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Sinopharm Tech Holdings Limited

國藥科技股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8156)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2023

References are made to the announcement of Sinopharm Tech Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 29 September 2023 in relation to the annual results for the year ended 30 June 2023 (the “**2023 Annual Results Announcement**”) and the annual report of the Group for the year ended 30 June 2023 (the “**2023 Annual Report**”). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the 2023 Annual Results Announcement and the 2023 Annual Report.

The consolidated financial statements of the Group for the year ended 30 June 2023 was issued qualified opinion by the independent auditors of the Company on the basis as set out in the paragraph headed “Basis for qualified opinion” under the section “Independent Auditor’s Report” in the 2023 Annual Report (the “**Audit Modification**”). The board of directors (the “**Board**”) of the Company wishes to supplement the following:

IMPACT OF THE AUDIT MODIFICATION ON THE GROUP’S CONSOLIDATED FINANCIAL POSITION

(i) Compensation income relating to profit guarantee in previous acquisition (the “Audit Issue 1”)

During the year ended 30 June 2023, the Group recorded a compensation income of approximately HK\$92,838,000 in relation to the failure to meet the profit guarantee by the vendor of the acquisition of Hero Global Holdings Limited (“**Hero Global**”).

On 4 January 2019, the Group entered into the sale and purchase agreement (the “**Agreement**”) with Sinopharm Traditional Chinese Medicine Overseas Holdings Limited (the “**Vendor**”) to acquire 100% equity interests in Hero Global at the consideration of approximately HK\$139.10

million, by way of allotment and issue of 650,000,000 consideration shares by the Company to the Vendor at the issue price of HK\$0.214 per consideration share (“**Hero Global Acquisition**”).

Pursuant to the Agreement, the Vendor warranted to the Group that (i) the actual net profit after taxation of Hero Global for each of the three years ended 31 December 2019, 2020 and 2021 shall not be less than HK\$23 million, HK\$23 million and HK\$23 million respectively; or (ii) the aggregate net profit for the three years ended 31 December 2019, 2020 and 2021 shall not be less than HK\$69 million in total (the “**Profit Guarantee**”). If Hero Global failed to meet the conditions of the Profit Guarantee, the Vendor shall compensate to the Group in accordance with a formula that the compensation is equal to the shortfall multiplied by a compensation factor of 1.7 and is to be settled in cash.

The consideration shares were subject to the locked-up period for not less than three years and were kept by the Company as custody unless the conditions of Profit Guarantee were satisfied. If Vendor failed to pay the compensation in cash, purchaser has the right to sell the locked-up consideration shares as the compensation.

However, Hero Global recorded net profit after taxation of approximately HK\$10.5 million and HK\$5.9 million for the two years ended 31 December 2019 and 2020 respectively, and net loss after taxation of approximately HK\$2.0 million for the year ended 31 December 2021, which was less than Profit Guarantee of HK\$65 million and the conditions for the Profit Guarantee could not be fulfilled.

On 23 May 2022, the Group and the Vendor signed a confirmation letter and mutually agreed on the amount of the compensation of approximately HK\$92.8 million (the “**Compensation**”) and entered into a settlement agreement for the Compensation. Due to the fact that the Vendor still failed to settle the Compensation after entering into the settlement agreement, the Group exercised the right to sell the locked-up consideration shares for the settlement of Compensation. Accordingly, on 23 August 2022, the Group and the Vendor signed a deed of authorisation pursuant to which the Vendor authorised the right to the Group, to sell 650,000,000 locked-up consideration shares for the settlement of the Compensation to the Group.

During the year ended 30 June 2023, 530,200,000 locked-up consideration shares were sold by the Company and approximately HK\$16,358,000 was received in cash and recognised as compensation income in profit or loss. As at 30 June 2023, the market value for the remaining 119,800,000 locked-up consideration shares was approximately HK\$1,677,000.

The auditor was unable to satisfy themselves as to whether the recognition of compensation income during the year ended 30 June 2023 was appropriate because the fair value of the Profit Guarantee should be accounted for as contingent consideration at the date of Hero Global Acquisition in accordance with HKFRS 3 “**Business Combination**” and subsequently measured at fair value at the end of each reporting period (i.e. 30 June 2019, 30 June 2020 and 30 June 2021), with the related change in fair value to be recognised in profit or loss. In addition, the auditor was unable to determine whether the opening balances and corresponding figures are free from material misstatement as the consolidated financial statements for the year ended 30 June 2022 did not take into account of the fair value of Profit Guarantee.

