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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)

SUPPLEMENTAL ANNOUNCEMENT

- (1) DISCLOSEABLE TRANSACTIONS IN RELATION TO THE SUBSCRIPTIONS AND REDEMPTIONS;**
- (2) CLARIFICATION REGARDING THE INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2022; AND**
- (3) CLARIFICATION REGARDING THE 2022 ANNUAL REPORT**

Reference is made to (i) the announcement of Yunkang Group Limited (the “**Company**”) dated March 31, 2023 (the “**Announcement**”) in relation to, among others, the subscription of seven segregated portfolios of funds by the Company in 2022 (the “**2022 Subscriptions**”) and clarifications regarding the interim results for the six months ended June 30, 2022 (the “**2022 Interim Results**”); and (ii) the 2022 annual report of the Company published on April 24, 2023 (the “**2022 Annual Report**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

SUPPLEMENTAL INFORMATION IN RELATION TO THE ANNOUNCEMENT

The Company would like to provide the following supplemental information in relation to the 2022 Subscriptions.

Reasons for making the 2022 Subscriptions

As disclosed in the Announcement, the Company believes that making reasonable and effective use of temporary idle cash can enhance the Group’s overall return on capital. The finance department of the Company (the “**Finance Department**”), which is responsible for managing the Company’s cash at bank and cash in hand, viewed the 2022 Subscriptions as part of the Company’s cash management strategy due to the low-risk and flexible redemption features of the relevant fund products under the 2022 Subscriptions. The Finance Department intended to redeem the fund products as and when necessary if the Company required cash for implementing the business strategies as disclosed in the Prospectus. As such, the 2022 Subscriptions were not made for the purpose of implementing the Company’s business strategies as disclosed in the Prospectus, but to utilize idle cash for cash management purposes. Before proceeding with the 2022 Subscriptions, the Group ensured sufficient working capital for its business, operating activities and capital expenditure. The 2022 Subscriptions allowed the Company to enhance returns by effectively using idle cash without negatively impacting the Group’s working capital.

Reasons for delay in disclosure of the 2022 Subscriptions

The Directors deeply regret that the Company had not fully complied with the requirements under Chapter 14 of the Listing Rules for the 2022 Subscriptions, and would like to stress that legal and regulatory compliance has long been an important culture of the Group. The delay in compliance with the disclosure requirements under the Listing Rules with respect to the 2022 Subscriptions was inadvertent and unintentional. As disclosed in the Announcement, as the nature of the funds used in the 2022 Subscriptions were mistakenly treated as cash and cash equivalents, the Finance Department did not regard the 2022 Subscriptions as transactions under Chapter 14 of the Listing Rules. Hence, the Finance Department did not seek approval from the Board before making the 2022 Subscriptions, and did not consider it to be necessary to make announcement with respect to the 2022 Subscriptions. After consulting with the Company's external advisors and revisiting the 2022 Subscriptions, the Company fulfilled its disclosure obligation and published the Announcement on March 31, 2023.

Ultimate Beneficial Owners of the Funds in Respect of the 2022 Subscriptions

The Company entered into investment agreement with the funds for investing in their respective segregated portfolio under the 2022 Subscriptions. Set out below is the information of the ultimate beneficial owners (the "UBOs") of the relevant funds:

	Name of the Fund	UBOs of the Fund
Subscription I	Blue Ocean Fund SPC	Blue Ocean Fund SPC is wholly owned by Zhou Jianguo.
Subscription II	Future Vision Fund SPC	Future Vision Fund SPC is wholly owned by Xu Xiaodong.
Subscription III	Evergreen Alpha Fund SPC	Evergreen Alpha Fund SPC is wholly owned by Si Peiyuan.
Subscription IV	CRIC Fixed Income Investment Series SPC	UBOs who could exert influence on CRIC Fixed Income Investment Series SPC include E-House (China) Enterprise Holdings Limited, a company listed on the Stock Exchange (stock code: 2048), and its controlling shareholders. Save as disclosed above, no other UBO is interested in 10% or more in CRIC Fixed Income Investment Series SPC.
Subscription V	Bo Run SPC	Bo Run SPC is indirectly wholly owned by Shi Yunhan.

Subscription VI New China Innovation Fund SPC UBOs who could exert influence on New China Innovation Fund SPC include New China Life Insurance Company Ltd., a company listed on the Stock Exchange (stock code: 1336) and the Shanghai Stock Exchange (stock code: 601336), and Tse Ping. Save as disclosed above, no other UBO is interested in 10% or more in New China Innovation Fund SPC.

Subscription VII Growth Vanguard Fund SPC Growth Vanguard Fund SPC is wholly owned by Zhou Jianming.

The Company confirms that each of the UBOs are third parties independent of and not connected with the Company or any connected persons (as defined under the Listing Rules) of the Company.

Source of funds for the 2022 Subscriptions

The Company never intended to utilize the proceeds from the global offering (the “**IPO Proceeds**”) for anything other than the future plans and use of proceeds in the Company’s prospectus dated May 5, 2022 (the “**Prospectus**”). As the fund products featured low risks and flexible redemption, the Company intended to redeem the fund products as and when necessary if the Company required cash for implementing the future plans and use of proceeds as disclosed in the Prospectus. The Finance Department considered the nature of the funds used in subscribing the 2022 Subscriptions were akin to short-term bank deposits, and classified them as “cash and cash equivalents”. As a result, the Company did not consider that the 2022 Subscriptions were made not in line with its disclosures in the Prospectus.

