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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 USE OF PROCEEDS 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 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 the announcements of the Company dated (i) May 8, 2023 in relation to, amongst others, the Disclosed Fund Flows (the “**May 8, 2023 Announcement**”); (ii) August 4, 2023 in relation to the key findings of the independent 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, the Undisclosed Fund Flows (the “**November 27, 2023 Announcement**”); (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 (the “**February 23, 2024 Announcement**”); (vii) February 23, 2024 in relation to the first quarterly update on resumption progress; (viii) April 16, 2024 in relation to an update on the Unauthorized Transactions; (ix) May 13, 2024 in relation to the key findings and completion of the Internal Control Review (the “**May 13, 2024 Internal Control Review Announcement**”); (x) May 23, 2024 in relation to the second quarterly update on the resumption progress; (xi) June 6, 2024 in relation to further information on the second quarterly update (the “**June 6, 2024 Announcement**”); and (xii) August 23, 2024 in relation to the third quarterly update on the resumption progress (the “**Third Quarterly Update Announcement**”, and collectively with the above-mentioned announcements, the “**Announcements**”) and the annual report of the Company for the year ended December 31, 2023 (the “**2023 Annual Report**”) published on April 29, 2024. Terms used herein shall have the same meanings as defined in the Announcements or the 2023 Annual Report unless otherwise stated.

BACKGROUND

As disclosed in the February 23, 2024 Announcement, the Forensic Consultant identified from the Forensic Investigation four categories of Unauthorized Transactions, namely (i) the Disclosed Fund Flows; (ii) the Undisclosed Fund Flows; (iii) the unauthorized loans to Jiangsu Wuzhong; and (iv) the unauthorized guarantees to Hangzhou Kuntai. As disclosed in the 2023 Annual Report, additional verification works on the historical utilization of equity fundraising proceeds were required.

As disclosed in the June 6, 2024 Announcement, the Company engaged Deloitte Advisory (Hong Kong) Limited (the Forensic Consultant that carried out the Forensic Investigation) as the independent and professional consultant to conduct the Use of Proceeds Review, i.e., to review the historical use of the proceeds from equity fundraising to analyse whether such proceeds were used to fund the Unauthorized Transactions.

On September 2, 2024, the Forensic Consultant submitted a Use of Proceeds Review report (the “**Use of Proceeds Review Report**”) to the Special Committee. The Special Committee reviewed and submitted the Use of Proceeds Review Report, together with its views and recommendations, to the Board for approval on September 2, 2024.

SCOPE OF THE USE OF PROCEEDS REVIEW

The Forensic Consultant was engaged by the Special Committee to conduct the Use of Proceeds Review into the Company’s historical utilization of the proceeds from equity fundraising, including the proceeds raised from the Company’s initial public offering in December 2019, and the two placings respectively completed on September 10, 2020 and January 29, 2021 (collectively, the “**Proceeds**”), to analyse whether such Proceeds were used to fund the Unauthorized Transactions, during the period from December 1, 2019 to December 31, 2023 (the “**Review Period**”).

For the purposes of the Use of Proceeds Review, the Forensic Consultant conducted the following procedures:

1. obtained historical records in relation to the use of the Proceeds that were prepared by the Company for disclosure in its previous annual and interim reports and identified the (former) personnel involved in preparing the disclosure;
2. analysed historical breakdowns of the use of the Proceeds prepared by the Company, and compared with the information disclosed in the annual and interim reports;
3. reconciled the historical breakdowns of the use of the Proceeds and/or the summary of the use of the Proceeds prepared by the Company with the underlying financial data to identify potential discrepancies and enquired with the relevant personnel to understand the rationale of any such discrepancies, and obtained supporting documents, if any;
4. obtained bank statements and bank records for the Review Period, considered and reconciled the bank balances of bank statements against the financial data (i.e. financial reporting, trial balances/general ledgers, etc.) to identify potential unrecorded/unaccounted transactions, understand the rationale of any such transactions, and obtained and checked the underlying documents, if any;
5. interviewed process owners and conducted process walkthrough to understand the process of fund/cash management and payment approvals of the Company;
6. obtained and considered the policies and procedures in relation to fund/cash management and payment approvals applicable at the relevant time;
7. obtained and considered Board meeting minutes for the Review Period to identify discussions/approvals of the use of the Proceeds;
8. selected samples and performed transactional testing by reviewing the supporting documents, including but not limited to agreements with counterparties, approval records, payment records, and bank records showing the details of the bank accounts of the payers and payees, invoices, receipts etc., to identify if any Proceeds were potentially used for the Unauthorized Transactions; and
9. based on the preliminary findings of the transactional sample testing, conducted discussions with the relevant personnel involved in such transactions to seek clarification and/or obtain any supplementary information/supporting documents.

