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Shanghai Henlius Biotech, Inc.

上海復宏漢霖生物技術股份有限公司

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

(Stock Code: 2696)

INSIDE INFORMATION ANNOUNCEMENT

INTERNAL INVESTIGATION RESULTS IN RELATION TO THE INVESTMENT MANAGEMENT AGREEMENT, THE RELATED LEGAL DISPUTES AND THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2023

This announcement is made by Shanghai Henlius Biotech, Inc. (the “**Company**”, and together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities Limited (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions (as defined under 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 Company’s announcement dated 31 March 2023 in relation to the then-management of the Company entering into an investment management agreement (the “**Investment Management Agreement**”) with AMTD Global Markets Limited (now renamed as orientiert XYZ Securities Limited) (the “**Investment Manager**”) on 25 September 2019.

The Company established an independent investigation committee (the “**Independent Investigation Committee**”) on 19 April 2023 to investigate into matters in relation to the Investment Management Agreement (the “**Investment Incident**”). The chairman of the Independent Investigation Committee is Mr. Tak Young So and the other three members of the committee are Dr. Lik Yuen Chan, Dr. Guoping Zhao and Dr. Ruilin Song, all of whom are independent non-executive directors of the Company. The Independent Investigation Committee has completed its independent investigation and the key findings of the investigation are summarised below. This announcement will also briefly summarise the status of the related legal disputes in connection with the Investment Management Agreement and the progress of review on the condensed consolidated financial statements for the nine months ended 30 September 2023.

Major Findings of the Investigation

In relation to the Investment Incident, the Independent Investigation Committee engaged professional advisors to conduct a forensic investigation and internal control review assessment. The investigation includes document review, interviews with relevant personnel, electronic forensic investigation and analysis on connected persons.

The key findings of the investigation are as follows:

- The Company's purpose of entering into the Investment Management Agreement appears to be making short-term low-risk investments for protection of capital and generating a positive return when the cash is sitting idle for such period before the Company utilising the funds it raised from the IPO for the designated projects. The Company did not consult its professional advisors (including its legal and compliance advisors) before entering into the Investment Management Agreement with the Investment Manager. The evidence gathered from the investigation does not indicate any personnel involved or related to the Investment Incident having had any ulterior motives (such as to intentionally cause loss to the Company, or to make profits for himself or other third parties, such as the Investment Manager). According to the available information, it is more likely than not that during the Investment Incident, the Company's personnel involved genuinely entered into the Investment Management Agreement for the purpose of protection of capital and generating a positive return. Thereafter, they also genuinely intended to recover the outstanding principal from the Investment Manager on behalf of the Company. Pursuant to the Investment Management Agreement, the Investment Manager purchased promissory notes from certain private entities, whom appear to be parties connected to the Investment Manager.
- There were two former chief financial officers of the Company that were knowingly and extensively involved in the discussion, negotiation and signing of the Investment Management Agreement with the Investment Manager. One of the chief financial officers signed the Investment Management Agreement on behalf of the Company (at the time when he was the Company's chief financial officer), while the other was extensively involved in the recovery of the outstanding principal under the Investment Management Agreement (at the time when he was the Company's chief financial officer).
- The Investment Incident revealed: (i) that some employees of the Company did not adhere to the internal control rules of the Company, revealing concerns in the Company's internal control system, including the deficiencies of the existing system, which included ambiguities in the rules and lack of compliance with the relevant rules, and (ii) a failure to review the system in a timely manner. The internal control consultant that conducted the internal control review assessment found that there were four main areas of the Company's internal control system that were flawed in its design and implementation, namely the areas in relation to investment operations, corporate control, capital management and contract management. For example, it was found that there was no specific rule governing the procedures and approval processes of the Company for engagement of a third party for investment management services at the material time. Further, it was found that proper internal authorizations and approvals were not obtained for some agreements and that some documents were not sent to the relevant department for proper record keeping, which indicate weaknesses in corporate control and contract management. In accordance with the recommendations made by the internal control consultant, as at the date of this announcement the Company has completed the relevant rectifications and the consultant has confirmed that the aforementioned flaws have been rectified. The Company has clarified the scope of the relevant corporate governance policies in connection with investment and other activities and their respective approval procedures. In addition, the Company has also provided trainings to the directors, relevant management team and existing and new employees in order to ensure that they fully understand their duties and responsibilities, and the duties of the Company pursuant to the Listing Rules, and are aware of the applicable Listing Rules and laws and regulations.