However, due to the reclassification retrospectively made in March 2023 (as set out in the Announcement) (the “**Reclassification**”), part of the Company’s “cash and cash equivalents” as of June 30, 2022 were reclassified as “financial assets at FVTPL” under current assets, and part of the Company’s financial assets at FVTPL as of June 30, 2022 were reclassified as “restricted cash” under current assets. Hence, from a technical accounting perspective, the fund used for the 2022 Subscriptions may be considered as utilization of IPO proceeds.

Despite the Reclassification, the Company had sufficient funds for the future plans and use of proceeds as disclosed in the Prospectus. Even after the Reclassification, as of June 30, 2022, the Company’s total cash at bank and cash in hand was RMB659.0 million, exceeding the unutilized IPO proceeds of approximately RMB614.5 million. The total cash at bank and in hand as of June 30, 2022 after the Reclassification comprised (i) cash and cash equivalents of approximately RMB529.0 million; and (ii) restricted cash of approximately RMB130.0 million.

As of December 31, 2022, the Company's total cash at bank and cash in hand was approximately RMB933.7 million, exceeding the unutilized IPO proceeds of approximately RMB472.9 million. The total cash at bank and in hand as of December 31, 2022 comprised (i) cash and cash equivalents of approximately RMB787.7 million, and (ii) restricted cash of approximately RMB146.0 million.

In view of the Reclassification, the Company, at the instruction of its chief executive officer, has fully redeemed the 2022 Subscriptions as of the date of this announcement, and recorded a total gain of approximately RMB9,600,000 from the redemptions.

Enhanced Internal Control Procedures

As part of the remedial actions adopted by the Company, an amended and restated Information Disclosure Management Measures (信息披露管理制度) was adopted on March 31, 2023. According to these measures, the Finance Department is responsible for gathering relevant information and reporting it to the Board if they become aware of any potential notifiable transactions requiring disclosures under the Listing Rules. The Finance Department is required to scrutinize any transaction that is (i) not of a revenue nature or not entered into in the ordinary and usual course of business of the Company; or (ii) entered into with connected persons of the Company. The Finance Department also maintains a size test calculation table that is regularly updated to monitor the applicable percentage ratios under Rule 14.07 of the Listing Rules. Additionally, each subsidiary and department of the Company is required to report to the Finance Department any information that may potentially require disclosure under the Listing Rules.

Furthermore, the Board will review the reports made by the Finance Department on a quarterly basis and make inquiries to ensure that the Company is in compliance with information disclosure requirements under the Listing Rules. The Company will also conduct an annual internal review of its internal control mechanism on compliance with the disclosure requirements under the Listing Rules.

Also, in addition to providing annual training to its directors, the Company will offer comprehensive training to its finance departments, senior management and directors on a quarterly basis until the end of 2023. This training will focus on, among others: (i) inside information requirements under Part XIVA of the Securities and Futures Ordinance (Cap. 571); (ii) continuing obligations under Chapter 13 of the Listing Rules; (iii) discloseable transaction requirements under Chapter 14 of the Listing Rules; and (iv) connected transaction requirements under Chapter 14A of the Listing Rules.

Further, the Company plans to hire a suitably qualified accountant to oversee the accounting treatments and classifications of agreements that the Company will enter into, and will from time to time provide training to the Finance Department on the applicable requirements under the Listing Rules, and the accounting treatments and classifications under the Hong Kong Financial Reporting Standards.

Impact of the Reclassification

The table below sets the impact of the Reclassification on the Group's current assets as of June 30, 2022:

	Before the Reclassification	After the Reclassification As of June 30, 2022 RMB'000 (Unaudited)	Changes
Current assets			
– Inventories	74,229	74,229	0
– Trade and other receivables and prepayments	1,559,492	1,559,492	0
– Financial assets at FVTPL	121,183	567,928	446,745
– Restricted cash	22,186	129,929	107,743
– Cash and cash equivalents	1,083,540	529,052	-554,488
	<u>2,860,630</u>	<u>2,860,630</u>	<u>0</u>
Non-current Assets	1,030,948	1,030,948	0
Total Assets	3,891,578	3,891,578	0
Total Equity	2,456,589	2,456,589	0
Non-current liabilities	248,950	248,950	0
Current liabilities	1,186,039	1,186,039	0
Total liabilities	<u>1,434,989</u>	<u>1,434,989</u>	<u>0</u>
Total equity and liabilities	<u>3,891,578</u>	<u>3,891,578</u>	<u>0</u>

General

The information as set out in the Announcement remains unchanged. This announcement is supplemental to and should be read in conjunction with the Announcement.

CLARIFICATION REGARDING THE 2022 ANNUAL REPORT

It was disclosed in the 2022 Annual Report that “the Board is of the view that the risk management and internal control systems since the Listing Date and up to the end of the Reporting Period are effective and adequate” (the “**Relevant Disclosure**”). Considering the delay in disclosure of the 2022 Subscriptions, the Board wishes to clarify that, the Relevant Disclosure should be modified as “the Board is of the view that, save for the delay in disclosure of the subscriptions of fund products as disclosed in the announcement of the Company dated March 31, 2023, the risk management and internal control systems since the Listing Date and up to the end of the Reporting Period were effective and adequate”. Save as disclosed in this announcement, all other information in the 2022 Annual Report remains unchanged.

The Company has adopted enhanced internal control procedures (the “**Enhanced Internal Control Procedures**”) as set out above to prevent similar incidents from occurring in the future. The Board is of the view that the risk management and internal control systems of the Company has been effective and adequate since the adoption of the Enhanced Internal Control Procedures.

By order of the Board
Yunkang Group Limited
Zhang Yong
Chairman

Guangzhou, the PRC, June 13, 2023

As of 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.