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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT AND THE AUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

SUPPLEMENTAL INFORMATION IN RELATION TO THE 2021 ANNUAL REPORT

Reference is made to the annual report of Shenzhen Hepalink Pharmaceutical Group Co., Ltd. (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2021 which was published on 10 May 2022 (the "**2021 Annual Report**"). Unless otherwise stated, capitalised terms used in this announcement shall have the same meanings as those defined in the 2021 Annual Report.

The board (the "**Board**") of directors of the Company wishes to provide additional information regarding the impairment losses on associates of approximately RMB223 million (the "**Associate Impairment**") and financial assets of approximately RMB102 million (the "**FA Impairment**").

Associate Impairment

The Group determines whether there are indicators of impairment for investments in associates at the end of each reporting period. Indicators of impairment include, but are not limited to, serious deterioration of financial condition of the Group's associates, significant drop in share prices, adverse changes in overall market conditions of the relevant industry, and other circumstances indicating that the associates are no longer in a position to generate returns for the Group. Where such impairment indicators exist, the Group will test its investments in associates for impairment by comparing the estimated recoverable amounts with the carrying amounts. An impairment exists when the carrying value of investments in associates exceeds their recoverable amount.

At the end of each reporting period, the Group assessed the impairment indication consistently by using the same parameters or qualitative analysis, including but not limited to drug research and development progress, breakthrough in therapy, share price, private placement price, and other available information. No impairment indication was noticed at the end of 2019 and 2020, thus no recoverable amounts were assessed in such years accordingly.

As at 31 December 2021, impairment indicators were noted for Resverlogix Corp. ("**RVX**") and Shenzhen Asia Pacific Health Management Co., Ltd. ("**APH**"), associates of the Group.

RVX

RVX is a Canada-based clinical biotechnology company listed on the Toronto Stock Exchange. It is developing an advanced epigenetic drug called Apabetalone for the treatment of patients with cardiovascular disease, diabetes mellitus, chronic kidney disease, peripheral artery disease, orphan diseases, and neurodegenerative diseases.

The absence of impairment indication for RVX in 2019 and 2020

The Group did comprehensive assessments on its investment in RVX using all the information available to the Group at that time, including but not limited to RVX's share price, private placement price, the drug research progress and other available information, to determine whether there was any objective evidence that the Group's investment in RVX was impaired. Such assessment was regularly carried out at the end of each reporting period.

In 2019, RVX announced that BETonMACE (the first ever Phase 3 trial of a BET inhibitor, outside of oncology) did not meet the primary endpoint, and the share price dropped substantially since then. However, as of the end of 2019, RVX's share price and the price of private placement were still higher than the carrying amount of RVX per share in the Group's financial statements. At that point of time the drug research by RVX was in progress. Subsequently, in February 2020 and before the Company's annual results announcement for the year ended 31 December 2019, RVX-208, a ground-breaking small molecule drug developed by a subsidiary of RVX, was granted the Breakthrough Therapy Designation by the FDA. Taking into account all the information mentioned above, no objective evidence of impairment existed as of 31 December 2019.

During 2020, even though there was a drop in RVX's share price, the Group considered that the share price is not of itself, evidence of impairment. RVX's drug research work was making progress. The clinical plan for pivotal phase III (BETonMACE2) was approved by the FDA in June 2020. On 6 October 2020, RVX announced that it had entered into a stock purchase agreement for a private placement of 10,560,000 equity units for gross proceeds of CAD13.2 million. The fair value of the Group's investment in RVX based on the aforesaid private placement was higher than the carrying amount per share of RVX as of 31 December 2020. After performing a comprehensive assessment like previous year, no objective evidence of impairment existed as of 31 December 2020.

Impairment assessment for investments in RVX

When evaluating the impairment indication, the Group did not only consider the drop in the share price.

The Group considers that, as the trading volume of RVX's shares on the Toronto exchange stock market is relatively low, the share price of RVX may not accurately reflect the fair value of RVX. When evaluating the impairment indication, the Group considers a basket of factors including not only the share price, but also the private placement price, the drug research progress and other available information of RVX. Share price is not the primary parameter when assessing the impairment indication.

The Group believes that, in assessing the market value of innovative drug development companies at an early stage, clinical prowess and research milestones are more important value considerations.

As mentioned above, the BETonMACE of RVX-208 was approved by the FDA as a breakthrough therapy in 2020, and the BETonMACE2 overall program was granted approval by the FDA in June 2020, for which RVX agreed to submit a marketing application (NDA) for production and sales of RVX-208 if the interim data is positive.