(ii) Opening balance relating to interest in associates (the “Audit Issue 2”)

The consolidated financial statements of the Group for the year ended 30 June 2022 contained a qualified audit opinion relating to (i) the Group’s interests in associates with carrying value of HK\$23.6 million as at 30 June 2022; (ii) the Group’s shares of loss of associate of approximately HK\$0.2 million; and (iii) loss on dilution of interest in associates of approximately HK\$21.9 million. Details of which has been set out in the auditor’s report issued by the predecessor auditor dated 30 September 2022.

As the consolidated financial statements for the year ended 30 June 2022 formed the basis for the corresponding figures presented in the current year’s consolidated financial statements, any adjustments found to be necessary in respect of the interests in associates would have an effect on opening balances for the consolidated statement of financial position and corresponding figures in the consolidated statement of profit or loss.

(iii) Loss on deemed disposal of interests in associates (the “Audit Issue 3”)

During the year ended 30 June 2023, the shareholders of Ever Development Holdings Limited, being the associate company of the Group (“**Ever Development**”) have made capital contribution to Ever Development, resulting the Group’s shareholding in Ever Development were diluted from 20% to 19.05% (“**Deemed Disposal**”) and loss on dilution of interests in associates of approximately HK\$1,131,000 has been recognized in profit or loss. In the opinion of the directors of the Company, the Group did not have significant influence over Ever Development and its subsidiaries, therefore they ceased to be associate companies of the Group, and the equity interests of 19.05% in Ever Development has been recognised as financial assets as fair value through profit or loss. Accordingly, the share of profit of associates for the period up to the Deemed Disposal of approximately HK\$186,000 and the loss on Deemed Disposal of approximately HK\$19,217,000 have been recognised in profit or loss.

Under the circumstances that the opening balance for interests in associates has been qualified as mentioned above, the auditor was unable to satisfy themselves as to whether (i) the share of loss of associates; and (ii) the loss on Deemed Disposal recognised in profit or loss are free from material misstatement.

THE MANAGEMENT’S POSITION AND BASIS ON THE AUDIT MODIFICATION

(i) Audit Issue 1

During the year ended 30 June 2023, the Company sold 530.2 million locked-up consideration shares and received approximately HK\$16.4 million in cash and recognized as compensation income in profit or loss. The Company has recorded the compensation income which based on the cash received from the selling of locked-up consideration shares during the year 2023. It was difficult to measure the fair value of compensation income relating to Profit Guarantee of contingent consideration at the acquisition date as such arrangements had high uncertainties about outcome which the Profit Guarantee cover three years ended 31 December 2019, 2020 and

2021 and the outcome will be concurred until the end of year ended 31 December 2021 when the aggregate net profit for the three years ended 31 December 2019, 2020 and 2021 shall not be met the Profit Guarantee.

The compensation income and the corresponding receivable were not recognized in the financial statements for the year ended 30 June 2022 due to the Board's view that the first installment of the compensation of the Profit Guarantee was not settled on 15 July 2022 pursuant to the settlement agreement dated 23 May 2022 and the compensation income would be recognized in the financial statements after the Company exercised the right to sell the locked-up consideration shares after the year ended 30 June 2022 as a prudence approach. Based on the above, the predecessor auditors and the audit committee were satisfied with such accounting treatment that the compensation income and the corresponding receivable were not recognized in the financial statements for the year ended 30 June 2022.

Since the Company and the Vendor signed a deed of authorization pursuant to which the Vendor authorized the right to the Group to sell the locked-up consideration shares for compensation during the year ended 30 June 2023, the Company had recognized the compensation income under the situation of the outcome has been confirmed. The Company has recognized the compensation income and made the impairment loss on the compensation receivable related to the Profit Guarantee which based on the market value of the remaining locked-up consideration shares. The management considered that the qualification on the fair value of compensation income did not materially affect the consolidated financial statements for the year ended 30 June 2023.

(ii) Audit Issue 2

The qualification was related to the opening balance presented under comparative column of the Company's consolidated financial statements as at 30 June 2023. During the year ended 30 June 2023, the shareholders of an associate allotted and issued 100 new ordinary shares which resulted in a dilution of the Group's shareholding in associate from 20% to 19.05%, and the carrying value of the associates was accounted for financial assets at fair value through profit or loss ("FVTPL") after that. Since the carrying amount of interest in associates was classified as financial assets at FVTPL, and discussed with Auditor, the Audit Issue 2 could be removed for the Group's consolidated financial statement for the year ending 30 June 2024 (the "**2024 Financial Statements**").

(iii) Audit Issue 3

The qualification was related to the loss on deemed disposal of interest in associates of the Company's consolidated financial statements as at 30 June 2023 under the circumstances that the opening balance for interests in associates has been qualified. During the year ended 30 June 2023, the shareholders of an associate allotted and issued 100 new ordinary shares which resulted in a dilution of the Group's shareholding in associate from 20% to 19.05%, and the carrying value of the associates was accounted for financial assets at FVTPL after that. Since the carrying amount of interest in associates was classified as financial assets at FVTPL, the carrying amount will be stated at fair value through profit or loss in the 2024 Financial Statements and the

Audit Issue 3 was on one-off in nature, the management expect the Audit Issue 3 will be resolved in the 2024 Financial Statements.