SUMMARY OF KEY FACTUAL FINDINGS

I. Unauthorized Transactions

Based on the procedures conducted, the Forensic Consultant identified that the Proceeds were used to fund certain Unauthorized Transactions during the Review Period.

Summarized below are the key findings of the Use of Proceeds Review:

1. *Unauthorized Transactions Funded by Proceeds*

The Forensic Consultant identified that the Proceeds were used to fund certain Unauthorized Transactions, but such use was not disclosed at all, or accurately. The table below summarizes these transactions by source of funds (Proceeds or operating cash flows) used:

Source of Funds by Unauthorized Transaction Category

(i) <i>Disclosed Fund Flows and Undisclosed Fund Flows</i>	<i>Amount (RMB)</i>
	(approximate)
The Proceeds were used	1,091,783,000
– <i>Including the proceeds with unspecified disclosure of use</i> <i>(see 2 immediately below)</i>	5,200,000
Funds from cash-inflow from operating activities were used	175,840,000
Funds from repayments for Unauthorized Transactions were used	582,000,000
Total	<u>1,849,623,000</u>
(ii) <i>Unauthorized loans to Jiangsu Wuzhong</i>	<i>Amount (RMB)</i>
The Proceeds were used	150,000,000
Funds from repayments of Unauthorized Transactions were used	80,000,000
Total	<u>230,000,000</u>
(iii) <i>Unauthorized guarantees to Hangzhou Kuntai</i>	<i>Amount (RMB)</i>
Funds from cash-inflow from operating activities were used	32,000,000
Funds from cash-inflow from operating activities or repayments of Unauthorized Transactions were used ⁽¹⁾	364,000,000
Total	<u>396,000,000</u>

(1) The funds consisted of multiple layers of fund transfers originating from cash-inflows from operating activities and repayments, which were mixed under the bank account(s) of the Company and could not be differentiated. Therefore, the Forensic Consultant was unable to further segregate this portion of funds.

2. *Certain Unauthorized Transactions Funded by Proceeds with Unspecified Disclosure of Use*

The Forensic Consultant identified three Unauthorized Transactions, totalling approximately RMB5.2 million, which were funded by the Proceeds, were previously disclosed as part of the use of proceeds in the annual report of the Company for the year ended December 31, 2021 without specifics. The disclosed purpose was working capital and other general corporate purposes. However, the three specific transactions were payments made from Venus Medtech (Hong Kong) Limited (“**Venus HK**”) to CNCB (Hong Kong) Investment Ltd. between February 8, 2021 to April 12, 2021.

II. Observations from Transactional Sample Testing

Apart from reviewing the source of funds for the Unauthorized Transactions, the Forensic Consultant also analysed the historical breakdowns of the use of Proceeds and relevant financial data, selected sample transactions, and analysed the supporting documents for each sample transaction that could substantiate the authorization, occurrence, and business rationale of the transactions.

The samples covered (i) approximately 51% of the transaction population amount related to the Company and its subsidiaries incorporated in mainland China (the “**China Entities**”); and (ii) approximately 53% of the transaction population amount related to the subsidiaries of the Company incorporated outside mainland China (the “**Non-mainland Entities**”). The sample transactions specifically covered those in relation to Mr. Zi, Mr. Zeng and Mr. Ma.

The samples were selected from transactions being classified by the Company’s finance team as for use of proceeds purposes or for payments made by Non-mainland Entities as recorded on the Group’s bank statements.

