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spalink

(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)

(8)

I. SUMMARY OF PROPOSED PROVISION FOR INVENTORY IMPAIRMENT

(1) Inventory Reserves of the Company

As at the end of 2021, 2022 and 2023, the carrying amounts of the Company's inventories were RMB4,787.4 million, RMB6,939.0 million and RMB7,516.8 million, respectively, and the specific breakdown of the inventories is set out below:

Item	End of 2023		End of 2022		End of 2021	
	Amount (RMB'000)	%	Amount (RMB'000)	%	Amount (RMB'000)	%
Raw materials	3,210,073.4	42.7	3,023,143.4	43.6	1,712,588.1	35.8
Products in process	639,448.8	8.5	940,224.9	13.5	946,588.4	19.8
Finished goods in stock	3,629,393.3	48.3	2,923,503.5	42.1	2,096,813.6	43.8
Turnover materials	30,377.3	0.4	25,417.9	0.4	16,285.0	0.3
Consigned processing materials	7,514.6	0.1	26,696.5	0.4	15,155.0	0.3
Total	<u>7,516,807.4</u>	<u>100</u>	<u>6,938,986.2</u>	<u>100</u>	<u>4,787,430.1</u>	<u>100</u>

Note: The amounts of inventories as at the end of 2023 have not been audited and are subject to the final results of the year to be disclosed by the Company.

The Company's inventories consist primarily of raw materials and finished goods in stock. As at the end of 2021, 2022 and 2023, the Company's inventories mainly consisted of products related to the heparin industry chain, consisting of crude heparin products, heparin APIs and preparations.

As the largest heparin enterprise in China, the Company has a high demand for crude products, which, coupled with the high standard of heparin raw materials required by the major target market, makes it difficult for the Company to accumulate strategic inventories in normal years. Against the background of the downward trend of raw material prices in 2021 and according to the requirements of the Company's strategic deployment, the Company has increased its strategic inventories.

(2) Reasons for the Company’s proposed provision for inventory impairment

In 2023, downstream pharmaceutical companies in the medical industry adopted a relatively cautious inventory strategy, leading to a significant decline in demand for upstream products. This had a certain impact on the heparin industry. Since the fourth quarter of 2023, the selling price of heparin products has significantly declined, and there were indications of impairment in certain heparin products in the Company’s inventory during the fourth quarter of 2023. Considering the order backlog and market forecasts for 2024, and as a precautionary measure, the Company plans to make provisions for inventory impairment in accordance with the principle that the relevant inventory cost exceeds the net realisable value.

II. DETAILS OF THE PROPOSED PROVISION FOR INVENTORY IMPAIRMENT

In accordance with the relevant provisions of the China Accounting Standards for Business Enterprises and other relevant regulations, the Company and its subsidiaries have conducted a comprehensive inventory review out of prudence to give a fairer and more accurate presentation of the Company’s assets and financial position as at 31 December, 2023. Taking into account the actual situation of the respective businesses, it is proposed to make a provision for inventory impairment at the lower of the carrying amount of inventories and net realisable value or to make an adjustment to the provision for inventory impairment after a preliminary assessment.

As at 31 December, 2023, the unaudited carrying amount of the Company’s inventories before impairment provision was RMB7,516.8 million. After the Company’s preliminary assessment, the Company intends to make a provision for inventory impairment for 2023 from RMB750.0 million to RMB950.0 million.

III. IMPACT OF THE PROPOSED PROVISION FOR INVENTORY IMPAIRMENT ON THE COMPANY

The above provision for inventory impairment is expected to result in a decrease in net profit attributable to Shareholders in the range of approximately RMB637.5 million to RMB807.5 million. The amount of provision for inventory impairment has not been audited, and the final accounting treatment and the impact on the Company’s profit for 2023 is subject to the Annual Results.

IV. FUTURE RESPONSE STRATEGIES AND BUSINESS PLANS OF THE COMPANY

The Company will continue to optimise the allocation of resources, assess the pace of procurement based on business needs and adjust the supply chain strategy accordingly, so as to fully utilise its product cost advantages and further expand its market share. At the same time, the Company will also rely on the self-operated teams and sales networks established in various countries to further increase the scale of sales, increase market share and enhance the Company's overall competitiveness.

V. OTHER RELEVANT INFORMATION

The Company is still finalising its Annual Results. The information set out in this announcement is based on the preliminary assessment by the Company. Finalised details of the financial information will be duly disclosed in the Annual Results and the 2023 annual report of the Company. The proposed provision for inventory impairment is subject to review and approval by the Board of Directors and Board of Supervisors of the Company after the amount of provision is finalised. Shareholders and potential investors are advised to refer to the Annual Results, which are expected to be published on or before 31 March, 2024, for further details. **Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.**

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

Shenzhen, the PRC
30 January, 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.