THE COMPANY'S ACTION PLANS AND TIMELINE TO ADDRESS THE AUDIT MODIFICATION

(i) Audit Issue 1

The Company will continue to sell the locked-up consideration shares for the compensation of the Profit Guarantee and chase the remaining outstanding balance from the Vendor for the Compensation. The Company understands, after discussion with the auditor, the possible consequential effect on the 2024 Financial Statements would be a modified opinion on the comparative figures of the 2024 Financial Statements. Since auditor qualified on compensation income relating to Profit Guarantee and the subsequently measured at fair value at the end of each of the reporting period of the Profit Guarantee with the related change in fair value to be recognised in profit or loss, such modified opinion on the comparative figures of the 2024 Financial Statements will not have any continuing effect on the 2024 Financial Statements and the subsequent years.

(ii) Audit Issue 2

The Company understands, after discussion with the Auditor, there would be no modified opinion on the opening balance of the associates since the associates has been deemed disposed and reclassified to financial assets at FVTPL during the year ended 30 June 2023, any subsequent fair changes of such financial asset will be recognised in profit or loss. Such modified opinion on the comparative figures of the 2024 Financial Statements will not have any continuing effect on the 2024 Financial Statements and the subsequent years. The Audit Modification will be removed in the 2024 Financial Statements.

(iii) Audit Issue 3

The Company will engage the independent valuer for assessing the fair value of the financial assets at FVTPL for the financial statement as at 30 June 2024 since the carrying amount of interests in associates has been accounted for as financial assets at FVTPL as at 30 June 2023. The Company understands, after discussion with the Auditor, there would be no modified opinion on the opening balance of the associates since the associates has been deemed disposed and reclassified to financial assets at FVTPL during the year ended 30 June 2023, any subsequent fair changes of such financial asset will be recognised in profit or loss. Such modified opinion on the comparative figures of the 2024 Financial Statements will not have any continuing effect on the 2024 Financial Statements and the subsequent years.

THE AUDIT COMMITTEE'S VIEW ON THE AUDIT MODIFICATION

The audit committee of the Company (the “**Audit Committee**”) has reviewed the Audit Issue 1, Audit Issue 2 and Audit Issue 3 (collectively, the “**Audit Issues**”), the Management’s position concerning the Audit Issues and measures taken by the Company for addressing the Audit Issues. The Audit Committee had critically reviewed the facts and circumstances of the conclusion of the Company’s management and had also discussed with the Auditors regarding the financial position of the Company, measures taken and to be taken by the Company, and considered the Auditors’ rationale and understood their consideration in arriving at their opinion.

Moreover, the Audit Committee had assessed the plans and measures which will be taken by the Management to address the Audit Issues, the Audit Committee was satisfied that the abovementioned action plan may address the Audit Issues and the 2024 Financial Statements may be free from the Audit Issues.

ADDITIONAL INFORMATION IN RELATION TO GOING CONCERN IN THE CORPORATE GOVERNANCE REPORT

As disclosed in the “Corporate Governance Report” of the 2023 Annual Report under the heading of “Financial Reporting”, the Board wishes to provide the supplemental information as follows:

As described in the Group’s consolidated financial statement for the year ended 30 June 2023, the Group sustained net current liabilities and net liabilities amounted to approximately HK\$186,191,000 and HK\$179,754,000 respectively as at 30 June 2023 and the Group incurred a loss of approximately HK\$10,100,000 for the year then ended. As at 30 June 2023, the Group had other payables of approximately HK\$51,750,000 which is transferred from convertible bonds upon maturity. Before reclassifying to other payables, convertible bonds payable (with principal amount of HK\$50,000,000) and accrued interest amounted to approximately HK\$1,750,000 (included in accruals and other payables), and amount due to a shareholder amounted to approximately HK\$105,747,000, all of which are included in current liabilities. Furthermore, the Company was involved in a litigation case regarding the winding-up petition (the “**Petition**”) filed by Creative Big Limited (the “**Petitioner**”) in relation to the demand for the repayment of principal amount and interest accrued of the convertible bonds in aggregate amount of HK\$53,106,849. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern.

