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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Yunkang Group Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

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

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**

BALLAS
C A P I T A L

A notice convening the Extraordinary General Meeting of Yunkang Group Limited to be held on Monday, October 31, 2022 at 3:00 p.m. at No. 9 Yayingshi Road, Science City, Huangpu District, Guangzhou, PRC is set out on pages 31 to 32 of this circular. A form of proxy for use at the Extraordinary General Meeting is also enclosed. 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>) respectively.

Whether or not you intend to attend the Extraordinary General Meeting, you are required to complete 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 as soon as possible but in any event 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.

References to dates and time in this circular are to Hong Kong dates and time. Where the context so permits or requires in this circular, words importing the singular number include the plural and vice versa and words importing the masculine gender include the feminine and neuter genders and vice versa.

October 14, 2022

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DEFINITIONS

In this circular, unless otherwise defined or the context otherwise requires, the following terms or expressions shall have the following meanings:

“Announcement”	the announcement of the Company dated September 29, 2022
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“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)”	the director(s) of the Company
“Extraordinary General Meeting”	the 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 dollars, the lawful currency of Hong Kong

DEFINITIONS

“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
“Latest Practicable Date”	October 12, 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“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 and this circular
“PRC” or “China”	People’s Republic of China, but for the purpose of this circular and for geographical reference only and except where the context requires otherwise, references in this circular to “China” and the “PRC” do not apply to Hong Kong, Macau and Taiwan
“Prospectus”	the prospectus of the Company dated May 5, 2022

DEFINITIONS

“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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Share(s)”	ordinary share(s) of nominal or par value of US\$0.000002 each in the issued share capital of the Company or if there has been a subsequent sub-division, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s) from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

LETTER FROM THE BOARD



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:

P.O. Box 31119 Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman KY1-1205
Cayman Islands

***Head Office and Principal Place of
Business in the PRC:***

No. 6 Lizhishan Road
Science City
Huangpu District
Guangzhou, PRC

***Principal Place of Business in
Hong Kong:***

Room 1901, 19/F
Lee Garden One
33 Hysan Avenue
Causeway Bay
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).

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is a full text of the letter from the Independent Board Committee to the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



Yunkang Group Limited

云康集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2325)

October 14, 2022

To the Independent Shareholders

Dear Sir/Madam,

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated October 14, 2022 issued by the Company to the Shareholders (the “**Circular**”) of which this letter forms part. Terms used in this letter shall bear the same meanings as defined in the Circular unless the context otherwise requires.

We have been authorized by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in its opinion, the adoption of Revised Annual Caps (Second Revision) are fair and reasonable, and the transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of our Group and in the interests of the Company and the Shareholders as a whole. Ballas Capital Limited, the Independent Financial Adviser, has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board set out on pages 4 to 11 of the Circular and the letter from the Independent Financial Adviser set out on pages 14 to 26 of the Circular, both of which provide details of the adoption of Revised Annual Caps (Second Revision) for the Reagents, Consumables and Equipment Procurement Framework Agreement.

Having considered, among other matters, the amount of the Revised Annual Caps (Second Revision), the advice of the Independent Financial Adviser, and the relevant information contained in the letter from the Board, we are of the opinion that the adoption of Revised Annual Caps (Second Revision) for the Reagents, Consumables and Equipment Procurement Framework Agreement are fair and reasonable, and the transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favor of the relevant resolution to be proposed at the Extraordinary General Meeting in relation to the adoption of Revised Annual Caps (Second Revision) for the Reagents, Consumables and Equipment Procurement Framework Agreement.

Yours faithfully,
The Independent Board Committee
Yunkang Group Limited

Mr. Yu Shiyou

Mr. Yang Hongwei

Mr. Xie Shaohua

Independent Non-executive Directors

BALLAS
C A P I T A L

Unit 1802, 18/F
1 Duddell Street
Central
Hong Kong

14 October 2022

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS –
FURTHER REVISION OF ANNUAL CAPS IN RESPECT OF
THE REAGENTS, CONSUMABLES AND
EQUIPMENT PROCUREMENT FRAMEWORK AGREEMENT**

INTRODUCTION

We refer to our engagement (the “**Engagement**”) as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Revised Annual Caps (Second Revision), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company (the “**Circular**”) to the Shareholders dated 14 October 2022, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As set out in the Letter from the Board, 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 31 December 2022, 2023 and 2024. Accordingly, the Board proposes to increase the Revised Annual Caps (First Revision) to the Revised Annual Caps (Second Revision) to satisfy the increasing demand for reagents, consumables and equipment from Da An Gene Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

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.

