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YUNKANG GROUP LIMITED

云康集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2325)

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

References are made to the Prospectus, the announcement dated May 30, 2022 and the circular dated June 9, 2022 of the Company, in relation to, among others, the entering into and the revision of annual caps for the transactions contemplated under the Reagents, Consumables and Equipment Procurement Framework Agreement. Under the Reagents, Consumables and Equipment Procurement Framework Agreement, the Group shall procure reagents, consumables and equipment from Da An Gene Group from time to time during the term thereof.

In order to satisfy the unanticipated increased demand for reagents, consumables and equipment as a result of the significant increase in demand for COVID-19 tests due to the outbreak of COVID-19 and the introduction of government measures to contain the outbreak, taking into account the unexpected increase in such demand since the third quarter of 2022, which is expected to increase the transaction amount under the Reagents, Consumables and Equipment Procurement Framework Agreement between the Group and Da An Gene Group, the Board envisages that the Revised Annual Caps (First Revision) will not be sufficient to fulfil the additional unforeseen transactions that may take place under the Reagents, Consumables and Equipment Procurement Framework Agreement for the financial years ending December 31, 2022, 2023 and 2024.

According to Rule 14A.54 of the Listing Rules, if the Company proposes to revise the annual caps for continuing connected transactions, the Company will be required to re-comply with the provisions of Chapter 14A of the Listing Rules in relation to the relevant connected transactions. Da An Gene is a controlling shareholder of the Company, therefore, Da An Gene is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. As a result, the transactions contemplated under the Reagents, Consumables and Equipment Procurement Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (other than the profits ratio) calculated in accordance with the Listing Rules for the Revised Annual Caps (Second Revision) on an annual basis is more than 5% and the total consideration is not less than HK\$10,000,000, such transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

REVISION OF ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTIONS

References are made to the Prospectus, the announcement dated May 30, 2022 and the circular dated June 9, 2022 in relation to, among others, the entering into and the revision of annual caps for the transactions contemplated under the Reagents, Consumables and Equipment Procurement Framework Agreement. Under the Reagents, Consumables and Equipment Procurement Framework Agreement, the Group shall procure reagents, consumables and equipment from Da An Gene Group from time to time during the term thereof. Unless otherwise specified, capitalised terms used herein shall have the same meaning ascribed to them in the Prospectus, the announcement dated May 30, 2022 and the circular dated June 9, 2022.

In order to satisfy the unanticipated increased demand for reagents, consumables and equipment as a result of the significant increase in demand for COVID-19 tests due to the outbreak of COVID-19 and the introduction of government measures to contain the outbreak, taking into account the unexpected increase in such demand since the third quarter of 2022, which is expected to increase the transaction amount under the Reagents, Consumables and Equipment Procurement Framework Agreement between the Group and Da An Gene Group, the Board envisages that the Revised Annual Caps (First Revision) will not be sufficient to fulfil the additional unforeseen transactions that may take place under the Reagents, Consumables and Equipment Procurement Framework Agreement for the financial years ending December 31, 2022, 2023 and 2024.

Pricing Policy

The terms of the Reagents, Consumables and Equipment Procurement Framework Agreement have not been changed or modified in any way and the major terms (including the pricing policy) are set out in the section headed “Connected Transactions – Non-exempt Continuing Connected Transactions – Reagents, Consumables and Equipment Procurement Framework Agreement” in the Prospectus.

Historical Transaction Amount

For the year ended December 31, 2021 and for the eight months ended August 31, 2022, the transaction amount incurred in respect of the transactions under the Reagents, Consumables and Equipment Procurement Framework Agreement were approximately RMB201.4 million (audited) and RMB268.2 million (unaudited), respectively. The Company also confirms that as at the date of this announcement, the actual transaction amount has not exceeded the Revised Annual Caps (First Revision).

Revised Annual Caps (Second Revision)

Accordingly, the Board resolved to further revise the annual caps for the transactions as contemplated under the Reagents, Consumables and Equipment Procurement Framework Agreement as follows:

	For the year ending December 31, 2022	For the year ending December 31, 2023	For the year ending December 31, 2024
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Original Annual Caps	166,326	174,638	186,519
Revised Annual Caps (First Revision) ⁽¹⁾	397,571	417,449	438,322
Revised Annual Caps (Second Revision)	563,285	591,450	621,022

Note: (1) The Original Annual Caps were revised by the Board on May 30, 2022 and were approved by the Shareholders at the annual general meeting of the Company on June 30, 2022.

