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杭州启明醫療器械股份有限公司
Venus Medtech (Hangzhou) Inc.

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

(Stock Code: 2500)

**KEY FINDINGS OF THE FORENSIC INVESTIGATION
AND
CONTINUED SUSPENSION OF TRADING**

This announcement is made by Venus Medtech (Hangzhou) Inc. (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) 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 (i) the announcement of the Company dated May 8, 2023 (the “**May 8 Announcement**”) in relation to, amongst others, the Mr. Zi Loans and the Mr. Zeng Loans and certain discloseable and connected transactions in relation to the provision of financial assistance contemplated thereunder (collectively, the “**Disclosed Fund Flows**”); (ii) the announcement of the Company dated August 4, 2023 in relation to the key findings of internal control review (the “**August 4 Announcement**”); (iii) the announcement of the Company dated November 23, 2023 in relation to the trading halt in the shares of the Company on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) with effect from 9:00 a.m. on November 23, 2023; (iv) the announcement of the Company dated November 27, 2023 in relation to, amongst others, further update on the provision of financial assistance (the “**November 27 Announcement**”); and (v) the announcements of the Company dated December 27, 2023 and February 16, 2024 in relation to the Resumption Guidance (the “**Resumption Guidance Announcements**”). Unless otherwise stated, capitalized terms used in this announcement shall bear the same meanings as those defined in the May 8 Announcement, the November 27 Announcement and the Resumption Guidance Announcements.

BACKGROUND

As stated in the May 8 Announcement and the August 4 Announcement, (i) during the period from June 2021 to January 2023 (the “**Relevant Period**”), without the knowledge of the then non-executive Directors or the independent non-executive Directors of the Company, the Company had made the Mr. Zi Loans and the Mr. Zeng Loans, and (ii) as at the date of the May 8 Announcement, the maximum amount, including interest outstanding in the Relevant Period, was disclosed to be approximately RMB360,595,248.17 and RMB268,253,544.15, respectively. As at the date of the May 8 Announcement, it was disclosed that both Mr. Zi and Mr. Zeng had repaid the principal amounts and interests of the Disclosed Fund Flows. The aggregate amount of such loans was subject to the notification, reporting, announcement, circular and independent shareholders’ approval requirements under Chapters 13, 14 and 14A of the Listing Rules, but the Company had failed to comply with the Listing Rules requirements.

As stated in the Company’s announcement dated November 20, 2023, Mr. Zi tendered his resignation as an executive director, the general manager and the authorized representative of the Company with effect from November 20, 2023; and Mr. Zeng tendered his resignation as an executive director and the chairman of the board of directors of the Company effective from December 15, 2023.

As stated in the November 27 Announcement, the Board established a special committee (“**Special Committee**”) to undertake an investigation (the “**Investigation**”) into the circumstances surrounding the Disclosed Fund Flows, which was completed by November 22, 2023. The Investigation identified a number of additional, previously undisclosed fund flows to entities relating to Mr. Zi and Mr. Zeng. In the light of the findings of the Investigation, the Special Committee decided to engage a forensic consultant to conduct an independent forensic enquiry to (i) identify the historical transactions of the Company to and from Mr. Zi, Mr. Zeng and entities they own or control, and (ii) confirm the repayment status of all borrowings of Mr. Zi and Mr. Zeng from the Company (previously defined as the “**Special Audit**” in the announcement of the Company dated November 27, 2023, hereinafter to be referred to as the “**Forensic Investigation**”).

As disclosed in the Resumption Guidance Announcement, one of the conditions of the Resumption Guidance is that the Company has to conduct the special audit and an appropriate forensic investigation into (a) the provision of loans to Mr. Zi and Mr. Zeng and (b) other fund flows of the Group to and from Mr. Zi, Mr. Zeng and/or any entity they, individually or collectively, own or control that may be uncovered by the special audit, announce the findings, and take appropriate remedial actions.

On December 12, 2023, the Special Committee formally engaged Deloitte Advisory (Hong Kong) Limited as the forensic consultant (the “**Forensic Consultant**”) to carry out the Forensic Investigation. On February 23, 2024, the Forensic Consultant submitted a forensic investigation report (the “**Forensic Investigation Report**”) to the Special Committee. The Special Committee reviewed and submitted the Forensic Investigation Report, together with the views and recommendations of the Special Committee, to the Board for approval on February 23, 2024.

