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## **Fusen Pharmaceutical Company Limited**

**福森藥業有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1652)**

### **SUPPLEMENTAL ANNOUNCEMENT TO THE 2023 CORPORATE GOVERNANCE REPORT**

References are made to the Company's corporate governance report (the "**CG Report**") in the annual report for the year ended 31 December 2023 ("**Annual Report 2023**") published on 26 April 2024 and The Stock Exchange of Hong Kong Limited's statement of disciplinary action of 4 January 2023 (the "**Announcement**"). Unless otherwise defined, terms used herein shall bear the same meanings as those defined in the Annual Report 2023. The Company wishes to provide the following further information in the CG Report:

#### **Background**

Pursuant to D.2.9 of Appendix C1 of the Listing Rules, as a recommended best practice, the Board would like to supplement the following information in the CG Report. The Company had non-compliance records of the Listing Rules requirements in 2019 and 2020 (the "**Incidents**") and had improved its internal control system accordingly, details of which are as follows.

On 23 March 2020, the Company announced its failure to comply with the reporting, announcement, circular and independent shareholders' approval requirements in respect of the advances to entity, discloseable transactions and connected transactions regarding certain advances (the "**Advances**") made in a number of tranches from March 2019 to November 2019 by Henan Fusen Pharmaceutical Company Limited (河南福森藥業有限公司) ("**Henan Fusen**"), a wholly owned subsidiary of the Company, to Xichuan Fusen Chinese Medicine Raw Material Plant and Development Limited (浙川縣福森中藥材種植開發有限公司) ("**Fusen Chinese Medicine**"), which constituted non-compliance of the Company's disclosure obligations under Rules 13.13, 13.14, 14.34, 14A.35, 14A.36 and 14A.46, and its obligations under Rule 3A.23 of the Listing Rules.

Furthermore, the Company's failure to make timely disclosures in respect of the connected transactions regarding the two payments (the "**Payments**") made by Henan Fusen to Fusen Chinese Medicine from January 2020 to February 2020 constituted non-compliance of its disclosure obligations under Rules 14A.35, 14A.36 and 14A.46 of the Listing Rules.

### **Internal Control Review**

After discovery of the Company's Listing Rules non-compliance in respect of the Incidents, the Company engaged an external consultant (the "**IC Review Consultant**") to conduct an internal control review, which reported various key deficiencies in the Company's internal controls, including that (i) there was no record of declarations for the list of connected persons; (ii) there was no request or guideline to identify connected transactions and no identification record of connected transactions; (iii) there was no connected transaction ledger or reconciliation record for connected parties; (iv) there was no standard or protocol for disclosure of connected transactions; and (v) there was no specific regulation or control for the provision, approval or disclosure of outgoing loans.

There were other deficiencies in the Company's internal controls, including that (i) there was no system by which transactions with Fusen Chinese Medicine under the relevant master purchase agreement were regularly monitored against the relevant annual caps; (ii) the Company did not have its own connected transaction ledger or reconciliation record for Fusen Chinese Medicine; and (iii) the Company had not provided training on connected transactions and/or directors' duties to the Directors in the year of 2019 and its accounting staff, and there was no system by which advances or payments over a certain monetary threshold were required to be reported to, or approved by, the Board.

### **Improvements on Internal Control System**

After the Incidents, the Directors have carried out a series of remedial measures to improve the Company's internal control system, including but not limited to the following:

- (i) the Company issued the announcement dated 23 March 2020 disclosing the details of the Advances in accordance with the Listing Rules in order to keep all Shareholders informed;
- (ii) entrusted the audit committee of the Company consisting of the three independent non-executive Directors with the responsibility to review and improve the internal control system and financial reporting system of the Company;
- (iii) engaged the IC Review Consultant to identify any deficiencies of the Group's internal control policies for monitoring the connected transactions and continuing connected transactions under the Listing Rules, and to make recommendations to enhance the relevant internal control policies;
- (iv) issued relevant guidance and training materials, on how to identify notifiable and connected transactions under the Listing Rules, to the Directors, senior management and the relevant staff of the Group. The Group also arranged training sessions on compliance requirements for notifiable and connected transactions so as to improve the standard of corporate governance and operating management of the Company;

