purposes.

Impact on the consolidated statements of profit or loss:

	Increase/(decrease)	
	For the year ended	
	31 December	
	2023	2022
	RMB'000	RMB'000
Income tax credit	319	348
Profit for the year	319	348
	<u><u>319</u></u>	<u><u>348</u></u>
Exchange differences on translation of foreign operations	99	–
	<u><u>99</u></u>	<u><u>–</u></u>
Attributable to:		
Owners of the parent	418	348
Non-controlling interests	–	–
	<u>–</u>	<u>–</u>
Total comprehensive income for the year	418	348
	<u><u>418</u></u>	<u><u>348</u></u>

The adoption of amendments to IAS 12 did not have any material impact on the basic and diluted earnings per share attributable to ordinary equity holders of the parent, other comprehensive income and the consolidated statements of cash flows for the years ended 31 December 2023 and 2022.

- (d) Amendments to IAS 12 International Tax Reform – Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has not yet applied the temporary exception during the current year because the entities comprising the Group are operating in jurisdictions in which the Pillar Two tax law has not yet been enacted or substantively enacted. The Group will disclose known or reasonably estimable information related to its exposure to Pillar Two income taxes in the consolidated financial statements by the time when the Pillar Two tax law has been enacted or substantively enacted and will disclose separately the current tax expense or income related to Pillar Two income taxes when it is in effect. The Group has applied the amendments and the mandatory temporary exception retrospectively.

3. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) The finished dose pharmaceutical products segment mainly includes enoxaparin sodium injection products.
- (b) The active pharmaceutical ingredient segment includes standard heparin sodium active pharmaceutical ingredients, and enoxaparin sodium active pharmaceutical ingredients.
- (c) The CDMO segment includes R&D, manufacturing, quality management, program management and commercial manufacture under customers' specific orders.
- (d) The "others" segment.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax from continuing operations. The adjusted profit/loss before tax from continuing operations is measured consistently with the Group's profit before tax except that other income and gains, selling and distribution expenses, administrative expenses, impairment losses on financial and contract assets, other expenses, finance costs and share of profits and losses of associates are excluded from such measurement.

Segment assets exclude cash and cash equivalents, pledged deposits, deferred tax assets, equity investments designated at fair value through other comprehensive income, derivative financial instruments, financial assets at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

For the year ended December 31, 2023

Segments	Finished dose pharmaceutical				Total RMB'000
	products RMB'000	API RMB'000	CDMO RMB'000	Others RMB'000	
Segment revenue:					
Sales to external customers	2,979,030	1,307,343	966,952	177,649	5,430,974
Intersegment sales	3,469,110	2,137,584	1,309	270,601	5,878,604
	<u>6,448,140</u>	<u>3,444,927</u>	<u>968,261</u>	<u>448,250</u>	<u>11,309,578</u>
<u>Reconciliation:</u>					
Elimination of intersegment sales					<u>(5,878,604)</u>
Revenue from contracts with customers					<u><u>5,430,974</u></u>
Segment results:	1,224,118	(405,677)	213,038	59,932	1,091,411
<u>Reconciliation:</u>					
Elimination of intersegment results					(150,515)
Other income and gains					222,317
Selling and distribution expenses					(517,416)
Administrative expenses					(674,546)
Impairment losses on financial and contract assets					(22,548)
Impairment losses on goodwill					(68,155)
Impairment losses on an investment in an associate					(9,801)
Impairment losses on property, plant and equipment and other intangible assets					(44,515)
Other expenses					(78,528)
Finance costs					(228,087)
Share of losses of associates					<u>(447,951)</u>
Group's loss before tax					<u><u>(928,334)</u></u>

For the year ended December 31, 2023 (continued)

