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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)

**COMPLETION OF THE INTERNAL CONTROL REVIEW
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 (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 (i) May 8, 2023 in relation to, amongst others, the Disclosed Fund Flows; (ii) August 4, 2023 in relation to the key findings of an internal control review; (iii) November 23, 2023 in relation to the trading halt in the shares of the Company on the Stock Exchange with effect from 9:00 a.m. on even date; (iv) November 27, 2023 in relation to, amongst others, further update on the Undisclosed Fund Flows; (v) December 27, 2023 and February 16, 2024 in relation to the Resumption Guidance; (vi) February 23, 2024 in relation to the key findings of the Forensic Investigation about the Unauthorized Transactions; (vii) February 23, 2024 in relation to the quarterly update on resumption progress; and (viii) April 16, 2024 in relation to the update on the Unauthorized Transactions (collectively, the “**Announcement(s)**”). Unless otherwise stated, capitalized terms used in this announcement shall bear the same meanings as those defined in the Announcements.

KEY FINDINGS AND COMPLETION OF THE INTERNAL CONTROL REVIEW

BACKGROUND

As disclosed in the Announcement dated December 27, 2023, one of the conditions in the Resumption Guidance is that the Company shall “conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to comply with the Listing Rules”.

To address such Resumption Guidance and to further enhance the internal controls of the Company, the Company engaged Deloitte Enterprise Consulting (Shanghai) Co., Ltd. Beijing Branch as the internal control consultant (the “**Internal Control Consultant**”) to conduct an independent review of the internal control procedures of the Company and all the subsidiaries identified in the Forensic Investigation as having been involved in the Unauthorized Transactions for the review period of January 1, 2020 to December 31, 2023 (the “**Internal Control Review**”), as disclosed in the two Announcements dated February 23, 2024.

On May 10, 2024, the Internal Control Consultant submitted its final report in respect of the Internal Control Review (the “**Internal Control Review Report**”) to the Board. The Internal Control Review Report contains, amongst others, the findings of the Internal Control Review, the recommendations of the Internal Control Consultant, and the review results of the implementation status of the remedial actions in response to the recommendations made.

SCOPE OF THE INTERNAL CONTROL REVIEW

The scope of the Internal Control Review covered:

1. the following entities, which had been identified in the Forensic Investigation as having been involved in the Unauthorized Transactions: the Company, Venus Medtech (Hong Kong) Limited (“**VMHK**”), Hangzhou Qijin Equity Investment Co., Ltd. (“**Hangzhou Qijin**”), Venus Medtech of America (“**VMA**”), and Hangzhou Qiyi Enterprise Management Co., Ltd. (“**Hangzhou Qiyi**”); and
2. in respect of the abovementioned entities, where applicable, a review of the following areas: corporate governance (including risk assessment, staff training, information disclosure, inside information management, approval procedures and influence of related parties), fund management (including bank account management, loan and guarantee management, cash management, company seal management and control of subsidiaries’ bank accounts and financial positions) and related party management (including the identification and record-keeping of related parties, assessment and approval of connected transactions and the disclosure thereof).

SUMMARY OF KEY FINDINGS OF THE INTERNAL CONTROL REVIEW

Set out below is a summary of (i) the key findings of the Internal Control Review, and (ii) the implementation of remedial actions following the recommendations of the Internal Control Consultant, classified by the extent of deficiency (being (i) material deficiency (“**Material Deficiency**”); and (ii) other control deficiency (“**Other Control Deficiency**”)).

