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HUAKANG BIOMEDICAL HOLDINGS COMPANY LIMITED

華康生物醫學控股有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 8622)

SUPPLEMENTAL ANNOUNCEMENT DISCLOSEABLE TRANSACTION IN RELATION TO ACQUISITION OF 19% EQUITY INTEREST OF THE TARGET COMPANY AND PROVISION OF LOAN

Reference is made to the announcement of Huakang Biomedical Holdings Company Limited (the “**Company**”) dated 6 January 2023 (the “**Announcement**”) in respect of the Transactions involving the Sale and Purchase Agreement and Loan Agreement. Unless defined otherwise, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

This announcement is made to provide the supplementary information on (i) the identities of the ultimate beneficial owners of the Target Company and Vendor; (ii) the Sale and Purchase Agreement and Loan Agreement; (iii) the AFE IP; and (iv) remedial measures taken by the Board.

INFORMATION OF THE ULTIMATE BENEFICIAL OWNERS OF THE TARGET COMPANY AND VENDOR

Immediately prior to Huakang SZ becoming a shareholder of the Target Company pursuant to the Sale and Purchase Agreement, the Target Company is owned as to:

- (1) 51% by Xinyu Wanchuan Asset Management Partnership (Limited Partnership)* (新余市萬川資產管理合夥企業(有限合夥)) (“**Xinyu Wanchuan**”);
- (2) 39% by the Vendor; and
- (3) 10% by Shenzhen Fortune Focus Fund Management Co., Ltd.* (深圳市鑫致誠基金管理有限公司) (“**Shenzhen Fortune**”).

Xinyu Wanchuan is owed as to 70% by Hu Fengrui (胡峰瑞) and 30% by Wang Ke (王珂).

The Vendor is owned as to 63.5% by Zhang Xiyu (張浠煜) (“**Mr. Zhang**”) and 36.5% by Liang Hongping (梁紅蘋) (“**Ms. Liang**”). Mr. Zhang and Ms. Liang are married to each other.

Shenzhen Fortune is owed as to 50% by Liu Shiru (劉士儒), 35% by Li Xin (李昕), 5% by Liu Xiaolin (劉曉林), 5% by Zhang Jiangying (張江英) and 5% by Zhuang Renyan (莊任艷).

Mr. Zhang, being one of the ultimate beneficial owners of the Vendor and the Target Company, is (i) one of the directors of Ever Charming Inc., the Company’s controlling shareholder (as defined in the GEM Listing Rules); and (ii) one of the ultimate beneficial owners of Smartronic Limited, in which the Company indirectly hold 49% equity interests.

Since (i) Mr. Zhang does not hold any equity interest in the Company; and (ii) Smartronic Limited is not a subsidiary of the Company and its financial results are not consolidated into the financial statements of the Group, the Board is of the view that the Vendor and Target Company are neither connected persons nor deemed connected persons under the GEM Listing Rules.

To the best knowledge, information and belief of the Board, having made all reasonable enquiries, save as disclosed herein, the Vendor, the Target Company and their ultimate beneficial owners are independent of and not connected with the Company and its connected persons.

FURTHER INFORMATION OF THE SALE AND PURCHASE AGREEMENT

Consideration

As disclosed in the Announcement, the consideration payable under the Sale and Purchase Agreement is RMB1.9 million.

The consideration for the Sale and Purchase Agreement was arrived at after arm's length negotiations between the parties to the Sale and Purchase Agreement after taking into consideration of various factors, including (i) the registered capital of the Target Company being RMB10 million; and (ii) the value of the AFE IP that is expected to be obtained by the Target Company.

Further information of the Target Company

The Target Company was established under the laws of the PRC on 21 May 2021. The Target Company was established for the purpose of acquiring the AFE IP from and collaborating with the University.

Set out below are certain unaudited financial information of the Target Company (prepared in accordance with the generally accepted accounting principles of the PRC) for the period from 21 May 2021 to 31 December 2021 and the 11 months ended 30 November 2022:

	For the period from 21 May 2021 to 31 December 2021	For the 11 months ended 30 November 2022
	<i>(unaudited)</i>	<i>(unaudited)</i>
	<i>(Approximate)</i>	<i>(Approximate)</i>
	<i>RMB</i>	<i>RMB</i>
Profit before tax	-	-
Profit after tax	-	-

The unaudited net asset value of the Target Company as at 30 November 2022 amounted to approximately RMB10 million.

FURTHER INFORMATION OF THE LOAN AGREEMENT

Principal amount

As disclosed in the Announcement, the principal amount of the Loan is RMB3.8 million.

The principal amount of the Loan was decided on the basis that the first installment expected to be paid by the Target Company to the University for the acquisition of the AFE IP is RMB20 million. As such, Huakang SZ, having acquired 19% of the equity interest of the Target Company, shall contribute 19% of the said first installment (being RMB3.8 million) by way of loan capital to the Target Company. The Target Company shall receive an aggregate sum of RMB20 million from its shareholders (of which RMB3.8 million shall be contributed by Huakang SZ) and the Target Company is expected to use such funds for the acquisition of the AFE IP from the University.

FURTHER INFORMATION OF THE AFE IP

As of the date of this announcement, the AFE IP are owned by the University.

According to the valuation report prepared by an independent qualified valuer, the AFE IP was assessed to be worth RMB24,994,500.

REMEDIAL MEASURES

After being aware of the Transactions and as disclosed in the Announcement, the Company has promptly taken remedial measures, including making an announcement to disclose the incident, conducting investigation and reviewing the terms of the Sale and Purchase Agreement and Loan Agreement. Further information of some of the measures is stated below.