SCOPE OF THE FORENSIC INVESTIGATION

The Forensic Consultant was engaged by the Special Committee to conduct the Forensic Investigation into matters concerning the Disclosed Fund Flows and potentially additional fund flows to related entities of Mr. Zi or Mr. Zeng (the “**Undisclosed Fund Flows**”, together with the Disclosed Fund Flows, the unauthorized loans to Jiangsu Wuzhong (as defined below) and the unauthorized guarantees to Hangzhou Kuntai (as defined below), the “**Unauthorized Transactions**”) from December 1, 2019 to November 24, 2023 (the “**Review Period**”).

For the purposes of the Forensic Investigation, the Forensic Consultant conducted the following review procedures:

- 1) obtained and understood the Group’s organization chart, policies and procedures regarding loans to related parties, including approval workflows, requirements on supporting documentation, amount threshold for the Board’s approvals;
- 2) read the available Board meeting minutes pertaining to the approvals or resolutions of the Unauthorized Transactions and internal approval records retained by the Company;
- 3) conducted enquiries with the key process owners of the Company to understand the payment procedures, approval process and repayment situations of the Unauthorized Transactions of the Company;
- 4) identified the entities and subsidiaries within the Group based on the organization chart, obtained the list of bank accounts held by the Group and its subsidiaries and retrieve corresponding bank records independently and/or with the assistance of the Company to the extent possible; and verify the bank mandate/delegation of authority of each bank when obtaining bank records;
- 5) obtained and analyzed bank records of all available bank accounts held by the Company and its subsidiaries with obtainable records, financial data and other relevant information of the Company and its relevant subsidiaries during the Review Period in order to identify payment and repayment of fund transfers in connection with the Unauthorized Transactions;
- 6) obtained and read supporting documents pertaining to the Unauthorized Transactions including but not limited to payment records, and contracts if any, to identify potential anomalies;
- 7) collated public sources research on identified external entities to identify possible undisclosed relationships with the Company; and
- 8) performed other relevant procedures in relation to the scope of the Forensic Investigation in areas where anomalies are identified.

SUMMARY OF KEY FACTUAL FINDINGS

Summarized below are the key findings of the Forensic Investigation:

Unauthorized Transactions

1) *Disclosed Fund Flows*

Based on the analysis of the bank records and financial data by the Forensic Consultant, a total of RMB1,160,024,201 was transferred from the Company to Mr. Zeng, Mr. Zi or entities related to them from June 2021 to January 2023, and a total of RMB1,318,674,061 was transferred by Mr. Zeng, Mr. Zi or entities related to them to the Company from December 2021 to March 2023. These incoming and outgoing transfers could not be exactly matched, but are consistent with the Disclosed Fund Flows described in the May 8 Announcement.

2) *Undisclosed Fund Flows*

Apart from the Disclosed Fund Flows, the Forensic Consultant identified the Undisclosed Fund Flows to related entities of Mr. Zi or Mr. Zeng as well.

According to its analysis of bank records, financial data and the information obtained from the finance team and legal department of the Company, the Forensic Consultant identified an additional 35 fund transfers from the Company to related entities of Mr. Zi and Mr. Zeng for the period between April 2020 to May 2023. In summary, a total of RMB689,599,118 was transferred to the related entities, and a total of RMB583,791,106 was repaid during the Review Period.

Taking the Disclosed Fund Flows and Undisclosed Fund Flows together, for the period between April 2020 to May 2023, a total of RMB1,849,623,319 was transferred to Mr. Zi, Mr. Zeng or their related entities, and a total of RMB1,902,465,167 was transferred from Mr. Zi, Mr. Zeng or those entities to the Company, with a net inflow of transfers in the aggregate amount of RMB52,841,848.

Based on the Forensic Consultant's analysis of obtained bank records from the bank accounts held by the Company and its subsidiaries for the period from 1 December 2019 to 24 November 2023, the table below summarizes the Disclosed Fund Flows and Undisclosed Fund Flows set forth in the Forensic Investigation Report.