During the transactional sample testing, the Forensic Consultant had the following observations:

1. *Transactions in relation to Mr. Zi and Mr. Ma*

The Forensic Consultant noted that six transactions totalling approximately RMB1.2 million were related to Mr. Zi’s reimbursements. They were recorded as travelling and hospitality expenses, but appeared unconnected to the Company’s business operations. While such transactions were approved and signed by the then Finance Director, business purposes were not noted in the supporting documents.

The Forensic Consultant also noted that eight transactions totalling approximately RMB4.4 million in relation to Mr. Ma were loans, reimbursement of insurance and travel expenses, and compensation. The supporting documents, such as approval records, agreements or other documentation, were insufficient to support that these transactions were for business purposes.

2. **Transactions related to two independent non-executive Directors**

Reference is made to the Third Quarterly Update Announcement. Please refer to the Third Quarterly Update Announcement for further details of the Consulting Agreements entered into between Venus HK, and each of Mr. Anthony Wu (an independent non-executive Director) (“**Mr. Wu**”) and the late Mr. Wan Yee Joseph Lau (a former independent non-executive Director) (“**Professor Lau**”), respectively.

The Board is assessing the implications of the Consulting Agreements and the Company will publish further announcement(s) to keep the Shareholders and potential investors of the Company informed and appraised of the status and development in this regard, as and when appropriate.

3. **Transactions that lacked sufficient documentary records**

Excluding the Unauthorized Transactions identified in the Forensic Investigation, which lack documentary records, the Forensic Consultant observed that certain sample transactions (including items referred to in 2 immediately above) lack documentary records such as payment approval records, relevant agreements, proofs of procurement or services, invoices or bank records.

Summarized below are these sample transactions by entities of the Group:

Entities	Number of Transactions⁺	Amount (RMB) (approximate)
China Entities	24	11.6 million
Non-mainland Entities that were involved in the		
Unauthorized Transactions	44	205.2 million
– Venus HK	29	101.1 million
– Venus Medtech America	15	104.1 million
Non-mainland Entities that were not involved in the		
Unauthorized Transactions	48	188.0 million
– Keystone Heart Ltd. (Excluded)*	43	185.9 million
– Cardiovalve Ltd (Excluded)*	2	1.5 million
– Venus Medtech Europe BV	3	0.6 million
Total	<u>116</u>	<u>404.8 million</u>

* For excluded Israeli entities, please refer to item 7 in the section “Main Limitations and Exclusions of the Use of Proceeds Review” below.

+ This has excluded Unauthorized Transactions as already disclosed by the Company in the Announcements.

III. No additional Unauthorized Transactions identified

As disclosed in the February 23, 2024 Announcement, the Forensic Investigation covered a review period from December 1, 2019 to November 24, 2023. During the Use of Proceeds Review, the Forensic Consultant conducted a supplemental entry-by-entry analysis on the bank statements pertaining to the Group's bank accounts obtained for the additional period from November 25, 2023 to December 31, 2023. No additional unauthorized fund flows made to Mr. Zi, Mr. Zeng and/or external counterparties pertaining to the Unauthorized Transactions (the "Involved Entities") were identified from this supplemental analysis nor the transactional sample testing described above.

MAIN LIMITATIONS AND EXCLUSIONS OF THE USE OF PROCEEDS REVIEW

The main limitations to the Use of Proceeds Review are set forth below.