Notwithstanding the aforesaid conditions, the consolidated financial statements have been prepared on a going concern basis on the assumption that the Group is able to operate as a going concern for the foreseeable future. In the opinion of the directors of the Company, the Group can meet its financial obligations as and when they fall due within the next year from the date of approval of these consolidated financial statements, after taking into consideration of the

measures and arrangements made by the Group, including (i) having obtained a written consent from a shareholder of not to request the payment due by the Group on or before 31 December 2024; (ii) negotiating with the Petitioner for an applicable settlement of the Petition; and (iii) the directors will continuously and closely monitor the Group's liquidity position and financial performance and implement measures to improve the Group's cash flows.

In light of the measures and arrangements implemented to date, the directors of the Company are of the view that the Group has sufficient cash resources to satisfy its working capital requirements and other financial obligations for at least the next twelve months from the date of approval of these consolidated financial statements after having taken into account of the Group's projected cash flows, current financial resources and capital expenditure requirements with respect to the operations and development of the Group's business. Accordingly, the directors of the Company are of the view that it is appropriate to prepare these consolidated financial statements on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to restate the carrying amounts of the Group's assets to their estimated recoverable amounts, to provide further liabilities that might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these potential adjustments have not been reflected in the consolidated financial statements.

The Company understands, after discussion with the Auditor, the consolidated financial statements have been prepared on a going concern basis on the assumption that the Group is able to operate as a going concern for the foreseeable future as detailed below:

- (a) On 18 September 2023, the Group obtained a written consent from a shareholder of the Company, under which the shareholder of the Company has agreed not to request repayment on or before 31 December 2024 of the amount due by the Group to the shareholder amounted to approximately HK\$105,747,000 at 30 June 2023.
- (b) The Company will negotiate with the Petitioner for an applicable settlement of the Petition.
- (c) The directors will continuously and closely monitor the Group's liquidity position and financial performance and implement measures to improve the Group's cash flows.

ADDITIONAL INFORMATION IN RELATION TO RISK MANAGEMENT AND INTERNAL CONTROL IN THE CORPORATE GOVERNANCE REPORT

As disclosed in the "Corporate Governance Report" of the 2023 Annual Report under the heading of "Risk Management and Internal Control", the Board wishes to provide the

supplemental information as follows:

The Audit Issues leading to the qualified opinion on the Company's consolidated financial statements for the year ended 30 June 2023 issued by the Company's auditors was disclosed in the "Independent Auditor's Report" of the 2023 Annual Report. The transactions concerned were entered into by the Company after decisions were made at Board meetings and no irregularities were observed. The Audit Issue 1 was caused by the fair value recognition of the Profit Guarantee in accordance with HKFRS.

The Audit Issue 2 and the Audit Issue 3 were caused by no physical count of inventories performed by the associates and the predecessor auditor not being able to obtain sufficient and appropriate audit evidence by alternative means to assess the existence and condition of these inventories and caused by adjustments found to be necessary in respect of the interests in associates. The Board assessed the internal control procedures in respect of investment in associates on financial reporting and considered the following internal control system will be implemented to enhance the internal control system and prevent re-occurrence of similar incidents relating to its investment accounted for using equity methods. The Company will require more comprehensive reporting procedures on financial reporting and internal control on its future investment when drafting the co-operation agreements with counterparties in safeguarding the Company's interests. The Company will review the communication policy and strengthen the communication with the management of its investment company by increase in the frequency of management meetings to point out any internal control deficiencies as early as possible.

Given the nature of the Audit Issues, the Company does not consider the Audit Issues are caused by the internal control deficiencies and considers the internal control systems and measures remain adequate.

UPDATE ON THE VALIDATION ORDER IN RELATION TO THE WINDING-UP PETITION

Reference is made to the paragraphs headed "Litigation" in the sections headed "Management Discussion and Analysis" on page 9 and "Directors' Report" on page 41 of the 2023 Annual Report in relation to the Petition filed by the Petitioner against the Company.

The Company has been in active negotiations with the Petitioner for an amicable settlement of the Petition since receiving the Petition in September 2023. In considering the status of negotiating with the Petitioner for an amicable settlement as positive, the Company has not applied the validation order at this stage after seeking the legal advice from the Company's lawyer. The Company will continue monitoring the status of the Petition, seek legal advice and

take all necessary actions as soon as possible to protect its legal rights.

Further announcement(s) will be made by the Company to inform the public on any material development of the Petition as and when appropriate.

By order of the Board
Sinopharm Tech Holdings Limited
國藥科技股份有限公司
CHAU Wai Wah Fred
Executive Director

Hong Kong, 16 November 2023

As at the date of this announcement, the Board comprises Mr. CHAU Wai Wah Fred, Mr. HO Kam Kin and Ms. KWOK Shuk Yi as executive Directors, Dr. CHENG Yanjie as non-executive Director and Mr. LAU Fai Lawrence, Mr. HSU Dong An and Mr. HEUNG Pik Lun as independent non-executive Directors.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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