Investigation conducted

A special investigation committee which consists of independent non-executive directors was established on 4 January 2023. The scope of the work of the special investigation committee included:

- (1) conducting interview with the persons involved in the incident to gain further knowledge on the Sale and Purchase Agreement and Loan Agreement;
- (2) conducting interview with the ultimate beneficial owners of the Vendor so as to understand the Sale and Purchase Agreement and Loan Agreement;
- (3) collecting and reviewing documents relating to the incident (including but not limited to the Sale and Purchase Agreement, the Loan Agreement, the relevant bank records; draft contracts between the Target Company and the University and the valuation report in relation to the AFE IP);
- (4) analysing the background, the reason and the impact of the incident;
- (5) reviewing the relevant internal control measures of the Company; and
- (6) providing suggested measures for minimising the impact of the incident and for the prevention of similar incidents in the future.

The special investigation committee had completed its investigation on 16 January 2023 and an investigation report was issued on 17 January 2023. The investigation reveals that the Transactions were entered into by Huakang SZ under the following background:

- (1) the Board did on 16 December 2022 considered a draft memorandum of understanding in relation to the possible acquisition of 19% equity interest in the Target Company, and the Board approved the memorandum of understanding as considered that collaboration with the Target Company will bring substantial benefits to the Group;

- (2) shortly after considering the draft memorandum of understanding on 16 December 2022, the majority shareholder of the Target Company expressed to Mr. Zhang Shuguang its dissatisfaction with the progress of Huakang SZ's investments in the Target Company and indicated that it had intentions to collaborate with other interested investors (instead of Huakang SZ); and
- (3) in view of Xinyu Wanchuan's intentions and the tight timeline, Mr. Zhang Shuguang entered into the Sale and Purchase Agreement on 19 December 2022 and the Loan Agreement on 20 December 2022 for and on behalf of Huakang SZ in the heat of the moment. Mr. Zhang Shuguang did discuss with two other Directors of the Board before entering into the Transactions, and the three Directors agreed to enter into the Transactions.

Other major findings of the special investigation committee are as follows:

- (1) the special investigation committee is satisfied that the Vendor, the Target Company and their ultimate beneficial owners are independent of and not connected with the Company and its connected persons (including the Directors who were involved in the incident);
- (2) although the consideration payable under the Transactions is within the authorised limit that may be approved by the Directors involved, the special investigation committee is of the view that there are inadequacies in the knowledge and observance of the GEM Listing Rules and internal control measures on the part of such Directors;
- (3) the special investigation committee is of the view that the consideration payable under the Transactions are fair and reasonable. However, there are legal risks associated with the Transactions since it is necessary to guarantee the successful acquisition of AFE IP by the Target Company from the University;
- (4) the Loan is interest free and there is no provision in the Loan Agreement guaranteeing the repayment of the Loan;
- (5) in light of the risks associated with the Transactions, the special investigation committee recommends that the Company should conduct further negotiations with the Vendor and Target Company and to negotiate for revising the terms and conditions of the Transactions;
- (6) it is the special investigation committee's suggestion that an internal memorandum with updated indicative denominators of the five ratio tests for certain potential notifiable transactions under Chapter 19 of the GEM Listing Rules and the indicative total assets ratio test for advance to an entity under Chapter 17 of the GEM Listing Rules be regularly circulated to all PRC subsidiary-level directors, senior management members and accounting and financial personnel of the Group to remind them of the compliance obligations under the GEM Listing Rules;
- (7) it is the special investigation committee's suggestion that the Group should review its payment and investment limits annually with reference to the GEM Listing Rules (including rules in relation to notifiable transactions). Further, the special investigation committee suggests that payments and investments that exceed such limits should require the approval from all Directors of the Board; and
- (8) it is the special investigation committee's suggestion that the Company should provide training to the Company's management in relation to the GEM Listing Rules and internal control management, particularly those concerning continuing obligations, notifiable and connected transactions, to increase their awareness and knowledge of the GEM Listing Rules.

The Company has updated the relevant internal control measures in accordance with the recommendations made by the special investigation committee on 17 January 2023. Further, an internal memorandum in relation to the compliance obligations under the GEM Listing Rules was circulated to all PRC subsidiary-level directors, senior management members and accounting and financial personnel of the Group on 17 January 2023.

Pursuant to the recommendations of the special investigation committee, the Company's management completed training on GEM Listing Rules and internal control compliance on 30 January 2023.

Reviewing of the Transactions and further negotiations with the Vendor and Target Company

Pursuant to the recommendations of the special investigation committee, as at the date of this announcement, the Group is in active discussion and negotiations with the Vendor and Target Company in relation to the entering of a possible supplemental agreement to the Sale and Purchase Agreement and a possible supplemental agreement to the Loan Agreement. When there is further development in relation to the possible supplemental agreement(s), further announcement(s) will be made by the Company in accordance with the relevant rules.

By Order of the Board
Huakang Biomedical Holdings Company Limited
Zhang Shuguang
Chairman and Executive Director

Hong Kong, 7 February 2023

As at the date of this announcement, the Executive Directors are Mr. Zhang Shuguang, Mr. Zhang Chunguang, Mr. Poon Lai Yin Michael and Mr. He Jiaming; and the Independent Non-executive Directors are Dr. Chow Kwok Fai Joseph, Dr. Cheng Faat Ting Gary and Mr. Chan Kin Sang.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the "Latest Company Announcements" page of the Stock Exchange website at www.hkexnews.hk for at least seven days from the date of publication and on the Company's website at www.huakangbiomedical.com.

** For identification purpose only*