



Yunkang Group Limited

云康集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2325)

Executive Director:

Mr. Zhang Yong (張勇)
(Chairman of the Board and Chief Executive Officer)

Non-Executive Directors:

Ms. Huang Luo (黃珞)
Dr. Guo Yunzhao (郭雲釗)
Dr. Wang Ruihua (王瑞華)

Independent Non-Executive Directors:

Mr. Yu Shiyong (喻世友)
Mr. Yang Hongwei (楊洪偉)
Mr. Xie Shaohua (謝少華)

Registered Office:

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33 Hysan Avenue
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Hong Kong

October 14, 2022

To the Shareholders

Dear Sir or Madam,

**(1) REVISION OF ANNUAL CAPS FOR CONTINUING
CONNECTED TRANSACTIONS; AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

The purpose of this circular is to provide Shareholders with the notice of Extraordinary General Meeting and further information in relation to the resolution to be proposed at the Extraordinary General Meeting regarding the adoption of Revised Annual Caps (Second Revision).

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

References are made to the Prospectus, the announcement dated May 30, 2022, the circular dated June 9, 2022 and Announcement 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, 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 Revised Annual Caps (First Revision) were approved by the Shareholders at the annual general meeting of the Company on June 30, 2022. Taking into account the unexpected increase in such demand since the third quarter of 2022, 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 prices of the reagents, consumables and equipment under the Reagents, Consumables and Equipment Procurement Framework Agreement were determined by both parties through arm's length negotiation with reference to the prevailing market price of similar reagents, consumables and equipment offered by independent suppliers. The Company will obtain quotation from not less than two independent suppliers that provide similar reagents, consumables and equipment before the Company places the 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 Directors are of the view that the independent suppliers in the market could supply the same or similar reagents, consumables and equipment covered under the Reagents, Consumables and Equipment Procurement Framework Agreement with Da An Gene. Typically there are two to five alternative independent suppliers for each type of reagents, consumables and equipment covered under the Reagents, Consumables and Equipment Procurement Framework Agreement. The Directors are also further of the view that there will not be any material increase if the Group had to procure reagents, consumables and equipment from alternative suppliers as the procurement price with Da An Gene represents the prevailing market price and on normal commercial terms. Even if the Company purchased from other independent suppliers other than Da An Gene, the Group will still obtain quotations from not less than two independent suppliers that provide similar reagents, consumables and equipment before placing orders to ensure that the procurement price is consistent with the market price.

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 of the Latest Practicable Date, 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 Revised Annual Caps (First Revision) as follows:

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

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^(Note) 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)”.

Note: The expected need of the Company for the reagents, consumables and equipment for 2022 is estimated to be 5.2 million, derived by annualizing the actual purchase number for the eight months ended August 31, 2022, plus a buffer of 40%, which is determined taking into account (i) the sharp monthly growth rate of approximately 12% of the Company’s purchase number under the Reagents, Consumables and Equipment Procurement Framework Agreement in August 2022, and (ii) the unpredictable demand for COVID-19 tests. Such buffer allows the Revised Annual Caps (Second Revision) to satisfy the Company’s procurement need assuming the monthly growth rate in August continues to the end of 2022. The estimated number for 2023 and 2024 is approximately 5.4 million and 5.7 million assuming a 5% growth each year. The estimated number of units under Revised Annual Caps (First Revision) were 3.5 million, 3.7 million and 3.9 million for the years 2022, 2023 and 2024 respectively. The 2023/2024 growth rate of 5% represents a slowdown in the growth from the estimated 2022 growth rate of 40%. The 2023/2024 growth rate is determined based on the Group’s expectation that the tight preventive measures implemented by the PRC government, that include the deployment of regular and confined nucleic acid testing, should effectively contain the possibility of widespread COVID-19 outbreak in China in the year of 2022 and likely prevent any substantial escalation in the epidemic situation in 2023 and 2024. Therefore, the Company expects that the demand for reagents required for conducting diagnostic testing for COVID-19 will become stable in the years of 2023 and 2024. Hence, the management of the Company applied a more conservative estimated 2023/2024 growth rate of 5% in arriving at the Revised Annual Caps (Second Revision) for the financial years ending 2023 and 2024.

Given that (i) there is a real need for the Company to increase the annual caps to purchase additional reagents, consumables and equipment from Da An Gene Group to satisfy the unanticipated increased demand for COVID-19 tests; (ii) the prices of the reagents, consumables and equipment were determined by both parties with reference to the prevailing market price of similar reagents, consumables and equipment offered by independent suppliers. 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; and (iii) the additional purchase of reagents, consumables and equipment from Da An Gene Group will increase the overall testing capability of the Group, the transaction(s) contemplated under the Reagents, Consumables and Equipment Procurement Framework Agreement and the adoption of the Revised Annual Caps (Second Revision) are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

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 (including the independent non-executive Directors) 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 finance department of the Group will monitor the transaction amounts under the Reagents, Consumables and Equipment Procurement Framework Agreement by reviewing management accounts for the continuing connected transactions therein on a monthly basis to make sure that the actual contract amounts do not exceed the relevant annual caps. If it is expected that the transaction amount of any continuing connected transaction that is or will be incurred in the financial year will reach or exceed the relevant annual cap, the finance department shall report to the management and consider the measures to be taken to ensure that the requirements under the Listing Rules are complied with, including obtaining the approval of Independent Shareholders.

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).

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.

Independent Board Committee and Independent Financial Adviser

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.

EXTRAORDINARY GENERAL MEETING

The notice of the Extraordinary General Meeting is set out on pages 31 to 32 of this circular.

For determining the eligibility to attend and vote at the Extraordinary General Meeting, the register of members of the Company will be closed from Wednesday, October 26, 2022 to Monday, October 31, 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the Extraordinary General Meeting, all transfer of Shares documents, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, October 25, 2022.

PROXY ARRANGEMENT

A form of proxy for use at the Extraordinary General Meeting is enclosed with this circular. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (<http://www.yunkanghealth.com>). Whether or not you intend to attend the Extraordinary General Meeting, you are required to complete and sign the form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for holding the Extraordinary General Meeting (i.e. not later than 3:00 p.m. on Saturday, October 29, 2022) or any adjournment thereof. Delivery of any instrument appointing a proxy shall not preclude you from attending and voting in person at the Extraordinary General Meeting (or any adjourned meeting thereof) and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

VOTING BY WAY OF POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any resolution put to the vote of the Shareholders at a general meeting must be taken by poll except where the chairman of the Extraordinary General Meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. An announcement on the poll results will be published by the Company after the Extraordinary General Meeting in the manner prescribed under Rule 13.39(5) of the Listing Rules.

RECOMMENDATION

The Directors consider that the above proposed resolution regarding the adoption of Revised Annual Caps (Second Revision) is in the best interests of the Company and the Shareholders as a whole. The Directors therefore recommend the Shareholders to vote in favor of the resolution to be proposed at the Extraordinary General Meeting.

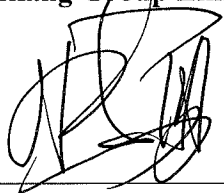
ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 12 to 13 of this circular, the letter from the Independent Financial Adviser set out on pages 14 to 26 of this circular and the additional information set out in the appendix to this circular.

Yours faithfully,
By order of the Board
Yunkang Group Limited
Zhang Yong
Chairman and Executive Director

Yours faithfully,

For and on behalf of
Yunkang Group Limited

A handwritten signature in black ink, appearing to be 'Zhang Yong', written over a horizontal line.

Name: Zhang Yong (張勇)

Title: Chairman of the Board, executive Director and chief executive officer