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Sinco Pharmaceuticals Holdings Limited

兴科蓉医药控股有限公司

(Incorporated under the laws of Cayman Islands with limited liability)

(Stock Code: 6833)

RESIGNATION OF AUDITOR

This announcement is made by the board of directors (the “**Board**”) of Sinco Pharmaceuticals Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.51(4) of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Reference is made to the announcements of the Company dated 26 September 2022, 30 September 2022 and 24 October 2022 in relation to the Incident (the “**Announcements**”). Unless the context requires or is defined otherwise, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcements.

RESIGNATION OF AUDITOR

(i) Reason for the Resignation

The Board announces that EY has resigned as auditor of the Company with effect from 8 December 2022. Following the letter from EY dated 15 September 2022 (the “**15 September Letter**”) requesting the Company to conduct an independent investigation in relation to the Incident (the “**Forensic Investigation**”), EY and the audit committee of the Company (the “**Audit Committee**”) had been in communication on the scope of the Forensic Investigation and a telephone discussion was held on 21 November 2022. For reasons disclosed below, the Board has not been able to finalise the engagement of a qualified independent forensic accountant to conduct an independent investigation over the Incident, and the Board and EY could not come to a consensus in relation to the timeline for the preparation of the audit work (the “**Audit**”) for the Company’s annual results for the year ended 31 December 2022 (“**2022 Annual Results**”). As such, the Board, via the Audit Committee, requested EY to resign as auditor of the Company. After due consideration, EY tendered their resignation as auditors of the Company.

As stated in EY’s resignation letter dated 8 December 2022, the reasons for EY’s resignation and the matters that need to be brought to the attention of the shareholders of the Company are summarized below:

In the course of conducting EY’s review on the interim financial information of the Company and its subsidiaries for the six months ended 30 June 2022, EY obtained the documents from the management of the Company (“**Management**”), being:

- (i) An agreement dated 5 January 2022, which was purportedly entered into between Sichuan Sinco Pharmaceuticals Co., Ltd. (“**Sichuan Sinco**”), being an indirect wholly owned subsidiary of the Company and one of its overseas vendors (the “**Vendor**”), pursuant to which Sichuan Sinco was required to transfer a deposit of USD13 million to the Vendor pursuant to a distribution agreement between the Vendor and Sichuan Sinco. The deposit shall be paid to the bank account designated by the Vendor no later than 31 January 2022. The deposit will be refunded to Sichuan Sinco in a twelve-month fixed term from the first purchase order of the products or maybe utilised to offset with the consideration for the subsequent purchases of the products.
- (ii) A letter dated 5 January 2022 (the “**Payment Instruction Letter**”), which was purportedly sent by the Vendor to Sichuan Sinco, instructing Sichuan Sinco to transfer the above deposit to the three payees with bank account details set out therein in the amounts set out below:

Payee	Amount
Payee A	HKD24,000,000
Payee B	HKD22,800,000
Payee C	USD7,000,000

- (iii) An authorization letter dated 15 February 2022 and purportedly signed by the Vendor, pursuant to which the Vendor granted distribution rights to Sichuan Sinco and Hong Kong Prosperous Group Holding Limited, being an indirect wholly owned subsidiary of the Company.

EY also obtained the relevant payment vouchers from Management, showing a payment with HKD24,000,000 made on 14 January 2022 to Payee A, a payment with HKD22,800,000 made on 24 January 2022 to Payee B and payments with USD3,000,000 and USD4,000,000 made on 21 January 2022 and 24 January 2022, respectively, to Payee C.

As the above designated accounts do not appear to be related to the Vendor, in order to verify the authenticity of the payments made above, EY requested to send a confirmation to the Vendor. However, the procedure has not been performed as Management has not provided the necessary authorization as of the date of this letter. Based on EY’s background check procedures, EY noticed that the name of a shareholder of Payee C is the same as that of an employee of Sichuan Sinco.