Segments	Finished dose pharmaceutical				Total <i>RMB'000</i>
	products <i>RMB'000</i>	API <i>RMB'000</i>	CDMO <i>RMB'000</i>	Others <i>RMB'000</i>	
Segment assets	4,888,040	11,710,207	2,392,778	1,152,181	20,143,206
<u>Reconciliation:</u>					
Elimination of intersegment receivables					(6,149,428)
Corporate and other unallocated assets					<u>5,209,639</u>
Total assets					<u><u>19,203,417</u></u>
Segment liabilities	2,846,630	3,822,929	421,666	2,684,939	9,776,164
<u>Reconciliation:</u>					
Elimination of intersegment payables					(7,390,598)
Corporate and other unallocated liabilities					<u>4,829,474</u>
Total liabilities					<u><u>7,215,040</u></u>
Other segment information					
Impairment losses recognised in the in the statement of profit or loss, net	3,859	28,520	68,490	44,150	145,019
Depreciation and amortisation	50,921	104,098	84,492	138,337	377,848
Investments in associates					1,004,046
Capital expenditure	381,103	31,561	41,399	15,783	469,846

For the year ended December 31, 2022

Segments	Finished dose pharmaceutical products <i>RMB'000</i>	API <i>RMB'000</i>	CDMO <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:					
Sales to external customers	3,210,465	2,673,754	1,084,066	182,754	7,151,039
Intersegment sales	<u>2,468,477</u>	<u>3,369,777</u>	<u>2,213</u>	<u>435,821</u>	<u>6,276,288</u>
Total segment revenue	<u>5,678,942</u>	<u>6,043,531</u>	<u>1,086,279</u>	<u>618,575</u>	<u>13,427,327</u>
<u>Reconciliation:</u>					
Elimination of intersegment sales					(6,276,288)

For the year ended December 31, 2022 (continued)

Segments	Finished dose pharmaceutical				Total
	products	API	CDMO	Others	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Segment assets	4,272,831	12,057,357	2,573,751	1,169,499	20,073,438
<u>Reconciliation:</u>					
Elimination of intersegment receivables					(5,442,142)
Corporate and other unallocated assets					<u>6,184,734</u>
Total assets					<u><u>20,816,030</u></u>
Segment liabilities	2,261,519	3,228,971	467,235	2,677,328	8,635,053
<u>Reconciliation:</u>					
Elimination of intersegment payables					(6,703,798)
Corporate and other unallocated liabilities					<u>6,475,310</u>
Total liabilities					<u><u>8,406,565</u></u>
Other segment information					
Impairment losses recognised in the in the statement of profit or loss, net	4,090	28,346	28,523	108	61,067
Depreciation and amortisation	47,343	89,404	77,826	97,434	312,007
Investments in associates					989,386
Capital expenditure	15,100	49,904	68,758	12,532	146,294

Geographical information

(a) Revenue from external customers

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Hong Kong	18,098	103,018
United States of America	1,277,604	1,387,152
Europe	2,615,709	3,729,856
Mainland China	397,837	641,478
Other countries/regions	1,121,726	1,289,535
	<hr/>	<hr/>
Total Revenue	5,430,974	7,151,039
	<hr/> <hr/>	<hr/> <hr/>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	As at December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	2,878,234	2,705,525
United States of America	3,356,795	3,610,134
Europe	126,362	129,267
Hong Kong	407,322	282,596
	<hr/>	<hr/>
Total	6,768,713	6,727,522
	<hr/> <hr/>	<hr/> <hr/>

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

During the year ended December 31, 2023, there were no revenue derived from sales to a single external customer, including sales to a group of entities which are known to be under common control with that customer, accounted for more than 10% of the total revenue.

During the year ended December 31, 2022, revenue of approximately RMB733,019,000 derived from a single external customer accounted for more than 10% of the total revenue.