Material Deficiency

Fund Management

Summary of Key Findings	Implementation of Remedial Actions Following the Recommendations of the Internal Control Consultant
<p>1. Deficiencies in the consideration of and disclosures relating to loans by Directors and management</p> <p>The following deficiencies with respect to the loans to, and conducted by, the former directors and management of the Company were identified:</p> <p>(1) in breach of the Company’s articles of association and/or the Rules of Procedures for the Board of Directors (《董事會議事規則》), the unauthorized loans arranged by the former directors and management of the Company did not undergo approval procedures (whether by the Board or the Shareholders), and were not assessed in terms of reasonableness, or creditworthiness or repayment ability of the borrowers, and the relevant loans were not repaid immediately;</p> <p>(2) the unauthorized loans arranged by the former directors and management of the Company did not undergo an appropriate assessment in terms of implications under Chapters 13 and 14A of the Listing Rules (and any corresponding disclosure obligation therefrom); and</p> <p>(3) as no written loan agreement was entered into in a timely manner, and the applications for borrowing and fund disbursement had not been approved (i) by the designated online system or (ii) in writing, the former directors and management of the Company did not fully comply with management requirements of the Company relating to contracts and application for loans and fund disbursements.</p>	<p>The Company has:</p> <p>(1) improved the relevant procedures for financial payments by adding a point for legal approval on its designated online system to standardize and publicize the approval requirements for borrowings;</p> <p>(2) delivered training on the Listing Rules for Directors, supervisors and senior management in April 2024;</p> <p>(3) formulated and followed up, in a timely manner, on a repayment plan; and</p> <p>(4) made personnel changes at the Board and management level.</p>

Material Deficiency	
Fund Management	
Summary of Key Findings	Implementation of Remedial Actions Following the Recommendations of the Internal Control Consultant
<p>2. Deficiencies in approvals relating to commercial loans</p> <p>With respect to the commercial loan provided by Hangzhou Qijin to Jiangsu Wuzhong, no written loan agreement had been signed, the borrowings and fund disbursements were not in writing or formally applied for, reviewed or approved on the designated online system, and no records of the relevant credit and repayment ability assessments were maintained.</p>	<p>The Company has:</p> <ol style="list-style-type: none"> (1) enforced and strictly complied with relevant procedures for contract-signing and fund disbursement; (2) obtained a fund recovery agreement signed by a former director of the Company, Mr. Zhenjun Zi, agreeing to repay the outstanding loan of Jiangsu Wuzhong by 30 September 2024; and (3) made changes at the Board and management level.
<p>3. Deficiencies in the assessment of and disclosures relating to guarantees for pledges</p> <p>The following deficiencies with respect to the unauthorized provision of pledged deposits by Hangzhou Qiyi to banks to guarantee loans of Hangzhou Kuntai were identified:</p> <ol style="list-style-type: none"> (1) in breach of the Company's articles of association, the pledged guarantees were not assessed and approved, as required, by the Board or the Shareholders; (2) despite constituting discloseable and connected transactions of the Company, the pledged guarantees were not assessed nor disclosed pursuant to the requirements of Chapters 14 and 14A of the Listing Rules; and (3) Hangzhou Qiyi and Hangzhou Kuntai did not sign any guarantee agreement, the pledge agreements between Hangzhou Qiyi and the banks did not undergo application, review and approval procedures on the designated online system, and no relevant records were found in the relevant seal ledger for contracts, which resulted in a failure to fully comply with the applicable requirements on contract and seal management. 	<p>The Company has:</p> <ol style="list-style-type: none"> (1) established a specific approval mechanism for non-expense-related contracts such as pledged guarantees; (2) delivered training on the Listing Rules for Directors, supervisors and senior management in April 2024; (3) obtained the release of all pledged deposits relating to Hangzhou Kuntai; and (4) made changes at the Board and management level.

Material Deficiency	
Fund Management	
Summary of Key Findings	Implementation of Remedial Actions Following the Recommendations of the Internal Control Consultant
<p>4. Internal audit oversight mechanism could be improved</p> <p>The Company has not followed all the requirements of the Internal Audit Management Policy (《內部審計管理制度》), and the audit-related functions and staffing arrangements remain to be improved.</p>	<p>The Company has:</p> <ol style="list-style-type: none"> (1) issued the amended Internal Audit Management Policy in April 2024, which provides for, amongst others, an independent reporting mechanism for the audit department to the Audit Committee; (2) issued the Announcement on Staffing and Organizational Restructuring (《關於人事任命與組織架構調整的公告》); (3) set up an internal audit and compliance department; (4) launched the recruitment process for audit specialists; and (5) made changes at the Board and management level.
<p>5. Deficiencies in bank account management</p> <p>The following deficiencies were identified:</p> <ol style="list-style-type: none"> (1) there had been failures to maintain approval records for the opening of certain bank accounts of the Group, in breach of the Company's Monetary Funds and Bill Management Policy (《貨幣資金及票據管理制度》); (2) contrary to the requirements of the aforesaid Monetary Funds and Bill Management Policy, the Company did not keep inventory of, and maintain, bank accounts, and did not close bank accounts that were less frequently used and had no substantive role; (3) authorized signatories of bank accounts were not updated in a timely manner after the departure of relevant employees; and (4) despite regularly obtaining bank statements to check against bank account balances, the finance department of the Company did not prepare bank balance reconciliation statements in accordance with the requirements of the Monetary Funds and Bill Management Policy. 	<p>The Company has:</p> <ol style="list-style-type: none"> (1) established a plan for bank account clearance which is currently in progress, with infrequently-used bank accounts to be closed by the end of 2024; (2) established a plan for updating bank account signatory authorizations which is currently in progress, with updates to be completed by the end of 2024; and (3) issued the amended Monetary Funds and Bill Management Policy in April 2024, which provides that bank balance reconciliation statements should be prepared by the cashier and reviewed by the financial director of the Company.