The independent board committee comprising all the independent non-executive Directors, namely Mr. Yu Shiyong, Mr. Yang Hongwei and Mr. Xie Shaohua, has been formed to advise the Independent Shareholders on the fairness and reasonableness of the adoption of Revised Annual Caps (Second Revision).

INDEPENDENCE DECLARATION

We are not associated or connected with the Company, Da An Gene or their respective core connected persons or associates. In the two years immediately preceding the Latest Practicable Date, save for the appointment as the independent financial adviser in relation to the continuing connected transaction regarding the Revised Annual Caps (First Revision), details of which were set out in the circular of the Company dated 9 June 2022 and this appointment as the Independent Financial Adviser in respect of the Revised Annual Caps (Second Revision), we did not have any other relationship or interests in the Company, Da An Gene or their respective core connected persons or associates in the last two years. As at the Latest Practicable Date, we are not aware of any relationships or interests between Ballas Capital Limited ("**Ballas Capital**") and the Company or any other parties that could be reasonably regarded as a hindrance to Ballas Capital's independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Revised Annual Caps (Second Revision).

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors have declared in a responsibility statement set out in the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the Extraordinary General Meeting. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of the Company. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, the counterparties of the continuing connected transactions or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice, we have considered the following principal factors and reasons:

A. Reasons of the adoption of the Revised Annual Caps (Second Revision)

Information on the Group and Da An Gene

The Group is a China-based company mainly engaged in the provision of diagnostic testing services. The Group's service portfolio mainly includes (i) diagnostic outsourcing services; (ii) diagnostic testing services for medical institution alliances; and (iii) diagnostic testing services for non-medical institutions. The Group's diagnostic testing services include tests for, among others, COVID-19, infectious disease, pathology, genetic disease and routine diagnostics. The Group's customers primarily consist of hospitals, community health clinics and other medical institutions.

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.

Reasons for and benefits of the adoption of the Revised Annual Caps (Second Revision)

As set out in the Letter of the Board, 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

Given the above, and in particular the nature of transactions as contemplated under the Reagents, Consumables and Equipment Procurement Framework Agreement (including the Revised Annual Caps (Second Revision)), the principal business of the Group as stated above and our analysis on the major terms of the said agreement (as elaborated below), we concur with the view of the management of the Company that the transactions contemplated under the Reagents, Consumables and Equipment Procurement Framework Agreement falls within the ordinary course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

B. Major terms of the Reagents, Consumables and Equipment Procurement Framework Agreement

Save for the Revised Annual Caps (Second Revision), the terms of the Reagents, Consumables and Equipment Procurement Framework Agreement, which are set out in the Prospectus, have not been changed or modified in any way (including the pricing policy). All the terms of the Reagents, Consumables and Equipment Procurement Framework Agreement will remain unchanged and in full force and effect.

Term

As set out in the Prospectus, the Company entered into the Reagents, Consumables and Equipment Procurement Framework Agreement with Da An Gene on 18 February 2022, pursuant to which the Company agreed to procure reagents, consumables and equipment from Da An Gene Group. The term of the Reagents, Consumables and Equipment Procurement Framework Agreement is three years commencing from the Listing Date, i.e. from 18 May 2022 to 18 May 2025.

Pricing policy

As disclosed in the Prospectus and as set out in the Letter from the Board, the prices of the reagents, consumables and equipment under the Reagents, Consumables and Equipment Procurement Framework Agreement are 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 Group will obtain quotation from not less than two independent suppliers that provide similar reagents, consumables and equipment before placing its 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.

We have discussed with and understand from the management of the Company that the Group will implement the following internal control measures to monitor the continuing connected transactions contemplated under the Reagents, Consumables and Equipment Procurement Framework Agreement, that include:

- (i) 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, which 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;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) 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;
- (iii) 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; and
- (iv) 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. It is also stipulated in the written internal procedures of the Company that continuing connected transactions of the Company are to be (a) conducted on normal commercial terms; (b) negotiated on arm's length basis; and (c) at market rates or rates no less favourable to the relevant member(s) of the Group than those available from independent third parties.