Unauthorized Transactions by Category	Aggregate amount		Balances Outstanding (Transfer-out vs. Transfer-in)	
	Transfer-out (Converted to RMB)	Transfer-in (Converted to RMB)	Balance (RMB)	Remark
1. Disclosed Fund Flows				
Fund flows that are consistent with the Disclosed Fund Flows	1,160,024,201	-1,318,674,061	-158,649,860	Estimated balance ⁽¹⁾
2. Undisclosed Fund Flows				
Undisclosed Fund Flows	689,599,118	-583,791,106	105,808,012	Estimated balance ⁽²⁾
TOTAL	1,849,623,319	-1,902,465,167	-52,841,848	

Notes:

- (1) According to the finance team of the Company, this estimated balance outstanding is repayment for Undisclosed Fund Flows to related entities of Mr. Zi and/or Mr. Zeng.
- (2) The transfer-out transactions are not in one-on-one relationship with transfer-in transactions, and some transfer-in transactions are inseparably mixed with normal business fund transfers.

3) *Unauthorized loans to Jiangsu Wuzhong*

The Forensic Consultant also identified funds transferred from Hangzhou Qijin Equity Investment Co., Ltd. (“**Hangzhou Qijin**”), a wholly-owned subsidiary of the Company, to an external entity named Jiangsu Wuzhong Real Estate Group Co., Ltd. (“**Jiangsu Wuzhong**”) in January 2021 and January 2023 totaling RMB230,000,000. Of such amounts, RMB150,000,000 was lent to Jiangsu Wuzhong in January 2021, and had been repaid, with 1% monthly interests, to Hangzhou Qijin by December 6, 2022. The remaining RMB80,000,000 was extended to Jiangsu Wuzhong in January 2023 but has not been repaid as at the date of this announcement.

4) *Unauthorized guarantees to Hangzhou Kuntai*

Additionally, the Forensic Consultant identified that, from March 2023 to June 2023, Hangzhou Qiyi Enterprise Management Co., Ltd. (“**Hangzhou Qiyi**”), a wholly-owned subsidiary of the Company, pledged deposits in the total amount of RMB397,580,000 to various banks to guarantee the loans in the total amount of RMB396,000,000 extended by such banks to Hangzhou Kuntai Biotechnology Co., Ltd. (“**Hangzhou Kuntai**”), a company controlled by Mr. Zi. As at the date of this announcement, RMB197,580,000 of the pledged deposits has been released and withdrawn by the Company from the banks. The remaining RMB200,000,000 continues to be subject to pledge in respect of two RMB100,000,000 loans which would be due by March 28, 2024 and April 14, 2024, respectively.

The Company did not have sufficient supporting documentation pertaining to the Unauthorized Transactions

Regarding the supporting documentation for the Unauthorized Transactions, the main documents the Forensic Consultant received are bank slips. In most cases, the Company could not provide contracts, approvals from the department manager, finance department and finance director/chief financial officer of the Company or approvals from the Board in accordance with the Monetary Funds and Bill Management Policy of the Company, or other relevant documents to substantiate the business purpose of the Unauthorized Transactions.

The Forensic Consultant learnt from the information obtained from the finance team of the Company that most of the payments of the Unauthorized Transactions were made per oral instructions from the then management of the Company, i.e. Mr. Zi, Mr. Zeng and the former chief financial officer of the Company, Mr. Haiyue Ma (“**Mr. Ma**”). Some instructions appear to have involved WeChat messages, but those messages cannot be traced. The Forensic Consultant did not identify any contractual documentation or the use of company stamp application records for the Unauthorized Transactions.

In respect of the loan agreements, no contractual documentation could be found which had been executed contemporaneously with the making of the loans to Mr. Zi and Mr. Zeng. The Forensic Consultant only received two loan contracts signed by Mr. Zeng and Mr. Zi in January 2023 for the loans borrowed in 2022, which were signed after the occurrence of the transactions. In addition, for the other Unauthorized Transactions, no contractual documentation was provided by the Company except for the contract signed with Jiangsu Wuzhong regarding the loans amounted to RMB150,000,000 (out of RMB230,000,000) and the pledge agreements signed between Hangzhou Qiyi and banks.

MAJOR LIMITATIONS AND EXCLUSIONS OF THE FORENSIC INVESTIGATION

The major limitations to the Forensic Investigation are set forth below.