On 1 September 2022, during a meeting with the chairman of the Company and the chief financial officer of the Company, EY was informed that (i) the above mentioned employee of Sichuan Sinco is a shareholder of Payee C; (ii) total HKD46,800,000 was transferred to Payee A and Payee B for the marketing related fee of the Group; and (iii) USD7,000,000 was transferred to Payee C and used to subsidize the subscription price of the places in relation to the Company's placing that was completed on 3 January 2022 (Executed placing price of HKD1.29 per share, placing price as agreed by the Company was approximately HKD0.95 per share, the subsidized amount was approximately HKD0.34 per share). (Sub-paragraphs (ii) and (iii) of this paragraph being the "**Alleged Uses**").

On 15 September 2022, EY wrote a letter to notify the Company, including the Board and the Audit Committee regarding (i) EY's abovementioned findings (the "**Findings**"), (ii) EY's request to the Company and Audit Committee to engage a qualified independent forensic accountant to conduct an independent investigation over the Findings.

However, up to the date of this letter, EY understands that the Company is still in the process of selecting a forensic accountant and has not initiated its investigation.

Save for the above, EY confirms that there are no other circumstances connected with their resignation which they consider should be brought to the attention of holders of the securities of the Company in relation to the change of the auditor of the Company and of its subsidiaries.

(ii) Subsequent Events Leading to the Resignation

In or about early November, the Company was informed by EY that they could only commence the Audit after the completion of the Forensic Investigation. Based on the Audit Committee's understanding, as well as the usual practice of other auditors, the Forensic Investigation and the Audit could take place concurrently. The Board is concerned that if the Audit is not commenced shortly, the Company would not be able to publish its 2022 Annual Results as per the timeline set out in the Listing Rules. By the letter dated 15 November 2022, the Company raised such concern to EY, yet no consensus can be reached. As it is the Board's duty to ensure the Company's compliance to the Listing Rules and to publish its financial information on a timely basis, the Board has no alternative but to request EY to resign as the Company's auditor.

Furthermore, by the aforementioned letter dated 15 November 2022, the Company made enquiries with EY regarding the scope of the Forensic Investigation. The Company was later informed that the scope should first be proposed by the forensic accountant and EY would then participate in the ascertaining of the scope of the investigation with the forensic accountant. During the Company's search for forensic accountants to be appointed for the Forensic Investigation, the Board was informed by prospective candidates that it is common practice for auditors to propose the scope first before they could utilize their professional knowledge to come up with the implementation plan and timetable for the Forensic Investigation. The Board anticipated that its disagreement with EY in the approach in determining the scope of the Forensic Investigation would further delay the audit preparation for the 2022 Annual Results.

Regarding the Alleged Uses, as disclosed in the Company's announcement dated 24 October 2022, the Board has enquired with each of the Directors and Mr. Li, and was advised that: (i) each of the Directors and Mr. Li had no knowledge of the Alleged Uses of HK\$46.8 million of the Payments and US\$7 million of the Payments as alleged in the Letter from EY until being advised by EY; and (ii) each of the Directors and Mr. Li were not involved in the Alleged Uses of HK\$46.8 million of the Payments and US\$7 million of the Payments as alleged in the 15 September 2022 letter from EY.

The Board also confirmed that, save for the matters to be dealt with above, there are no other matters in connection with the resignation of EY that should be brought to the attention of the shareholders of the Company.

The Board is in the process of appointing a new auditor to fill the casual vacancy following the resignation of EY and to hold office until conclusion of the next general meeting of the Company. The Company will make an announcement when such appointment is made.

By order of the Board
Sinco Pharmaceuticals Holdings Limited
Huang Xiangbin
Chairman and Executive Director

Sichuan, the PRC, 8 December 2022

As at the date of this announcement, the executive Director is Mr. Huang Xiangbin; and the independent non-executive Directors are Mr. Lau Ying Kit, Mr. Wang Qing, Mr. Liu Wenfang and Mr. Bai Zhizhong.