We have further discussed with the management of the Company and understand that the finance department of the Group will closely monitor the transaction amounts under the Reagents, Consumables and Equipment Procurement Framework Agreement for ensuring the Company's timely compliance with the requirements of the Listing Rules. We have reviewed the responsibilities of the finance department that include (i) reviewing management accounts for the continuing connected transactions on a monthly basis to ensure that the purchases by the Group from Da An Gene Group do not exceed the annual caps; and (ii) reporting to management on a timely manner if it is expected that the transaction amount will reach or exceed the annual cap and consider measures to be taken (which include re-complying with announcement and shareholders' approval requirements under the Listing Rules). We understand that the management of the Company will also regularly communicate with the finance department of the Group and procurement staff to assess the expected purchase orders and closely monitor the transaction amounts. Taking into account the above, we consider that the Company has appropriate internal control procedures in place to ensure its timely compliance with the requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have obtained and reviewed the above-mentioned written internal control procedures of the Company that govern the continuing connected transactions contemplated under the Reagents, Consumables and Equipment Procurement Framework Agreement. In addition, we have obtained from the Company and reviewed the transaction documents (including purchase order, invoice and supplier quotation from Da An Gene Group and independent suppliers) of ten samples relating to the Group's historical transactions for the procurement of reagents, consumables and equipment from Da An Gene Group. For reference, the Group had an aggregate of more than 4,100 historical transactions for the procurement of reagents, consumables and equipment from Da An Gene Group for the three years ended 31 December 2021 and the eight months ended 31 August 2022. Based on our review, we note that the Group complied with the pricing principle and followed its internal control procedure to check if the pricing terms offered by the Da An Gene Group are comparable to market rates. The purpose of our review of samples is to be satisfied that there is market reference available to determine the pricing terms offered by Da An Gene Group being fair and reasonable, and hence the internal control procedure of the Group can be implemented. Therefore, based on our review of the written internal procedures of the Company and the transaction documents as mentioned above, we are of the view that the Group has appropriate measures in place to ensure that the pricings are determined on normal commercial terms and at prices no less favourable to the Group than terms available from independent suppliers, and we are satisfied that there is market reference available to determine the pricing terms offered by Da An Gene Group being fair and reasonable.

Given the above, we concur with the view of the Directors that the terms of the Reagents, Consumables and Equipment Procurement Framework Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

C. The Caps

Historical transaction amounts

The historical transaction amounts under the Reagents, Consumables and Equipment Procurement Framework Agreement for the year ended 31 December 2021 and the eight months ended 31 August 2022 are set out below.

	For the year ended 31 December 2021 <i>(audited)</i> <i>(RMB'000)</i>	For the eight months ended 31 August 2022 <i>(unaudited)</i> <i>(RMB'000)</i>
Historical transaction	201,408	268,231

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The Company confirms that as of the Latest Practicable Date, the actual transaction amount has not exceeded the Revised Annual Caps (First Revision).

The Revised Annual Caps (Second Revision)

Set out below are the details of the Original Annual Caps, the Revised Annual Caps (First Revision) and Revised Annual Caps (Second Revision) for the three years ending 31 December 2022, 2023 and 2024.

	For the year ending 31 December 2022 (RMB'000)	For the year ending 31 December 2023 (RMB'000)	For the year ending 31 December 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 (“2022 Revised Cap”)	591,450 (“2023 Revised Cap”)	621,022 (“2024 Revised Cap”)

As set out in the Letter from the Board, 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 31 December 2022, 2023 and 2024 including the expected need of the reagents, consumables and equipment related to COVID-19 testing.

In assessing the fairness and reasonableness of the Revised Annual Caps (Second Revision), we have discussed with the management of the Company to understand the basis in the determination of the Revised Annual Caps (Second Revision) and reviewed the calculations of the caps. Based on our review of the calculation, we note that the annual caps are estimated mainly based on the estimated volume of reagents, consumables and equipment needed for the Group’s diagnostic services. As disclosed in the Letter from the Board, the estimated number of reagents and certain number of equipment for 2022 is approximately 5.2 million units, which is derived by annualizing the actual purchase number for the eight months ended 31 August 2022 plus 40% buffer in view of (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 of COVID-19 tests. Such a 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 units and

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5.7 million units respectively assuming a 5% growth each year. We note that the 2022 Revised Cap of approximately RMB563.3 million (representing an estimated number of reagents and certain number of equipment of approximately 5.2 million units), is calculated on an annual pro-rata basis based on the actual historical amount of approximately RMB268.2 million for the eight months ended 31 August 2022, multiplied by an estimated growth rate of 40% (the “**2022 Growth Rate**”) for the year ending 31 December 2022. The 2023 Revised Cap and 2024 Revised Cap of approximately RMB591.5 million and RMB621.0 million (representing an estimated number of approximately 5.4 million and 5.7 million units), respectively, are arrived at based on the cap in the previous year multiplied by an estimated annual growth rate of 5% (the “**2023/2024 Growth Rate**”).