The Revised Annual Caps (Second Revision) are determined with reference to (i) the historical transaction amount paid by the Group for the procurement from Da An Gene Group in the past three financial years and the eight months ended August 31, 2022; and (ii) the expected need of the Company for the reagents, consumables and equipment with estimated number of up to 5.7 million units of reagents and certain number of equipment for each of the years ending December 31, 2022, 2023 and 2024 including the expected need of the reagents, consumables and equipment related to COVID-19 testing considering the factors stated in the section headed “Reasons for and Benefits of the Adoption of Revised Annual Caps (Second Revision)”.

REASONS FOR AND BENEFITS OF THE ADOPTION OF REVISED ANNUAL CAPS (SECOND REVISION)

The Board has been carefully monitoring the development and prevention of infectious diseases. The Company cooperates with secondary and tertiary medical institutions nationwide to build PCR-based on-site diagnostic centers for infectious diseases, and assists governments and medical institutions in various regions in the establishment of infectious diseases (including COVID-19, monkeypox, and other types of respiratory and digestive tract infectious diseases) prevention and control networks to improve the technical level and efficiency of infectious diseases diagnosis. Currently, the global cases of COVID-19 infections are still rising with a significant rebound, and China’s epidemic prevention pressure is increasing. Since the third quarter of 2022, the frequency of local epidemics across the country has increased significantly, and most provinces in China have reported new local infections. Under the general strategy of “Prevent External Import and Prevent Internal Rebound” (外防輸入、內防反彈) and the general principle of “Dynamic Clearance” (動態清零) of the state, the PRC Government continues to increase the frequency of nucleic acid testing in local epidemic areas and conduct normalized nucleic acid testing in non-epidemic areas. Since the beginning of this year, the Company has accelerated the construction of on-site diagnostic centers for infectious diseases in various regions to meet the new demand for infectious diseases detection. Since the third quarter, the Company has provided a large number of testing services for infectious diseases, especially the prevention and control of COVID-19, that exceeded expectations. In anticipation of the large crowd movement during the upcoming major holidays (including, among others, National Day and Christmas), as well as the possible risk of superimposed epidemics of influenza and COVID-19 in the upcoming autumn and winter, such rapid growth in demand for infectious diseases testing will continue.

The Board is of the view that the Revised Annual Caps (Second Revision) will contribute to the construction of PCR-based on-site diagnostic centers for infectious diseases, and lay a solid foundation for the sustainable development of the Company. The Company assists governments and medical institutions in various regions in the establishment of infectious diseases prevention and control networks to improve the technical level and efficiency of infectious diseases diagnosis. In addition to responding to the detection of COVID-19, these diagnosis centers for infectious diseases will play an important role in other fields including the prevention and control of other infectious diseases (including, among others, respiratory infections, AIDS, viral hepatitis, tuberculosis, and hand, foot and mouth disease), the prevention and control of tumors, and chronic disease management.

Da An Gene is a leading enterprise in the molecular diagnosis industry in the PRC. It has a leading nucleic acid detection technology industry chain platform and a strong production capacity, which ensures the high-quality, timely and stable supply of nucleic acid detection-related products to meet the needs of the Company caused by the strong market demand.

The Directors (excluding the independent non-executive Directors whose view will be expressed after receiving advice from the Independent Financial Adviser) consider that the proposed Revised Annual Caps (Second Revision) are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

INTERNAL CONTROL MEASURES

The Company will obtain quotation from not less than two independent suppliers that provide similar reagents, consumables and equipment before placing orders to Da An Gene Group. Based on the fee quotes provided by other independent suppliers, the Company will be able to ensure that the purchase price to be paid to Da An Gene Group by the Group represents the prevailing market price and on normal commercial terms.

The independent non-executive Directors will review the transactions from time to time to assess whether such transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the Reagents, Consumables and Equipment Procurement Framework Agreement, on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company's external auditors will review the transactions annually to confirm, among others, whether the pricing terms have been adhered to and whether the relevant annual caps have been exceeded.

The Directors consider that the internal control system of the Group is adequate to ensure that the transactions will be on normal commercial terms and no less favourable to the Company than those offered by independent third parties.

INFORMATION ON THE PARTIES

The Group is a China-based company mainly engaged in the provision of diagnostic testing services.

Da An Gene is a biomedical company listed on the SME Board of the Shenzhen Stock Exchange (Stock Code: 002030.SZ) with a focus on molecular diagnostic technology and is primarily engaged in the research and development, production, and sales of clinical test reagents, instruments, and supporting consumables.

LISTING RULES IMPLICATIONS

According to Rule 14A.54 of the Listing Rules, if the Company proposes to revise the annual caps for continuing connected transactions, the Company will be required to re-comply with the provisions of Chapter 14A of the Listing Rules in relation to the relevant connected transactions. Da An Gene is a controlling shareholder of the Company, therefore, Da An Gene is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. As a result, the transactions contemplated under the Reagents, Consumables and Equipment Procurement Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (other than the profits ratio) calculated in accordance with the Listing Rules for the Revised Annual Caps (Second Revision) on an annual basis is more than 5% and the total consideration is not less than HK\$10,000,000, such transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

As Ms. Huang Luo is the general manager and a director at Da An Gene, Ms. Huang had abstained from voting on the resolutions at the meeting of the Board for approving the adoption of Revised Annual Caps (Second Revision).