4. Revenue

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended December 31, 2023

Segments	Finished dose pharmaceutical products <i>RMB'000</i>	API <i>RMB'000</i>	CDMO <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Types of goods or services					
Sale of products	2,979,030	1,307,343	-	128,685	4,415,058
CDMO services	-	-	966,952	-	966,952
Others	-	-	-	48,964	48,964
	<u>2,979,030</u>	<u>1,307,343</u>	<u>966,952</u>	<u>177,649</u>	<u>5,430,974</u>
Timing of revenue recognition					
Products transferred at a point in time	2,979,030	1,307,343	-	128,685	4,415,058
Services transferred at a point in time	-	-	456,111	13,818	469,929
Services transferred over time	-	-	510,841	35,146	545,987
	<u>2,979,030</u>	<u>1,307,343</u>	<u>966,952</u>	<u>177,649</u>	<u>5,430,974</u>

For the year ended December 31, 2022

Segments	Finished dose pharmaceutical products <i>RMB'000</i>	API <i>RMB'000</i>	CDMO <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Types of goods or services					
Sale of products	3,210,465	2,673,754	–	128,629	6,012,848
CDMO services	–	–	1,084,066	–	1,084,066
Others	–	–	–	54,125	54,125
Total	<u>3,210,465</u>	<u>2,673,754</u>	<u>1,084,066</u>	<u>182,754</u>	<u>7,151,039</u>
Timing of revenue recognition					
Products transferred at a point in time	3,210,465	2,673,754	–	128,629	6,012,848
Services transferred at a point in time	–	–	320,179	20,207	340,386
Services transferred over time	–	–	763,887	33,918	797,805
Total	<u>3,210,465</u>	<u>2,673,754</u>	<u>1,084,066</u>	<u>182,754</u>	<u>7,151,039</u>

The following table shows the amounts of revenue recognised during the current Reporting Period that were included in the contract liabilities at the beginning of the Reporting Period and recognised from performance obligations satisfied in previous periods:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Revenue recognised that was included in the contract liabilities balance at the beginning of the year:		
Sale of products	17,724	10,585
CDMO services	423,216	407,679
	<hr/>	<hr/>
Total	440,940	418,264
	<hr/> <hr/>	<hr/> <hr/>

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of products

The performance obligation is satisfied at the point when control of asset is transferred to the customer.

CDMO services

For services under the FFS model, revenue is recognised over time and the performance obligation is a part of a contract that has an original expected duration of one year or less. Therefore, under practical expedients allowed by IFRS 15, the Group does not disclose the value of unsatisfied performance obligations under the FFS model.

For certain CDMO services, the directors of the Company have determined that performance obligations are satisfied upon acceptance of the deliverable products under customers' specific orders, and therefore, the performance obligation is recognised as revenue at a point in time.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at December 31 are as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within one year	493,767	652,130
	<hr/> <hr/>	<hr/> <hr/>

All the performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

5. Other Income and Gains

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Other income		
Bank interest income	39,521	54,139
Government grants related to		
– Assets*	2,672	4,744
– Income**	19,343	33,963
Dividend income from financial assets at fair value through profit or loss	36,433	7,107
	<u>97,969</u>	<u>99,953</u>
Other gains		
Foreign exchange gains	85,867	186,331
Gains/(losses) on disposal of financial assets at fair value through profit or loss	1,014	(5,624)
Fair value gains/(losses), net:		
Financial assets at fair value through profit or loss	17,724	(74,831)
Derivative instruments	(86)	(26,869)
Losses on disposal of items of property, plant and equipment	(1,678)	(2,760)
Gains on disposal of investment in associates	7,265	21,771
Others	14,242	9,460
	<u>124,348</u>	<u>107,478</u>
Total other income and gains	<u><u>222,317</u></u>	<u><u>207,431</u></u>

* The Group has received certain government grants related to assets to invest in laboratory equipment and plant. The grants related to assets were recognised in profit or loss over the useful lives of the relevant assets.

** The government grants and subsidies related to income have been received to compensate for the Group's research and development costs. Certain of the grants related to income have future related costs expected to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to income are recognised in the statement of profit or loss on a systematic basis over the periods that the costs, for which they are intended to compensate, are expensed.