In arriving at the 2022 Revised Cap of approximately RMB563.3 million (representing an estimated number of reagents and certain number of equipment of approximately 5.2 million units), we understand from management of the Company that the actual historical amount of approximately RMB268.2 million for the eight months ended 31 August 2022 is a determining factor, as the Company expects the Group’s demand for reagents to continue to maintain at a high level for the remaining months of 2022, taking into account the current complex epidemic situation and the introduction of government measures to contain the outbreak in China, which the Group may need to increase its procurement of reagents to facilitate its COVID-19 diagnostic testing services. We understand from the management of the Company that the 2022 Growth Rate of 40% was further applied in arriving at the 2022 Revised Cap, after taking into account factors including (i) since the third quarter of 2022, the frequency of local epidemics across the country has increased significantly, where most provinces have reported new local infections; (ii) the anticipation of the large crowd movements during the upcoming major holidays, including, among others, the National Day and Christmas, increasing the risk of domestic and cross-regional spread of the epidemic; (iii) under the general strategy of “Prevent External Import and Prevent Internal Rebound” and general principle of “Dynamic Clearance”, 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; (iv) the Company’s acceleration of construction of on-site diagnostic centers for infectious diseases in various regions to meet the new demand for infectious diseases detection; (v) the possible risk of superimposed epidemics of influenza and COVID-19 in the upcoming autumn and winter; and (vi) any unanticipated escalation of the epidemic situation in China, all of which are factors expected to increase the market demand for COVID-19 testing in China in the remaining months of 2022, which in turn drives the increase in demand for the Group’s need for reagents, consumables and equipment for conducting diagnostic tests.

Since the third quarter of 2022, the local epidemic is still spreading and frequently occurring across the PRC. We have further conducted desktop research and according to the National Health Commission of the People’s Republic of China (中華人民共和國國家衛生健康委員會), as of mid-September 2022, mainland China confirmed approximately two hundred and fifty thousand cases with symptoms. As stated in an article named China Coronavirus Updates from China Briefing on 21 September 2022, Chengdu, the capital of southwestern China’s Sichuan province, was shut down on 1 September for more than two weeks after the city discovered several COVID-19 cases, making it the largest Chinese city to be placed under

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lockdown since the lockdown in Shanghai in April. As at 1 September 2022, there were 1,961 high risk areas and 1,427 medium risk areas in China, compared with just 8 high risk areas and 98 medium risk areas four months ago. Moreover, considering the week-long National Day holiday, several nucleic acid testing policies will be implemented. Passengers need to hold a negative nucleic acid test certificate from the recent 48 hours to take public transportations. The health code and a negative nucleic acid test from the recent 72 hours will be required when checking into hotels and entering crowded places. For necessary large-scale gathering activities, participants shall scan the code for registration and provide a negative nucleic acid test certificate from the recent 48 hours. With the zero-tolerance virus strategy in the country, such rapid growth in demand for nucleic acid testing is expected to continue. Taking into account the above, we consider that it is fair and reasonable to apply the 2022 Growth Rate of 40% in determining the 2022 Revised Cap.