The Group believes that the significant progress made in the development of RVX-208 and the monumental milestones are also important and relevant factors in determining the fair value of RVX.

The recoverable amount of RVX

Based on the Group's analysis, no impairment indication for RVX was noticed as at 31 December 2019 and 2020, thus there was no need to evaluate the recoverable amount.

The carrying amount of RVX as at 31 December 2019 and 2020 was RMB443 million and RMB526 million, respectively.

The Group acknowledges that the clinical trial development of RVX's innovative drugs was delayed as a result of the COVID-19 pandemic in 2020, however, the Group believes that RVX's innovative drugs still has significant market potential for the treatment of type 2 diabetes with coronary heart disease and chronic kidney disease in China at that time.

During 2021, the progress of drug research in RVX was significantly delayed due to the continuous impact of the COVID-19 pandemic. BETonMACE2 has had no substantial updates on its clinical progress for over 18 months after the approval of the clinical plan for pivotal phase III was granted by the FDA. Due to the plunge in its share price, RVX's external financing activities in the second half of 2021 decreased significantly. Taking into account the above, impairment indicators were noted as of 31 December 2021 and therefore the Group performed impairment testing on RVX for the year 2021.

APH

APH is an innovative medical and health management group integrating health management, clinical medicine, home care, science, education and research. So far as the Group is aware, during 2019 and 2020, the impact of COVID-19 pandemic to APH was still relatively manageable taken as a whole. Moreover, the construction of an expansion project was in progress. Thus no impairment indicators were noted in 2019 and 2020.

During 2021, impacted by the continued spread of the COVID-19 pandemic, a vast majority of inpatient units and outpatient clinics of APH were closed and the expansion project was suspended due to the financial difficulty of APH. As a result of the operational difficulties encountered by APH, impairment indicators were noted in 2021.

As impairment indicators existed for RVX and APH in 2021, the Group tested its investments in associates for impairment by comparing the estimated recoverable amounts with the carrying amounts. The recoverable amount was determined based on the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal ("**FVLCD**"). The recoverable amount of RVX was approximately RMB283 million which was determined with reference to the latest transactions in an arm's length less incremental costs for disposal of RVX. The recoverable amount of APH was nil as APH had net deficits as at 31 December 2021 and relevant assets in the book of APH were mainly specialised assets with relatively low disposal value. Therefore, impairment losses of RMB186 million and RMB37 million were recognised in FY2021, respectively.

FA Impairment

The table below shows the gross carrying amounts for financial assets and the corresponding allowance for expected credit losses.

At 31 December 2021	Gross carrying amounts *RMB'000*	Less: Allowance for expected credit losses *RMB'000*	Net carrying amounts *RMB'000*	Impairment losses on financial assets for the year *RMB'000*
Trade and bills receivables	1,611,508	(86,299)	1,525,209	68,659
Amounts due from related parties	47,279	(3,191)	44,088	3,191
Financial assets included in prepayments, other receivables and other assets	209,036	(46,376)	162,660	30,108
Total	1,867,823	(135,866)	1,731,957	101,958

At 31 December 2020	Gross carrying amounts *RMB'000*	Less: Allowance for expected credit losses *RMB'000*	Net carrying amounts *RMB'000*	Impairment losses on financial assets for the year *RMB'000*
Trade and bills receivables	1,696,330	(30,114)	1,666,216	10,589
Amounts due from related parties	49,235	-	49,235	-
Financial assets included in prepayments, other receivables and other assets	214,340	(17,755)	196,585	4,605
Total	1,959,905	(47,869)	1,912,036	15,194

As at 31 December 2021 and 2020, the Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss provision for trade and bills receivables including the amounts due from related parties. An impairment analysis is performed at the end of each reporting period using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the end of reporting period about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic

prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. The increase in credit loss on trade and bills receivables including amounts due from related parties from 1.73% as at 31 December 2020 to 5.39% as at 31 December 2021 was mainly due to the increase in aging of trade receivables and the overall economic slowdown. The relevant details are disclosed in notes 2.4, 3, 24, 42 and 45 to the financial statements in the 2021 Annual Report.

As at 31 December 2021 and 2020, the impairments of the financial assets included in prepayments, other receivables and other assets were measured based on the 12-month expected credit loss if they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, they were measured based on the lifetime expected credit loss.

At the end of each reporting period, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the end of reporting period with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset to be in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. The increase in credit loss on financial assets included in prepayments, other receivables and other assets from 8.28% as at 31 December 2020 to 22.19% as at 31 December 2021 was mainly due to the increase in credit risk of the counter parties, as some of those counter parties encountered financing difficulties and liquidation crisis. The relevant details are disclosed in notes 2.4, 3, 26 and 45 to the financial statements in the 2021 Annual Report.