Other government grants related to income that are receivables as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivables.

6. Finance Costs

An analysis of finance costs is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Interest expenses on:		
Bank borrowings	185,053	160,912
Corporate bonds	33,342	69,327
Lease liabilities	4,824	5,003
Other finance costs	4,868	10,387
	<hr/> 228,087 <hr/>	<hr/> 245,629 <hr/>

7. Profit before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Cost of inventories sold	3,721,533	4,191,405
Cost of services provided	768,545	669,445
Depreciation of property, plant and equipment	283,414	219,970
Depreciation of right-of-use assets	38,341	38,741
Amortisation of other intangible assets	56,093	53,296
Research and development costs*	182,433	252,142
Impairment losses on goodwill	68,155	–
Impairment losses on property, plant and equipment and other intangible assets	44,515	–
Auditor's remuneration	8,640	6,010
Employee benefit expenses (including directors' and supervisors' remuneration) :		
Salaries and other benefits	648,760	654,005
Pension scheme contributions, social welfare and other welfare	95,615	120,378
	<hr/> 744,375 <hr/>	<hr/> 774,383 <hr/>
Total	<hr/> 744,375 <hr/>	<hr/> 774,383 <hr/>

	2023 RMB'000	2022 RMB'000
Lease payment not included in the measurement of lease liabilities	3,749	2,488
Bank interest income	(39,521)	(54,139)
Finance costs	228,087	245,629
Dividend income from financial assets at fair value through profit or loss	(36,433)	(7,107)
Foreign exchange (gains)/losses, net	(85,867)	(186,331)
(Gains)/losses on disposal of financial assets at fair value through profit or loss	(1,014)	5,624
Fair value (gains)/losses on derivative instruments	86	26,869
Fair value (gains)/losses on financial assets at fair value through profit or loss	(17,724)	74,831
Losses on disposal of items of property, plant and equipment	1,678	2,760
Gains on disposal of investment in associates	(7,265)	(21,771)
Write-down of inventories to net realisable value	855,380	36,434
Impairment losses on an investment in an associate	9,801	–
Impairment losses on financial and contract assets:		
Impairment losses on trade receivables	712	48,858
Impairment losses on financial assets included in prepayments, other receivables and other assets and due from related parties	21,836	12,209
	<hr/> 22,548 <hr/>	<hr/> 61,067 <hr/>
Total	22,548	61,067

* Research and development costs are included in “Administrative expenses” in the consolidated statement of profit or loss.

8. Income Tax (Credit)/Expense

The major components of the income tax expense for the year are as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i> (Restated)
Current tax expense		
PRC	60,356	56,733
USA	35,960	90,431
Elsewhere	10,780	12,638
Under provision in prior years	4,357	(1,338)
	111,453	158,464
Deferred tax expense		
PRC	(148,044)	(2,873)
USA	(46,882)	(41,162)
Elsewhere	(42,702)	387
	(237,628)	(43,648)
Total tax (credit)/charge for the year	(126,175)	114,816

9. (Loss)/Earnings per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic and diluted earnings per share amounts is based on the profit attributable to ordinary equity holders of the parent, and the weighted average number of 1,467,296,204 ordinary shares (2022: 1,467,296,204) in issue during the year. The Group had no potentially dilutive ordinary shares in issue during the years ended December 31, 2023 and 2022.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2023 and 2022.