Recommendations of the Independent Investigation Committee

The Independent Investigation Committee made five recommendations to the Company's board of directors (the "**Board**"). The Board has carefully considered such recommendations and decided to adopt all five recommendations. These five recommendations are summarised as follows:

- The Company has appointed internal control consultant to review the Company's internal control system and has agreed to implement any recommendations the consultants may have based on their findings. As a part of improving the Company's internal control system, the Independent Investigation Committee is of the view that the Company should place particular emphasis on the rules governing the signing and use of personal and company seals on external documents (including but not limited to agreements and letters) to ensure that the Company's (and any of its subsidiaries') execution of, and use of seals on, external documents are properly authorised and recorded. Any person who discloses information to outside third parties without the express authorisation of the Company shall be subject to disciplinary action in accordance with the Company's internal rules.
- Although the Company has continuously provided training to the directors, relevant management team and employees every year, in this case, the Company has provided investment management related training to the Company's directors, senior management and key employees since April 2023. The Independent Investigation Committee recommends the Company to continue to provide training to the directors, management team and key employees of the Company from time to time on an ongoing basis to ensure that they fully understand their duties and responsibilities, as well as the duties of the Company pursuant to the Listing Rules, and are aware of the applicable Listing Rules and laws and regulations, such that they are able to identify matters that require reporting and ensure that the Company is compliant with the relevant rules and regulations.
- The Independent Investigation Committee recommends the Company to set up an investment management committee, comprising members from the Board's secretary office, the Company's legal department and finance department. Such committee is responsible for monitoring and ensuring the Company's compliance of the applicable laws, regulations and Listing Rules in connection with the Company's projects and transactions. As the directors of the Company have a collective duty to ensure that the Company is compliant with the relevant rules and regulations, the responsibility of which cannot be fully delegated to a third party, the Board should ensure, on an ongoing basis, that the Company has a robust internal control mechanism and is readily able to identify projects and transactions that have compliance requirements such that appropriate measures can be taken to ensure compliance. The Independent Investigation Committee is of the view that such measure is necessary in reshaping the Company's culture to emphasize the importance of regulatory compliance and to ensure that all levels of management fulfill their duties.

- The Independent Investigation Committee recommends the Company to require its internal audit department to prepare and submit an internal audit report to the Board every year. The content of the internal audit report should include (but not limited to) the results of the internal audit department’s sampling of the procedures of entering into a contract (including the approval, signing, sealing and documentation stages). In particular, the internal audit report should include a review as to whether the applicable procedures governing contract signing have been complied with.
- The Independent Investigation Committee recommends the Company to work closely with its legal advisors in the legal proceedings between the Investment Manager and the Company, as well as the external advisors advising the Company on Listing Rules compliance, to ensure that subsequent developments in relation to the Investment Incident and the related legal disputes arising out of it are promptly reported to the Board for discussion and (where applicable) disclosed in accordance with the applicable Listing Rules, laws and regulations.

Limitations and Assumptions

There are limitations to the findings of the Independent Investigation Committee, including but not limited to incomplete information and the inability of the Independent Investigation Committee and its professional advisers to fully and independently verify the statements of the interviewees. The findings of the Independent Investigation Committee may have to be reassessed if there are significant information and documents that are subsequently obtained by the Independent Investigation Committee or its professional advisers.

Legal Disputes in relation to the Investment Management Agreement

On 30 March 2023, the Company received a Writ of Summons in relation to a litigation proceedings commenced by the Investment Manager against the Company in the Court of First Instance of the High Court of Hong Kong (the “**Court**”) (the “**Court Proceedings**”). On 21 June 2023, the Investment Manager further filed with the Court and served on the Company a Statement of Claim alleging, among others, that the Company has breached the Investment Management Agreement by procuring the withdrawals of an aggregate amount of US\$68,300,000 since October 2020 from the investment account maintained with the Investment Manager without the Investment Manager’s written consent, and not having paid the management fees for services allegedly provided by the Investment Manager since September 2021.

On 30 August 2023, the Company filed a summons with the Court for an application for stay of the Court Proceedings in favour of arbitration. Subsequently, on 6 November 2023, the Court granted an order by consent of the parties, inter alia, that the Court Proceedings be stayed in favour of arbitration.

Condensed Consolidated Financial Statements for the nine months ended 30 September 2023

Reference is made to the independent auditor's report contained in the Company's Annual Report in 2022. In view of the qualified opinion in the independent auditor's report on the consolidated financial statements of the Company for the year ended 31 December 2022 issued by the Company's auditor, Ernst & Young ("EY"), the Company has appointed EY to conduct a review of the condensed consolidated financial statements of the Company for the nine months ended on 30 September 2023. As at the date of this announcement, the review process is still ongoing, it is expected that an unqualified review opinion may be issued in respect of the Company's condensed consolidated financial statements for the nine months ended on 30 September 2023. Shareholders and potential investors of the Company are advised to read the relevant announcement of the Company carefully, which is expected to be published on 15 November 2023.

The shareholders of the Company and potential investors are urged to exercise caution in dealing in the securities of the Company and are recommended to consult their own professional advisors if they are in doubt as to their investment positions.

On behalf of the Board
Shanghai Henlius Biotech, Inc.
Wenjie Zhang
Chairman

Hong Kong, 10 November 2023

As at the date of this announcement, the Board of directors of the Company comprises Mr. Wenjie Zhang as the chairman and Mr. Jun Zhu as the executive director, Mr. Qiyu Chen, Mr. Yifang Wu, Ms. Xiaohui Guan, Mr. Deyong Wen and Dr. Xingli Wang as the non-executive directors, and Mr. Tak Young So, Dr. Lik Yuen Chan, Dr. Guoping Zhao and Dr. Ruilin Song as the independent non-executive Directors.