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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)

KEY FINDINGS OF THE INDEPENDENT FORENSIC INVESTIGATION

Financial Adviser



Diligent Capital Limited

This announcement is made by Sinco Pharmaceuticals Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcements of the Company dated 26 September 2022, 30 September 2022, 24 October 2022, 8 December 2022, 13 December 2022, and 4 January 2023 in relation to the Incident (the “**Announcements**”). Unless the context requires otherwise, the capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

INDEPENDENT FORENSIC INVESTIGATION

1. Background

As disclosed in the Announcements, on 15 September 2022, the Company received the Letter from EY, being the then auditor of the Company, informing that there might be possible internal control irregularities (“**Incident**”), which involved transactions that took place in January 2022 with a sum equivalent to US\$13 million (approximately HK\$100 million).

On 17 September 2022, the Board resolved to establish the Independent Committee to review and investigate the Incident, which comprised of four independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Wang Qing, Mr. Liu Wenfang and Mr. Bai Zhizhong.

On 20 September 2022, the Independent Committee appointed Diligent Capital Limited as its financial advisor and C&T Legal LLP as its legal advisor to assist in the investigation.

After conducting a preliminary assessment of the situation, the Independent Committee was of the view that the current information and evidence available to the Management was insufficient and therefore a proper investigation of the Incident with the assistance of an external forensic accountant was necessary.

Accordingly, on 21 December 2022, the Independent Committee appointed Grant Thornton Advisory Services Limited (“**Forensic Accountant**”) as an independent forensic accountant to conduct an independent forensic investigation into the Incident (“**Forensic Investigation**”) and produce a report on the findings of the Forensic Investigation to be presented to the Independent Committee.

On 15 March 2023, the Independent Committee received a draft forensic investigation report (“**Forensic Investigation Report**”) from the Forensic Accountant, details of the report are set out below.

2. The Scope of the Forensic Investigation

The Forensic Accountant conducted the Forensic Investigation into the issues raised in the Letter from EY. For the purpose of the Forensic Investigation, the Forensic Accountant conducted the following procedures:

- (i) performing data analysis and document review;
- (ii) conducting interviews with relevant parties;
- (iii) conducting independent background check and company search;
- (iv) performing specific internal control review; and
- (v) conducting computer forensics.

3. Key Findings

The Company hereby discloses the key findings of the Forensic Investigation.

- (i) **Forging of Documents by Mr Li:** Mr. Li Yejia (李葉佳), being the then Business Director of the Company who left the Company on 30 September 2022, admitted that he forged a distribution agreement (“**Forged Distribution Agreement**”) dated 5 January 2022 with one of its vendors (“**Vendor**”) and a payment instruction letter (“**Forged Payment Instruction Letter**”) on the same day while the Vendor had not actually made such a request. Mr. Li further admitted the whole exercise was to use the relevant funds for his own personal purpose. Mr. Li indicated that other than himself, no other staff member of the Group (including but not limited to Mr. Huang Xiangbin (Chairman and executive Director of the Company) (“**Mr. Huang**”), Mr. Li Yifan (the Chief Financial Officer of the Company) (“**CFO**”), Mr. Jin Min (Co-Chief Executive Officer of the Company) (“**Mr. Jin**”) has taken part in the forgery of documents.
- (ii) **Internal Payment Approval Process:** In accordance with the Forged Distribution Agreement, the Vendor allegedly requested Sichuan Sinco to pay a sum equivalent to US\$13 million to designated accounts before 31 January 2022. The Forged Distribution Agreement was signed and approved by Mr. Huang on behalf of the Group, while the payment was approved by Mr. Huang, CFO and Mr. Jin. In relation to this approval process, Mr. Huang and Mr. Jin indicated to the Forensic Accountant that in early January 2022, Mr. Li verbally reported to Mr. Jin about the Vendor’s request for payment of the security deposit. Considering the importance of obtaining the distribution rights from the Vendor and the security deposit was refundable, Mr. Huang and Mr. Jin agreed with the payment. Mr. Huang and Mr. Jin further indicated that they originally thought the payment request was actually from the Vendor and they both did not carefully verify the background of the receiving parties under the Forged Payment Instruction Letter. On the other hand, the CFO indicated that there had been precedents for the Group to pay security deposit.
- (iii) **Three Payees and the party making the repayment (“Repayment Party”):** Apart from the then staff of Sichuan Sinco (“**the Relevant Sinco Staff**”), the Forensic Accountant could not reach the other Payees and the Repayment Party while Mr. Li confirmed that those were his personal acquaintances but had no knowledge of the Forged Distribution Agreement and the Forged Payment Instruction Letter. According to background check conducted by the Forensic Accountant, the Relevant Sinco Staff is a shareholder and a director of Payee C while Mr. Li confirmed he was only dealing with the family member of Payee C and he only knew about their relationship and the background of Relevant Sinco Staff at a later stage. The Relevant Sinco Staff resigned on 24 August 2022.