GENERAL

In view of the potential interests of Da An Gene in the adoption of Revised Annual Caps (Second Revision), Daan International will be required to abstain from voting in relation to the adoption of Revised Annual Caps (Second Revision) at the Extraordinary General Meeting. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, save and except Daan International, no other Shareholder has a material interest in the adoption of Revised Annual Caps (Second Revision), therefore, no other Shareholder will be required to abstain from voting at the Extraordinary General Meeting.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the fairness and reasonableness of the adoption of Revised Annual Caps (Second Revision), after taking into account the recommendations of the Independent Financial Adviser. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

An Extraordinary General Meeting will be convened and held at which the Independent Shareholders will consider, and, if thought fit, approve the adoption of Revised Annual Caps (Second Revision).

A circular containing, among other things, (i) further details of the adoption of Revised Annual Caps (Second Revision); (ii) a letter of recommendation from the Independent Board Committee; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the adoption of Revised Annual Caps (Second Revision); and (iv) a notice convening the Extraordinary General Meeting will be despatched to the Shareholders on or before October 21, 2022 in compliance with the Listing Rules.

DEFINITION

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Yunkang Group Limited 云康集团有限公司, an exempted company with limited liability incorporated in the Cayman Islands, the Shares of which were listed on the main board of the Stock Exchange (stock code: 2325)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“COVID-19”	coronavirus disease 2019, a disease caused by a novel virus designated as severe acute respiratory syndrome coronavirus 2

“Da An Gene”	Daan Gene Co., Ltd. (廣州達安基因股份有限公司), a company limited by shares established in the PRC whose shares are listed on the SME Board of the Shenzhen Stock Exchange (Stock Code: 002030.SZ)
“Da An Gene Group”	Da An Gene and its subsidiaries
“Daan International”	Daan International Holdings Limited (達安國際集團有限公司), a company incorporated in Hong Kong with limited liability, a subsidiary of Da An Gene and one of the controlling shareholders of the Company
“Director(s)”	director(s) of the Company
“Extraordinary General Meeting”	an extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve, among other things, the adoption of Revised Annual Caps (Second Revision)
“Group”	the Company, its subsidiaries and consolidated affiliated entities
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors established for the purpose of advising the Independent Shareholders on the adoption of Revised Annual Caps (Second Revision)
“Independent Financial Adviser”	Ballas Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the adoption of Revised Annual Caps (Second Revision)
“Independent Shareholder(s)”	Shareholder(s) other than Daan International
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Original Annual Caps”	the original annual cap amount in respect of the procurement of reagents, consumables and equipment from Da An Gene Group by the Group under the Reagents, Consumables and Equipment Procurement Framework Agreement for the financial years ending December 31, 2022, 2023 and 2024 as set out in the Prospectus
“PRC” or “China”	People’s Republic of China, but for the purpose of this announcement and for geographical reference only and except where the context requires otherwise, references in this announcement to “China” and the “PRC” do not apply to Hong Kong, Macau and Taiwan
“Prospectus”	the prospectus of the Company dated May 5, 2022

“Reagents, Consumables and Equipment Procurement Framework Agreement”	Reagents, Consumables and Equipment Procurement Framework Agreement dated February 18, 2022 entered into between the Company and Da An Gene
“Revised Annual Caps (First Revision)”	the first revised annual cap amount in respect of the procurement of reagents, consumables and equipment from Da An Gene Group by the Group under the Reagents, Consumables and Equipment Procurement Framework Agreement for the financial years ending December 31, 2022, 2023 and 2024, which was approved by the Shareholders at the annual general meeting of the Company on June 30, 2022
“Revised Annual Caps (Second Revision)”	the second revised annual cap amount in respect of the procurement of reagents, consumables and equipment from Da An Gene Group by the Group under the Reagents, Consumables and Equipment Procurement Framework Agreement for the financial years ending December 31, 2022, 2023 and 2024
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the ordinary share(s) of US\$0.000002 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

By order of the Board
Yunkang Group Limited
Zhang Yong
Chairman

Guangzhou, the PRC
September 29, 2022

As at the date of this announcement, the Board comprises Mr. Zhang Yong as Chairman and Executive Director; Ms. Huang Luo, Dr. Guo Yunzhao and Dr. Wang Ruihua as Non-executive Directors; and Mr. Yu Shiyong, Mr. Yang Hongwei and Mr. Xie Shaohua as Independent Non-executive Directors.