- 1) The Forensic Consultant did not conduct a general review of the controls within the Company. But it should be emphasized that, separately, the Company plans to perform a review of internal controls based on the findings of the independent forensic enquiry and to assess whether the Company has adequate internal control systems and procedures in place to remediate and mitigate the relevant risks. Such review is ongoing and is scheduled for completion by April 2024.
- 2) During the course of its work, the Forensic Consultant has collated and obtained internal records and documents of the Company. However, for the bank account information and bank statements of overseas entities of the Group located abroad, due to the geographic limitations, the Forensic Consultant was unable to physically obtain the bank statements from online banking system or the bank counter. In instances as such, it has relied on alternative collection method by connecting and requesting the responsible persons of the overseas entities with the assistance of the Company and obtaining the bank statements directly from the bank via e-mails and/or directly from the responsible persons of the overseas entities who helped retrieve bank statements from e-banking system and circulated to the Forensic Consultant via e-mails. In addition, for certain bank accounts of domestic entities of the Group, the corresponding online banking system cannot export bank statements over the past years, and hence the Forensic Consultant obtained the bank statements by asking the bank to directly post the documents with the bank's chop thereon.
- 3) There are certain overseas subsidiaries which, as a result of the resignation of the respective responsible personnel(s), the Forensic Consultant was not able to connect with anyone with access to the corporate accounts of such subsidiaries and hence it could not obtain corresponding bank statements during the Review Period.

VIEW OF THE SPECIAL COMMITTEE

Having considered the findings of the Investigation and the Forensic Investigation Report, the Special Committee noted that the Unauthorized Transactions were conducted during the tenure of Mr. Zi and Mr. Zeng as directors of the Company and involved Mr. Zi, Mr. Zeng and Mr. Ma overriding the Company's internal controls to instruct the finance department of the Company to make payments.

In view of the above, the Special Committee considers that each of Mr. Zi, Mr. Zeng and Mr. Ma has failed to discharge his fiduciary duties as a Director or a member of the senior management of the Company, in particular, they failed to (i) act honestly and in good faith in the overall interests of the Company; (ii) act for proper purpose; (iii) put Company's assets into proper use; (iv) avoid actual and potential conflicts of interest (as applicable); (v) fully and fairly declare their interests in proposed transactions or arrangements (as applicable); and (vi) exercise reasonable care, skill, and diligence. Accordingly, the Special Committee considers that Mr. Zi, Mr. Zeng and Mr. Ma should be responsible for the loss suffered by the Group due to their dereliction of duty. All of the Company's rights against Mr. Zi, Mr. Zeng and Mr. Ma have been reserved.

RECOMMENDATIONS FROM THE SPECIAL COMMITTEE AND PROGRESS OF IMPLEMENTATION

The Special Committee has reviewed the Forensic Investigation Report (including the scope and limitations of work thereof). After due and detailed discussion, the Special Committee considers that the scope sufficient, and limitations reasonable. Accordingly, the Special Committee has recommended that the Board adopt the findings of the Forensic Investigation.

Further, the Special Committee has made recommendations to the Board (the "**Recommendations**"). The Company would like to update the relevant status as follows:

No.	Recommendations	Status
1	To take all possible action(s) as soon as practicable to demand repayments and claim losses from the relevant parties;	<p>The Company has obtained from Mr. Zi a list of his assets for valuation and assessment, and has authorised Mr. Lim Hou Sen and Mr. Fei Wang to explore a possible settlement with Mr. Zi and the relevant bank(s), with a view to, among others, recovering value from Mr. Zi and preserving the Group's assets.</p> <p>As at the date of this announcement, Mr. Zi has provided the following guarantee and undertaking to the Company: (i) a pledge agreement to pledge his shareholding in Hangzhou Denuo Electrophysiology Medical Technology Co., Ltd. (杭州德諾電生理醫療科技有限公司) in favour of Hangzhou Qiyi, the pledge pursuant to which has now been registered; and (ii) a written undertaking to pledge his certain other assets in favour of the Company or entity(ies) to be designated by the Company.</p>