Other Control Deficiency	
I. Corporate Governance	
Summary of Key Findings	Implementation of Remedial Actions Following the Recommendations of the Internal Control Consultant
<p>1. The authorization and management systems could be improved in terms of (1) clarifying the division of authority between the authorization and management systems, with the principles of authorization clearly defined, (2) clarifying the authorization of risk management and internal control functions, (3) clearly delineating authority and responsibility with respect to controlled subsidiaries, (4) authorization and approval limits corresponding to the actual approvals required in practice on the Company's online system, and (5) obtaining the required approvals for contracts.</p>	<p>The Company has:</p> <p>(1) issued the amended Monetary Funds and Bill Management Policy (《貨幣資金及票據管理制度》) in April 2024, which provides for the maintenance of and procedures to change authorizations for approvals, and stipulates that any maintenance work, changes or updates must be made on the Company's online system; and</p> <p>(2) issued the amended Risk Prevention Management Policy (《風險防控管理制度》) in April 2024, which clarifies the categorization of risk management and management procedures for risk assessment, control and response.</p> <p>The Company formulated the Controlled Subsidiaries Management Policy (《控股子公司管理制度》) in December 2023, which clarified, amongst others, the management of authority and responsibility between the Company and its controlled subsidiaries.</p>
<p>2. Deficiencies in adherence to the Rules of Procedures of the Board and specific committees (including the Audit Committee not meeting as frequently as required, and minutes of meetings of the Board and specific committees for the period of January 2020 to June 2023 being incomplete)</p>	<p>The Company has strictly followed requirements such as the Rules of Procedures for the Board of Directors and the terms of reference for the Audit Committee, convening meetings on a regular basis, and standardizing the recording of minutes.</p> <p>The standard of meeting minutes of the Board and committees of the Board have, since June 2023, been optimized, and such minutes have satisfied the relevant requirements.</p>
<p>3. Professional development training for Directors and management needs to be conducted to ensure compliance with Appendix C1 of the Listing Rules</p>	<p>The Company has delivered training on the Listing Rules for Directors, supervisors and senior management in April 2024.</p> <p>The Company had engaged a third-party compliance adviser and legal adviser to conduct professional development training for the Directors and management of the Company in June 2023; the training records show that the Directors, senior management and supervisors of the Company all attended.</p>

Other Control Deficiency	
I. Corporate Governance	
Summary of Key Findings	Implementation of Remedial Actions Following the Recommendations of the Internal Control Consultant
4. Material transactions involving construction contracts were not assessed and disclosed in a timely manner	<p>The Company has</p> <p>(1) published an announcement on 25 February 2024 of the “Discloseable Transaction in Relation to the Construction and Development of the Project Land”; and</p> <p>(2) delivered training on relevant contents of the Listing Rules for the Directors, supervisors and senior management of the Company to enhance their compliance awareness.</p>
5. The management policy for inside information has not been formally issued, nor had the Company commenced the work of identifying and monitoring inside information in practice	The Company has issued the amended Management Measures for Inside Information (《内幕消息管理辦法》) in April 2024, which sets out the specific scope and criteria for identifying inside information, as well as provides for the confidentiality, screening and supervision of inside information.
6. The complaints and whistleblowing mechanism could be improved, given that (1) from January 2020 to June 2023, the process for handling external complaints and reports was unclear and there were no measures to protect whistleblowers; (2) from January 2020 to October 2021, there was no internal complaint and whistleblowing channel; and (3) from October 2021 to June 2023, although the Company implemented the Procedural Requirements for Internal Investigations (《內部調查程序規定》), which clarified the departments responsible for handling complaints and reports and established a complaints and whistleblowing channel, there was no mechanism for whistleblower protection.	The Company has issued the amended Whistleblowing Policy (《舉報政策》) and Procedural Requirements for Internal Investigations in April 2024, which now clarify the channels for making complaints and whistleblowing, and improve the whistleblower protection mechanism.