- (v) modified the Company's existing procedures in monitoring connected transactions and discloseable transactions of the Group under Chapters 14 and 14A of the Listing Rules in accordance with the recommendations of the IC Review Consultant. The Company also designated a specific personnel with professional knowledge to oversee and review the nature of transactions between the Group and its connected persons on an ongoing basis;
- (vi) implemented the following internal control measures for compliance of Chapter 14A of the Listing Rules regarding connected transactions:
  - (a) The finance department (the "**Finance Department**") and the chief financial officer of the Company (the "**Chief Financial Officer**"), who has professional knowledge on the Listing Rules, are designated to maintain a list of connected persons, their corresponding relationships with the Group and details of any transactions with such connected persons and keep updating the list in a timely manner. The list shall be provided to the management of the Company periodically and the Board shall be notified before any proposed transactions are entered into between the Group and such connected persons.
  - (b) The Company should review the connected transaction ledger more frequently. Confirmation on monthly reconciliation records shall be obtained from the relevant connected persons. If there is any discrepancy, investigation shall be carried out by the Finance Department and the Chief Financial Officer to clarify the discrepancy.
  - (c) The Company has revised the "Amended Connected Persons and Connected Transactions Management Policy", which consists of the Company's policies to manage connected transactions in order to comply with the relevant requirements under the Listing Rules, including the requirements to:
    - (i) identify the nature in each transaction;
    - (ii) keep updating list of connected persons and annual confirmations on whether there is any change of information of the connected persons;
    - (iii) oversee the reporting procedure of all transactions of the Company and its subsidiaries;
    - (iv) review transaction with each of the connected persons to confirm compliance of the reporting and disclosure requirements under the Listing Rules;
    - (v) review annual caps for continuing connected transactions; and
    - (vi) review any applicable exemption on a connected transaction;

- (vii) implemented the following internal control measures for compliance of Chapter 14 of the Listing Rules regarding notifiable transactions and Rule 13.13 of the Listing Rules regarding advances to an entity:
- (a) All transactions should be reviewed by the Finance Department and the Chief Financial Officer to determine whether any of these transactions constitute notifiable transaction under the Listing Rules and if so, report to the Board immediately.
  - (b) The Company has prepared an annual budget on investments and will review the annual budget on a regular basis.
  - (c) When considering whether to issue a loan or provide financial assistance, the Finance Department and the Chief Financial Officer are required to act in the best interests of the Company considering the annual budget, fund plans and financial impact on the Company.
  - (d) The Finance Department and the Chief Financial Officer will monitor compliance with reporting and other requirements under the Listing Rules on an on-going basis.
- (viii) ensured that legal advice and/or other professional advice will be sought from time to time as and when it is necessary to ensure proper compliance with the relevant requirement of the Listing Rules by the Group.

Subsequent to the Incidents, the Board has reviewed the internal control review reports prepared by the independent internal control consultants in respect of the Company's internal control system, including the internal control review report on the Group's risk management and internal control system for the year ended 31 December 2023, according to which the Company had put in place enhanced internal control procedures to improve its internal control system.

The Board held the view that after implementing the above remedial measures, the Company has maintained an appropriate and effective risk management and internal control system to enable the Company to meet its continuing obligations under the Listing Rules, and that there were no significant areas of concern on its risk management and internal control system.

## **GENERAL**

The supplementary information provided in this announcement does not affect other information contained in the Annual Report 2023. Save as disclosed above, the contents of the Annual Report 2023 remain unchanged.

By order of the Board  
**Fusen Pharmaceutical Company Limited**  
**Mr. Cao Changcheng**  
*Chairman and Executive Director*

Hong Kong, 5 July 2024

*As at the date of this announcement, the Board of the Company comprises Mr. Cao Changcheng (Chairman), Mr. Hou Taisheng, Mr. Chi Yongsheng, Ms. Meng Qingfen and Mr. Cao Zhiming (formerly known as Mr. Cao Dudu) as executive Directors, and Mr. Sze Wing Chun, Mr. Lee Kwok Tung Louis and Dr. To Kit Wa as independent non-executive Directors.*