No.	Recommendations	Status
		The Company is also considering to take legal actions, including engaging PRC and overseas legal advisers to prepare for litigation, commissioning third parties to make claims, and/or applying for the counterparties' liquidation in courts in Mainland China and Hong Kong where necessary.
2	Address findings of the Forensic Investigation in the audit of the Company's financial statements for the year ended December 31, 2023;	Findings of the Forensic Investigation have been provided to the Company's auditors.
3	To remove the relevant staff of the Group involved in the Unauthorized Transactions from the management of the Group;	<p data-bbox="794 685 1410 789">Mr. Zi has resigned as an executive director, the general manager and the authorized representative of the Company with effect from November 20, 2023.</p> <p data-bbox="794 838 1410 942">Mr. Zeng has resigned as an executive director and the chairman of the board of directors of the Company effective from December 15, 2023.</p> <p data-bbox="794 991 1410 1095">Mr. Ma has resigned as a joint company secretary and the chief financial officer of the Company with effect from June 2, 2023.</p> <p data-bbox="794 1144 1410 1576">The Company is in the process of making corresponding changes, including director, legal representative, authorized signatory and bank signatory replacement from Mr. Zi, Mr. Zeng and Mr. Ma to members of the current Company management team, including Mr. Lim Hou-Sen and Mr. Fei Wang, for the Company's domestic and overseas subsidiaries, as applicable. The Company aims to substantially complete the replacement of director, legal representative and authorized signatory by April 2024 and the bank signatory update by June 2024.</p> <p data-bbox="794 1625 1410 1727">Further, the Company notes that the staff involved in the Unauthorised Transactions no longer hold any management position in the Group.</p>

No.	Recommendations	Status
4	To review the internal control system of the Group and carefully consider the recommendations from the internal control review and take corrective actions in order to strengthen the Group’s internal control system and effectively cover all major management and internal control systems including corporate governance, capital management and related parties management;	The Company has engaged Deloitte Enterprise Consulting (Shanghai) Co., Ltd. Beijing Branch as the internal control consultant (the “ IC Consultant ”) to conduct an extended review on the internal control procedures of the Company and all the subsidiaries identified to be involved in the Unauthorized Transactions (the “ Extended IC Review ”). Subject to the results of the Extended IC Review, the Company will consider implementing the recommendations made by the IC Consultant to remedy the relevant deficiencies.
5	To provide trainings to the management and employees of the Group on a periodic basis to improve their knowledge in accounting, financial and business management, and legal knowledge;	Relevant trainings were provided to the management and employees of the Group in June 2023. It is expected that trainings of such nature will take place semi-annually.
6	To provide regular training on regulatory and legal topics to the management and employees of the Group on a periodic basis, including compliance with the Listing Rules, which must also include training on directors’ responsibilities, the code on corporate governance; notifiable and connected transactions requirements under the Listing Rules, and financial reporting requirements under the Listing Rules. This is to familiarize them with the Group’s internal control procedures, their responsibilities under the Listing Rules and the requirements under the relevant laws and regulations; and	Relevant trainings were provided to the management and employees of the Group in June 2023 and the Company will continue providing regular trainings in the future. It is expected that trainings of such nature will take place semi-annually.
7	To continue to engage a compliance adviser to maintain compliance with the Listing Rules.	The Board has engaged Somerley Capital Limited as its compliance adviser since June 14, 2023.

OVERALL RESPONSES OF THE BOARD

The Board has reviewed the content of the Forensic Investigation Report and considers that the Forensic Investigation Report has sufficiently ascertained the scope and repayment status of the Unauthorized Transactions. The Board has also reviewed the Recommendations made by the Special Committee and concurs with the view of the Special Committee on the Forensic Investigation that the Unauthorized Transactions and any loss suffered by the Group substantially stemmed from Mr. Zi's, Mr. Zeng's, and Mr. Ma's failure to discharge their fiduciary duties.

The Board also concurs with the Special Committee's observations that the Group's internal control was not properly implemented, reviewed and updated, or was deficient. The Board has resolved to implement the Recommendations made by the Special Committee forthwith. For progress of implementation of Recommendations, please refer to section headed "*Recommendations from the Special Committee and progress of implementation*" above.

The Company will publish announcement(s) dealing with any further material developments as and when they occur.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on November 23, 2023 and will remain suspended pending the fulfillment of the Resumption Guidance as specified by the Stock Exchange.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By order of the Board
Venus Medtech (Hangzhou) Inc.
Mr. Lim Hou-Sen (Lin Haosheng)
Executive Director

Hangzhou, February 23, 2024

As at the date of this announcement, the executive Directors are Mr. Lim Hou-Sen (Lin Haosheng), Mr. Liqiao Ma and Ms. Meirong Liu; the non-executive Directors are Mr. Ao Zhang and Mr. Wei Wang; and the independent non-executive Directors are Mr. Ting Yuk Anthony Wu and Mr. Chi Wai Suen.