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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

Reference is made to the Prospectus of the Company in relation to, among others, the entering into 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 of reagents, consumables and equipment as a result of the significant increase in demand of COVID-19 tests due to outbreak of COVID-19 and the introduction of government measures to contain the outbreak, 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 Original Annual Caps 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 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

Reference is made to the Prospectus in relation to, among others, the entering into 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.

In order to satisfy the unanticipated increased demand of reagents, consumables and equipment as a result of the significant increase in demand of COVID-19 tests due to outbreak of COVID-19 and the introduction of government measures to contain the outbreak, 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 Original Annual Caps 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 four months ended April 30, 2022, the transaction amount incurred in respect of the transactions under the Reagents, Consumables and Equipment Procurement Framework Agreement were approximately RMB201.41 million (audited) and RMB101.94 million (unaudited), respectively. The Company also confirms that as at the date of this announcement, the actual transaction amount has not exceeded the Original Annual Caps.

Revised Annual Caps

Accordingly, the Board resolved to revise the Original Annual Caps 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	397,571	417,449	438,322

The Revised Annual Caps 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 four months ended April 30, 2022; and (ii) the expected need of the Company for the reagents, consumables and equipment with estimated number of up to 3.9 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”.

REASONS FOR AND BENEFITS OF THE ADOPTION OF REVISED ANNUAL CAPS

The Board has been carefully monitoring the development of COVID-19 outbreak. In view of the current complex epidemic situation and the corresponding preventive measures in relation thereto, and also 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 will enhance the normalized monitoring system, establish nucleic acid circles within 15 minutes walking distance (步行15分鐘核酸圈) and carrying out a regular nucleic acid testing, enhance the number of testing to be conducted on key industries and group of citizens of each province and cities with a population of ten million so as to enhance the early detection capabilities. As the new coronavirus continues to mutate and also with its increasing infectivity, there are frequent COVID-19 outbreaks in local cluster. As influenced by the above general strategy and principle, various cities and districts in the PRC including Beijing, Shanghai, Guangzhou and Shenzhen etc. currently have begun to deploy nucleic acid testing. As a result, the market demand increased significantly. The Company received requests from local governments and medical institutions at all levels to help establish testing capabilities and enhance the level of epidemic prevention and control. Taking into account of the factors set out above, the Board envisages that the Original Annual Caps 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. Hence, the Board proposes to increase the Original Annual Caps to the Revised Annual Caps to satisfy the increasing demand for reagents, consumables and equipment from Da An Gene Group.

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 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 biomedical company listed on the SME Board of the Shenzhen Stock Exchange (Stock Code: 002030.SZ) and is primarily engaged in the research and development, production and sales of clinical test reagents and instruments as well as the provision of clinical test services to national chain independent medical laboratories in China.

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 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 Mr. Zhou Xinyu is the general manager at Da An Gene and an executive director and general manager at Daan International, Mr. Zhou had abstained from voting on the resolutions at the meeting of the Board for approving the adoption of Revised Annual Caps.

GENERAL

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

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, 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 AGM will be convened and held at which the Independent Shareholders will consider, and, if thought fit, approve the adoption of Revised Annual Caps.

A circular containing, among other things, (i) further details of the adoption of Revised Annual Caps; (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; and (iv) a notice convening the AGM will be despatched to the Shareholders on or before June 9, 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:

“AGM”	an annual 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
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Director
“Company”	Yunkang Group Limited 雲康集團有限公司, 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)”	directors of the Company
“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
“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
“Independent Shareholder(s)”	Shareholder(s) other than Daan International and its respective associates
“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”	the People’s Republic of China which, for the purpose of this announcement and unless otherwise indicated, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China 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”	the 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
May 30, 2022

As at the date of this announcement, the executive director, Chairman and Chief Executive Officer of the Company is Mr. Zhang Yong; the non-executive directors of the Company are Mr. Zhou Xinyu, Dr. Guo Yunzhao and Mr. Zhou Weiqun; and the independent non-executive directors of the Company are Mr. Yu Shiyong, Mr. Yang Hongwei and Mr. Xie Shaohua.