The calculation of basic and diluted earnings per share are based on:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
<u>(Loss)/earnings</u>		
(Loss)/profit attributable to ordinary equity holders of the parent	(783,258)	727,425
	Year ended December 31,	
	2023	2022
<u>Number of shares</u>		
Weighted average number of ordinary shares in issue during the year, used in the basic and diluted earnings per share calculation	1,467,296,204	1,467,296,204

10. Trade and Bills Receivables

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	1,300,441	1,712,557
Bills receivable	3,182	8,118
Allowance for expected credit losses	(40,039)	(114,464)
	<u> </u>	<u> </u>
Net carrying amount	<u>1,263,584</u>	<u>1,606,211</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally from one month to three months. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. The balances of trade receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of each reporting period, based on the invoice date and net of allowance for expected credit losses, is as follows:

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	1,250,716	1,601,907
1 year to 2 years	29,080	22,566
2 years to 3 years	10,992	69,085
Over 3 years	12,835	27,117
	<u> </u>	<u> </u>
	1,303,623	1,720,675
Less: Allowance for expected credit losses	(40,039)	(114,464)
	<u> </u>	<u> </u>
	<u>1,263,584</u>	<u>1,606,211</u>

The movements in the allowance for expected credit losses of trade receivables are as follows:

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	114,464	86,299
Impairment losses, net	712	48,858
Amount written off as uncollectible	(76,268)	(23,841)
Exchange realignment	1,131	3,148
	<u> </u>	<u> </u>
At end of year	<u>40,039</u>	<u>114,464</u>

11. Trade Payables

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade payables	302,223	427,433

An ageing analysis of the trade payables as at the end of the reporting periods, based on the invoice date, is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 1 year	299,729	424,520
1 year to 2 years	355	548
2 years to 3 years	445	1,373
Over 3 years	1,694	992
	302,223	427,433

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

12. Dividends

The Board has resolved not to declare a final dividend for the year ended 31 December 2023. (2022: RMB1.0 per ten ordinary shares).

13. Share Capital

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Issued and fully paid: 1,467,296,204 (2022: 1,467,296,204) ordinary shares	1,467,296	1,467,296

Use of Proceeds from the H Share Listing of the Company

The H shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on July 8, 2020 (the “**Listing Date**”), and the Company obtained net proceeds from such H shares offering (the “**Net Proceeds**”) of RMB3,538.4 million. According to the plan on use of Net Proceeds as set out in the prospectus dated June 24, 2020 of the Company (the “**Prospectus**”), approximately 30% of the Net Proceeds (or approximately RMB1,061.5 million) is intended to be used for improving capital structure and repaying the existing debt; approximately 30% of the Net Proceeds (or approximately RMB1,061.5 million) is intended to be used for expansion of the sales and marketing network and infrastructure in the European Union and other global markets, such as the PRC; approximately 20% of the Net Proceeds (or approximately RMB707.7 million) is intended to be used for expanding our development and manufacturing capacity and broadening our product and services offering of Cytovance; and approximately 20% of the Net Proceeds (or approximately RMB707.7 million) is intended to be used for investment in innovative drugs.

As disclosed in the announcement (the “**Announcement**”) of the Company dated November 20, 2023, the remaining balance of unutilized Net Proceeds amounted to RMB861.9 million, and the Group announced a change in use of Net Proceeds, under which part of the unutilized balance of the Net Proceeds will be utilized in accordance with among others, the business needs of the Group and the market conditions, which has been approved by the shareholders of the Company at the extraordinary general meeting of the Company held on December 15, 2023. As at December 31, 2023, the unutilized Net Proceeds amounted to RMB704.3 million. Details are set out in the following table:

Significant Investments Held

During the Reporting Period, the Group did not hold significant investments with a value of 5% or more of the Company's total assets. As at the date of this announcement, the Group does not have any plan for material investments or purchase of capital assets.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the Reporting Period, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

Employee and Remuneration Policy

As at December 31, 2023, the Group had 2,080 employees, where their salaries and allowances were determined based on their performance, experience and the then prevailing market rates. Other employee benefits include the Mandatory Provident Fund, insurance and medical care, subsidized training, and employee share incentive schemes. During the Reporting Period, the total staff costs (including director's emoluments) were approximately RMB744.4 million (2022: approximately RMB774.4 million).