Reconciliation of the published financial information of RVX and the financial information of RVX as disclosed in the 2021 Annual Report

The Board wishes to provide additional information regarding the financial information of RVX.

In 2020, RVX announced a change in its fiscal year end from 30 April to 31 December.

Before the change of RVX's fiscal year, the financial data of RVX announced in the annual report of RVX and disclosed in the annual reports of the Company was not comparable, as the fiscal year ends of RVX and the Company were different.

Due to the change of fiscal year end, for the year ended 31 December 2020 ("**FY2020**"), the reporting period of RVX only covered eight months from 1 May 2020 to 31 December 2020, while the financial data of RVX obtained from RVX's management as disclosed in the Company's annual report for FY2020 covered the full year profit or loss statements. Financial information in relation to the profit or loss statements for FY2020 as disclosed in the annual report of RVX and the annual report of the Company was still incomparable.

However, as the fiscal year ends of both companies have become aligned since FY2020, the financial information of RVX in relation to its balance sheet statement as disclosed in both RVX and the Company's annual reports have become comparable for FY2020 and the year ended 31 December 2021 ("**FY2021**").

The comparison tables of the information for the financial information of RVX related to the balance sheet information of FY2020 and the financial information of FY2021 between RVX's published financial results and the disclosure in note 18 of the 2021 Annual Report are as below:

As at 31 December 2020:	**RVX's published financial results** *USD'000*	**RVX's published financial results (translated into RMB)*** *RMB'000*	**Note 18 of the 2021 Annual Report** *RMB'000*	**Difference** *RMB'000*	*Note*
Current assets	1,937	12,639	12,639	–	
Non-current assets, excluding goodwill	8,769	57,217	351,179	293,962	1
Current liabilities	(11,763)	(76,752)	(115,791)	(39,038)	2
Non-current liabilities	(38,839)	(253,421)	(253,421)	–	

As at 31 December 2021:	RVX's published financial results *USD'000*	RVX's published financial results (translated into RMB)* *RMB'000*	Note 18 of the 2021 Annual Report *RMB'000*	Difference *RMB'000*	*Note*
Current assets	2,953	18,827	18,827	–	
Non-current assets, excluding goodwill	7,029	44,815	338,777	293,962	1
Current liabilities	(17,420)	(111,065)	(149,211)	(38,146)	2
Non-current liabilities	(52,432)	(334,291)	(334,291)	–	
Revenue	–	–	–	–	
(Loss)/profit for the year	(24,771)	(159,855)	(159,855)	–	
Total comprehensive (loss)/ profit for the year	(24,771)	(159,855)	(159,855)	–	

* RVX's published financial results were translated into RMB using the USD/RMB exchange rate at the end of each reporting period for balance sheet items and using the average exchange rate of each reporting period for profit or loss items.

Note:

1. The difference in non-current assets is due to the purchase price allocation of the investment. The Group invested in RVX in July 2015 and remeasured all the identifiable assets and liabilities underlying the investment at their fair values. As a result, the fair value of the net identifiable assets was higher than the book value of RVX on the purchase date by an amount of RMB294 million which was mainly due to the recognition of intangible assets of the developing drug.

2. The difference is due to different accounting treatments with regards to a transaction between RVX and Hepalink USA/the Group, details are as below:

   RVX and the Group are parties to a license agreement dated 8 July 2015 (the "**License Agreement**") whereby RVX licensed to the Group the right to develop, manufacture and commercialize pharmaceutical products containing RVX 208 in the People's Republic of China and Taiwan (the "**Licensed Product**").

   On 23 October 2017, RVX entered into a Right of First Refusal Agreement (the "**Agreement 2017**") with Hepalink USA Inc. ("**Hepalink USA**"), a subsidiary of the Group. Under the Agreement 2017, Hepalink USA was granted a right of first refusal in connection with the licensing of the right to develop, manufacture, and commercialize pharmaceutical products containing Apabetalone in the United States until 15 April 2019 (the "**US Licensing Rights**"). Hepalink USA paid CAD$8.0 million (equivalent to about RMB39 million, the amount has slightly changed due to the fluctuation of exchange rate) to RVX in consideration for the right of first refusal granted (the "**Fee**"). Pursuant to the Agreement, if RVX and Hepalink USA entered into a license agreement with respect to the US Licensing Rights, the Fee would have been credited against any payment obligations of Hepalink USA thereunder. Otherwise, the Fee was refundable, in whole or in part, until termination of the agreement.