1. The Forensic Consultant did not conduct a general review of the controls within the Company.
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 the overseas entities of the Group located abroad, due to the geographic limitations, the Forensic Consultant was unable to physically obtain the bank statements from the bank counter, nor could it get assistance from the responsible personnel to retrieve them from the e-banking system under its supervision. In such instances, it has relied on the alternative collection method by connecting with and requesting the responsible persons of the overseas entities with the assistance of the Company to obtain the bank statements directly from the bank via e-mails, and/or directly from the responsible persons of the overseas entities who helped to retrieve bank statements from the e-banking system and circulated to the Forensic Consultant via e-mails. Due to this inherent limitation, the Forensic Consultant could not independently verify the completeness of the bank statements and the information of the Non-mainland Entities. In addition, for certain bank accounts of the China Entities, the corresponding online banking system could not 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. The Company's finance team could retrieve historical use of proceeds breakdowns prepared by the Company from July 1, 2020 onward. For the period prior to July 1, 2020, the Company had not yet established a formalized process for preparation and documentation of the disclosure of use of proceeds, and the breakdowns available for that period were incomplete or in draft. The Company did not disclose the use of proceeds in the 2023 Annual Report. Therefore, the Forensic Consultant's analysis was based on the available use of proceeds details from July 1, 2020 to June 30, 2023.
4. Upon analysing the sources of funds in advancing the Unauthorized Transactions, the Forensic Consultant observed that certain bank accounts of the Company, such as the main operating accounts, showed not only the Proceeds but also cash-inflows from other sources, including operational activities, interest income and investment income. As a result, the Forensic Consultant could not determine what portion of the funds came from the Proceeds rather than other sources, such as cash-inflows from operating activities.

5. During the analysis of the use of proceeds in advancing the Unauthorized Transactions, the Forensic Consultant observed that the source of funds of certain Unauthorized Transactions were repayments from Mr. Zi and/or the external Involved Entities. For certain Unauthorized Transactions, the Forensic Consultant noted that the payments and repayments were not in a one-to-one corresponding relationship, i.e. one repayment was made for several loan payments, which could not be matched to a specific loan. For these Unauthorized Transactions, the Forensic Consultant was unable to identify the exact original loan corresponding to the repayment and further verify whether it originated from the Proceeds.
6. 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.
7. The Forensic Consultant was not able to obtain sufficient documentary records for 43 transactions (totalling approximately RMB185.9 million) of one Non-mainland Entity in Israel (i.e. Keystone Heart Ltd.) whose business operation was terminated in 2023, to which access was limited. These transactions are categorized as lacking sufficient documentary records.
8. Certain information in the payment approval records provided by the Company for sample transactions of one Non-mainland Entity in Israel (i.e. Cardiovalve Ltd.) are handwritten in Hebrew (i.e. eight transactions totalling approximately RMB12.6 million), for which the Forensic Consultant does not have the capability to read the language and is unable to translate the documents through translation tools. As a result, the Forensic Consultant is unable to assess the adequacy of these records.
9. The Forensic Consultant did not reach out to Mr. Zi, Mr. Zeng or Mr. Ma for an interview to further clarify the rationale and arrangements of the Unauthorized Transactions or the use of proceeds of the Group.

VIEW OF THE SPECIAL COMMITTEE

Having considered the findings of the Use of Proceeds Review, the Special Committee noted that:

1. Approximately 60% of the Disclosed Fund Flows and Undisclosed Fund Flows (i.e. approximately RMB1,091,783,000), and approximately 65% of the unauthorized loans to Jiangsu Wuzhong (i.e. RMB150,000,000), originated from the Proceeds, and the amounts of these transactions have not been included or reflected in the amount of the Proceeds used for any purposes previously disclosed by the Company.
2. While the amount of three Unauthorized Transactions was disclosed as part of the amount of the Proceeds used in the annual report of the Company for the year ended December 31, 2021, the specific nature was not identified.
3. Previous interim or annual reports did not accurately disclose that the Proceeds were used for relevant Unauthorized Transactions as a result of 1 and 2 immediately above.

4. There were certain questionable reimbursements to Mr. Zi lacking any identifiable proper business purpose, and certain questionable loans and reimbursements to Mr. Ma which lack sufficient documents supporting their approvals and proper business purpose.
5. The Consulting Agreement with each of Mr. Wu and the late Professor Lau was not considered or approved by the Board or the Remuneration and Assessment Committee.
6. The Company's financial record keeping, historically during the material time, especially in respect of overseas subsidiaries, was incomplete.

The Special Committee also noted from the May 13, 2024 Internal Control Review Announcement that the Company has implemented remedial actions regarding (i) the deficiencies in the consideration of and disclosure relating to loans by Directors and management; (ii) improvements to the Company's authorization and management systems, including the amended Monetary Funds and Bill Management Policy and Risk Prevention Management Policy; and (iii) establishment of an internal audit and compliance department.