Other Control Deficiency	
II. Fund Management	
Summary of Key Findings	Implementation of Remedial Actions Following the Recommendations of the Internal Control Consultant
<p>1. Deficiencies in internal controls relating to financial management in terms of, amongst others, (1) missing cash inventory records for 2020 and 2021 and missing requisite signatures on cash inventory forms for November and December 2022, (2) emergency payments not earmarked on the designated online system, and (3) accounting vouchers not prepared for retention by VMHK and Hangzhou Qijin or no documents such as related application forms for use of funds or related contracts</p>	<p>The Company has:</p> <p>(1) maintained its cash inventory records with the signatures of the employee conducting the inventory and the supervisor;</p> <p>(2) clarified to all employees that all fund disbursements must be made through the designated online system, and no emergency payments can go through any offline approval method; and</p> <p>(3) maintained records of supporting documents, such as payment approval slips and bank return slips, together with relevant accounting vouchers for fund disbursements.</p>
<p>2. Responsible department for seal management is unclear, and there are deficiencies in seal management from January 2020 to December 2023</p>	<p>The Company has committed to continuing to improve seal management and strictly control the engraving and use of seals.</p> <p>The Company formulated and the Board approved the Seal Management Policy (《印章管理制度》) on 29 December 2023, which has, amongst others, provided for different departments to keep different seals, clearly defined the process of engraving, stamping and disposing seals. Also, a module about seal management was formally uploaded on the Company's online system on 5 February 2024, formalizing the procedures for engraving, stamping and disposing seals.</p>
<p>3. Deficiencies in the evaluation of investment projects, contrary to the Project Investment Management Policy (《項目投資管理辦法》)</p>	<p>The Company has disseminated by email the Project Investment Management Policy in April 2024 to the Company's management and personnel responsible for investment management. The management policy provides, amongst others, for the management authority, decision-making procedures and monitoring of project investments.</p>

Other Control Deficiency	
III. Related Party Management	
Summary of Key Findings	Implementation of Remedial Actions Following the Recommendations of the Internal Control Consultant
1. Failure to update connected transactions and connected persons list in a timely manner from January 2020 to June 2023	<p>The Company has disseminated by email the Connected Transaction Management Policy (《關連交易管理制度》) in April 2024 to the Company’s management and personnel responsible for the management of connected transactions, to clarify, amongst others, how connected persons and connected transactions are defined and how to disclose connected transactions.</p> <p>Since June 2023, the legal department of the Company has been responsible for routinely updating the connected transactions list and providing such list to the finance department and compliance adviser of the Company on a regular basis.</p>

COMPLETION OF THE INTERNAL CONTROL REVIEW

The Company is pleased to announce that all remedial actions recommended by the Internal Control Consultant are being or have been completed as at the date of this announcement. The Internal Control Consultant has accordingly issued the Internal Control Review Report on May 8, 2024 upon its follow-up assessment of the remedial actions implemented by the Group.

VIEWS OF THE AUDIT COMMITTEE AND THE BOARD

Having considered the Internal Control Review Report and the remedial measures taken by the Company, the Audit Committee and the Board are of the view that the remedial measures implemented by the Company and the relevant subsidiaries, namely VMHK, Hangzhou Qijin, VMA and Hangzhou Qiyi, are adequate and sufficient to address the key findings of the Internal Control Review and the enhanced internal control system will enable the Company to manage its related risks at a reasonable level. As such, the Board is of the view that the Company now has in place adequate internal control systems to meet its obligations under the Listing Rules.

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, May 13, 2024

As at the date of this announcement, the executive Directors are Mr. Liqiao Ma, Ms. Meirong Liu and Mr. Lim Hou-Sen (Lin Haosheng); 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.