Purchase, Sale or Redemption of Listed Securities

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

Compliance with Corporate Governance Code

The Company is committed to ensuring high standards of corporate governance and has adopted the code provisions set out in the Part 2 of the Corporate Governance Code (the "**Corporate Governance Code**") as set out in Appendix C1 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**"). During the Reporting Period, the Company has complied with all the applicable code provisions in the Corporate Governance Code.

The Board currently comprises four executive directors and three independent non-executive directors, with the independent non-executive directors representing more than one-third of the number of the Board members. Having such a percentage of independent non-executive directors on the Board can ensure their views carry significant weight and reflect the independence of the Board.

Final Dividend

Given the underlying loss of the Company, the Board has resolved not to declare a final dividend for the year ended December 31, 2023 (2022: RMB 1.0 per ten ordinary shares).

Annual General Meeting

The 2023 AGM will be held on Wednesday, May 22, 2024. A notice convening the 2023 AGM will be published on the websites of the Hong Kong Stock Exchange and the Company and made available to the H shares shareholders of the Company in due course.

Closure of Register of Members

For attending and voting at the 2023 AGM

The register of members of the Company's H shares will be closed from Friday, May 17, 2024 to Wednesday, May 22, 2024, both days inclusive, during which period no transfer of H shares will be registered. In order to be eligible for attending and voting at the forthcoming annual general meeting, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's H shares share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on Thursday, May 16, 2024.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has devised its own code of conduct for the trading of securities by its directors, supervisors and members of senior management of the Group (who are likely to possess inside information about the securities of the Company due to their offices or employments in the Group) on terms that no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix C3 to the Listing Rules (the "**Model Code**"). Having made specific enquiry by the Company, all directors, supervisors and members of senior management of the Group have confirmed that they have complied with the required standard set out in the Model Code during the Reporting Period and up to the date of this announcement. The Company continues and will continue to ensure the compliance with the corresponding provisions set out in the Model Code.

Review of Annual Results by the Audit Committee

The Audit Committee of the Board has considered and reviewed the consolidated annual results of the Group for the year ended December 31, 2023 and the accounting principles and practices adopted by the Group, and has discussed with management issues in relation to internal control, risk management and financial reporting. The Audit Committee of the Board is of the opinion that the consolidated annual results of the Group for the year ended December 31, 2023 are in compliance with the relevant accounting standards, laws and regulations and have been officially disclosed in due course.

Scope of Work of Ernst & Young

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2023 as set out in the preliminary announcement have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Ernst & Young on the preliminary announcement.

Events after the Reporting Period

In view of the recent telecommunication fraud incident suffered by Techdow Italy, a wholly-owned subsidiary of the Company, on March 14, 2024, the Company received funds advanced by Mr. Li, through Shenzhen Leren amounting to RMB89,809,600 (equivalent to the value of EUR11.74 million) in order to minimize the impact of the telecommunication fraud incident on the Company. For further details, please refer to the announcement of the Company dated March 15, 2024.

Publication of Annual Report

This announcement is published on the websites of the Company (<http://www.hepalink.com/>) and the Hong Kong Stock Exchange (<http://www.hkexnews.hk>). The Company's Annual Report 2023 will be made available to the H shares shareholders and published on the websites of the Company and the Hong Kong Stock Exchange in due course.

Appreciation

On behalf of the Board, I would like to express my gratitude to all shareholders for their trust, support and understanding, as well as to all the staff of the Group for their unremitting efforts.

By order of the Board
Shenzhen Hepalink Pharmaceutical Group Co., Ltd.
Li Li
Chairman

Shenzhen, the PRC
March 28, 2024

As at the date of this announcement, the executive directors of the Company are Mr. Li Li, Ms. Li Tan, Mr. Shan Yu and Mr. Zhang Ping; and the independent non-executive directors of the Company are Dr. Lu Chuan, Mr. Huang Peng and Mr. Yi Ming.