In view of the above, the Special Committee considers that:

- a. The statements in respect of the use of Proceeds in the annual and interim reports of the Company (where applicable) after listing (due to, among others, post-IPO conduct of Mr. Zi, Mr. Zeng and Mr. Ma, i.e., Unauthorized Transactions) were inaccurate, incomplete and/or misleading in breach of paragraph 11 of Appendix D2 of the Listing Rules.
- b. Mr. Zi, Mr. Zeng and Mr. Ma were responsible for misuse of their authority as officers of the Company during their respective service periods and application of funds from the Proceeds to the Unauthorized Transactions.
- c. There was, historically, a lack of proper approval, adequate approval records and documents supporting the business purposes for the Company's payments, and the internal control consultant should be further consulted in respect of the findings of the Use of Proceeds Review to assess if such deficiencies have already been full remedied or if any further remedial actions are needed.

RECOMMENDATIONS FROM THE SPECIAL COMMITTEE AND PROGRESS OF IMPLEMENTATION

The Special Committee has reviewed the Use of Proceeds Review Report (including the scope and limitations of work thereof). After due and detailed discussion, the Special Committee considers that the scope is sufficient, and the limitations reasonable and, in respect of inaccessible records, unavoidable. Accordingly, the Special Committee has recommended that the Board adopt the findings of the Use of Proceeds Review.

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 continuously review and strengthen the oversight and implementation of the financial management policies, including with regards to payment systems, recordkeeping and documentation, approval, reporting and related procedures;	As disclosed in the Third Quarterly Update Announcement, the Company has established an internal audit and compliance department (the “ Internal Audit and Compliance Department ”) and appointed an internal audit and compliance senior manager to (i) supervise the compliance and implementation of the internal controls of the Group; (ii) conduct financial, operational and compliance audits of the Group; (iii) report to the audit committee of the Board in respect of internal audit matters; and (iv) plan and execute other internal audit activities. Therefore, the Internal Audit and Compliance Department will, as part of its responsibilities, supervise and closely monitor the implementation of the financial management policies going forward.
2.	To ensure the strict implementation of (i) the recommendations made by the Internal Control Consultant in its Internal Control Review Report; and (ii) the recommendations made by the Special Committee set forth in the February 23, 2024 Announcement;	The Internal Audit and Compliance Department will, as part of its responsibilities, supervise and closely monitor the implementation of the relevant recommendations made by the Internal Control Consultant and the Special Committee.
3.	To further consult with internal control consultant with respect of the findings of the Use of Proceeds Review Report if the internal control deficiencies have been fully remedied or if any further remedial actions are needed in light of the findings;	The Company has shared the Use of Proceeds Review Report with the internal control consultant to assess if the relevant deficiencies have already been full remedied or if any further remedial actions are needed.

No.	Recommendations	Status
4.	To continue 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; and	Relevant trainings were provided to the management and employees of the Group in June 2023 and April 2024. As disclosed in the February 23, 2024 Announcement, it is expected that trainings of such nature will continue to take place semi-annually.
5.	To continue to provide regular trainings 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.	Relevant trainings were provided to the management and employees of the Group in June 2023 and April 2024, and the Company will continue to provide regular trainings in the future. As disclosed in the February 23, 2024 Announcement, it is expected that trainings of such nature will continue to take place semi-annually.

OVERALL RESPONSES OF THE BOARD

The Board has reviewed the contents of the Use of Proceeds Review Report (including the scope and limitations of work thereof) and concurs with the view of the Special Committee that the scope is sufficient, and the limitations reasonable and, in respect of inaccessible records, unavoidable. The Board has also reviewed the Recommendations made by the Special Committee and concurs with the view of the Special Committee on the Use of Proceeds Review as set out above.

For other aspects of the progress of the implementation of Recommendations, please refer to the Company's announcement dated August 23, 2024. The Company will publish announcement(s) dealing with any further material developments as and when they occur.

CONTINUED SUSPENSION OF TRADING

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, September 2, 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.