- (iv) **Letter from EY:** In the Letter from EY, EY alleged that they attended a meeting with Mr. Huang and CFO on 1 September 2022 where EY was informed that: (a) HK\$46.8 million of the Payments was transferred for marketing fees of the Group; and (b) US\$7 million of the Payments was used to subsidize the subscription price of the places in relation to the Company’s placing that was completed on 3 January 2022 (“**Placing**”) (sub-paragraph (a) and (b) of this paragraph being the “**Alleged Uses**”). Nevertheless, during interviews with Mr. Huang and CFO with Forensic Accountant, they indicated they did not mention the Alleged Uses to EY. On the other hand, Mr. Li indicated the funds were for his own personal use. Regarding the Placing, the Forensic Accountant noted one of the placees was a director of one of the payees under the Forged Payment Instruction Letter. However, the Forensic Accountant was unable to conduct interviews with the placee to understand the relationship between these transactions, nor EY to enquire about the abovementioned discrepancy.
- (v) **Internal Control Deficiencies of the Group:** The Forensic Accountant noted internal control deficiencies of the Group, including (a) there was no requirement of background check against the vendors when entering into agreements; (b) there was no requirement of background check against the fund receivers; and (c) the distribution agreements were not subject to the review of the finance department nor the legal department of the Group. The Forensic Accountant recommended to the Group to perform regular comprehensive internal control review so as to avoid similar incidents from happening again.

4. Limitations

Limitations of the Forensic Investigation are set out below:

- (i) Unable to conduct interviews with certain third parties
- (ii) Unable to perform confirmation procedures
- (iii) Unable to obtain the email record of Mr. Li Yeja for computer forensics analysis
- (iv) The Forensic Investigation was conducted based on the voluntary cooperation of the Company and external parties. The Forensic Accountant has not been able to verify some of the statements made by the interviewees during the investigation, nor to ensure that the results of the investigation are free from error or omissions

VIEWS OF THE INDEPENDENT COMMITTEE

Having considered the draft Forensic Investigation Report, the Independent Committee noted that the Incident was conducted by Mr. Li through forging the Forged Distribution Agreement and the Forged Payment Instruction Letter by taking advantage of the internal control deficiencies of the Group.

The Independent Committee has reviewed the draft Forensic Investigation Report. After due and detailed discussion, the Investigation Committee is of the view that the content and findings in the draft Forensic Investigation Report are reasonable and acceptable. Accordingly, the Independent Committee has recommended that the Board to adopt the findings of the Forensic Investigation and to undertake an internal control review to improve and strengthen the Group's internal control system and policies.

REMEDIAL ACTIONS TAKEN BY THE BOARD

Taking the recommendations from the Forensic Accountant, the Independent Committee shall engage an internal control consultant to review the internal control system of the Group. The Company will make further announcement to update investors and shareholders once the internal control review results are available.

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

Sichuan, the PRC, 21 March 2023

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.