Due to the delay in the drug research, no license agreement with respect to the US Licensing Rights was entered between RVX and Hepalink USA on or before 15 April 2019. In April 2020, RVX and the Group entered into a supplemental agreement (the "**Supplemental Agreement 2020**") as a continuation of the License Agreement for the settlement to the Fee of CAD$8.0 million. According to the Supplemental Agreement 2020, the Group shall pay for all the clinical trial costs of recruiting and treating 200-250 patients in Hong Kong, Taiwan and Macao (the "**Specify Clinical Trial**"), except that RVX shall pay up to CAD$8.0 million of clinical development costs associated with the Licensed Product, including a global Phase III Clinical Trial, in the PRC and Taiwan incurred after 1 May 2020 and, if by 31 December 2021 the costs incurred by RVX total less than CAD $8 million, then RVX and the Group shall negotiate a mutually-agreeable timeframe regarding said difference, in principle not later than 30 June 2022. In the original License Agreement, the Group shall pay for all the clinical trial costs of for the Specify Clinical Trial.

As the expected costs in the Specify Clinical Trial will be much greater than CAD$8 million, the Group estimated that the Fee of CAD$8.0 million could be recovered when the Specify Clinical Trial commenced.

For the accounting treatment of the Supplemental Agreement 2020, RVX (i) booked the CAD$8.0 million Fee as other income related to the expiration of the US Licensing Rights on 15 April 2019 and (ii) disclosed the cost of Specify Clinical Trial that RVX would bear as a commitment. The Group considered that the cost of Specify Clinical Trial that RVX would bear was an obligation that should be recorded in the book of RVX as liabilities directly and no other income should be recognised.

The Group made such adjustment related to the aforementioned transaction, and thus the current liabilities of RVX disclosed in note 18 of the 2021 Annual Report were higher than those disclosed in RVX's published financial results.

SUPPLEMENTAL INFORMATION IN RELATION TO THE 2021 AUDITED ANNUAL RESULTS ANNOUNCEMENT

Reference is made to the announcement of the Company dated 30 March 2022 in relation to its unaudited annual results for the year ended 31 December 2021 (the "**Unaudited Annual Results**"), and the announcement (the "**Audited Annual Results Announcement**") of the Company dated 11 April 2022 in relation to its audited annual results for the year ended 31 December 2021 (the "**Audited Annual Results**").

In the Audited Annual Results Announcement, details and reasons for the material differences between the Unaudited Annual Results and the Audited Annual Results were disclosed. In particular, it was disclosed that the share of profits and losses of associates in the Company's consolidated statement of profit or loss and other comprehensive income amounted to approximately RMB2.1 million in the Unaudited Annual Results and approximately RMB120.2 million in the Audited Annual Results, and that the difference of approximately RMB118.1 million mainly represented, among others, certain adjustments (the "**Adjustment(s)**") to investment loss accounted for under the equity method based on the financial statements filed by Hightide Therapeutics, Inc ("**Hightide**"), an associate of the Group. Hightide is a Shenzhen-based biopharmaceutical company and it is focusing on discovering and developing novel drugs to treat chronic liver diseases, gastrointestinal diseases and metabolic disorders with high unmet needs.

The Board wishes to provide additional information regarding the above, that similar to the case of the Company, the auditing process of Hightide for FY2021 has been adversely affected due to the surge in the COVID-19 cases in Shenzhen and the resulting prevention and control quarantine measures in place in the first quarter of 2022. This included delay in receiving audit confirmations as a result of interruptions in postal services, delay in sending and receipt of certain external confirmations from third parties for the valuation report and additional time required for the preparation and gathering process of necessary documents and information. A large portion of the above difference relates to an Adjustment which required an independent valuation of certain financial instruments held by Hightide. The latest audited (or advanced draft) financial information of Hightide, incorporating the abovementioned independent valuation, was only provided to the Group in early April 2022, such that the Adjustments were only reflected in the Audited Annual Results, but not in the Unaudited Annual Results.

GENERAL

Save as disclosed above, all other information in the 2021 Annual Report and Audited Annual Results Announcement remains unchanged.

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

Shenzhen, the PRC
12 October 2022

As at the date of this announcement, the executive directors of the Company are Mr. Li Li, Ms. Li Tan and Mr. Shan Yu; and the independent non-executive directors of the Company are Dr. Lu Chuan, Mr. Chen Junfa and Mr. Wang Zhaohui.