In arriving at the 2023 Revised Cap of approximately RMB591.5 million (representing an estimated number of reagents and certain number of equipment of approximately 5.4 million units) and 2024 Revised Cap of approximately RMB621.0 million (representing an estimated number of reagents and certain number of equipment of approximately 5.7 million units), we note that the Company applied the estimated 2023/2024 Growth Rate of 5% to the expected transaction amount from the previous year. The 5.4 million units and 5.7 million units estimated for the 2023 Revised cap and 2024 Revised Cap, respectively, represent an annual growth of 5% to the estimated unit number in the previous year. We have discussed with management of the Company and understand that the 2023/2024 Growth Rate of 5%, which represents a slowdown in growth from the estimated 2022 Growth Rate of 40%, was 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 help contain the possibility of widespread COVID-19 outbreak in China in the year of 2022 and help 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 more 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 2023 Revised Cap and 2024 Revised Cap. We have further discussed with management of the Company and understand that notwithstanding the Group's expectation that the tight preventive measures implemented by the PRC Government should help contain the possibility of widespread COVID-19 outbreak in China and help prevent substantial escalation in the epidemic situation in 2023 and 2024, the 2023 Revised Cap and 2024 Revised Cap are determined on a similar level to the 2022 Revised Cap after applying the 2023/2024 Growth Rate of 5%, taking into account (i) the uncertainty of how the epidemic situation will progress in China even with the tight preventive measures implemented by the PRC government; (ii) the unknown possibility of any continuing mutation of coronavirus with increasing infectivity and other infectious diseases which may result in the demand for reagents required for conducting diagnostic testing to continue to maintain at a high level in 2023 and 2024; and (iii) any unanticipated policy changes introduced by the PRC government and any unanticipated events going forward that could affect the development of the epidemic situation in China, all of which are factors that could continue to stimulate the demand for reagents for conducting diagnostic testing. Taking into account the above and the attitude of the PRC

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Government to contain the epidemic situation in China in an efficient matter, whilst factoring in the uncertainty on how the epidemic situation will progress in China and the possibility of further unanticipated escalation even with tight preventive measures implemented, we consider that the estimated annual Growth Rate of 5% in determining the 2023 Revised cap and the 2024 Revised Cap, to be fair and reasonable.

Based on the above, we are of the view that the Revised Annual Caps (Second Revision) (including each of the 2022 Revised Cap, the 2023 Revised Cap and the 2024 Revised Cap) are fair and reasonable. Furthermore, as set out in the Letter from the Board, 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; and (iii) the additional purchase of reagents, consumables and equipment from Da An Gene Group will increase the overall testing capability of the Group, we concur with the Directors' view and consider that it is fair and reasonable and in the interests of both the Company and the Shareholders as a whole to set the Revised Annual Caps (Second Revision) at the proposed levels. However, as the proposed Revised Annual Caps (Second Revision) relate to future events and are based upon assumptions that may or may not remain valid for the whole period up to 31 December 2024, we express no opinion as to how closely the continuing connected transactions contemplated under the Reagents, Consumables and Equipment Procurement Framework Agreement shall correspond to the Revised Annual Caps (Second Revision).

D. Requirements by the Listing Rules regarding the transactions contemplated under the Reagents, Consumables and Equipment Procurement Framework Agreement

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the transactions contemplated under the Reagents, Consumables and Equipment Procurement Framework Agreement are subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the transactions contemplated under the Reagents, Consumables and Equipment Procurement Framework Agreement and confirm in the annual report that the transactions have been entered into:
 - in the ordinary and usual course of business of the Company;
 - on normal commercial terms or better; and
 - according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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- (b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock exchange at least 10 business days prior to the bulk printing of the Company's annual report) confirming that the transactions contemplated under the Reagents, Consumables and Equipment Procurement Framework Agreement:
- have received the approval of the Board;
 - are, in all material respects, in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Company;
 - have been entered into, in all material respects, in accordance with the relevant agreement governing the continuing connected transactions; and
 - have not exceeded the Revised Annual Caps (Second Revision).
- (c) the Company must allow, and ensure that the relevant counterparty to the Reagents, Consumables and Equipment Procurement Framework Agreement allow, the Company's auditors sufficient access to their records for the purpose of reporting on the transactions. The Board must state in the annual report whether its auditors have confirmed the matters stated in paragraph (b) above; and
- (d) the Company must promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or the auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements attached to the Reagents, Consumables and Equipment Procurement Framework Agreement, in particular, (i) the restriction of the value of the relevant transactions by way of the Revised Annual Caps (Second Revision); and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company on the terms of the Reagents, Consumables and Equipment Procurement Framework Agreement and the Revised Annual Caps (Second Revision) not being exceeded, we are of the view that appropriate measures are in place to govern the conduct of the Reagents, Consumables and Equipment Procurement Framework Agreement and safeguard the interests of the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that the transactions contemplated under the Reagents, Consumables and Equipment Procurement Framework Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole, and the terms thereof as well as the Revised Annual Caps (Second Revision) are fair and reasonable so far as the Group and the Independent Shareholders are concerned.

Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the resolution to be proposed at the Extraordinary General Meeting to approve the Revised Annual Caps (Second Revision).

Yours faithfully,

For and on behalf of

Ballas Capital Limited

Alex Lau

Managing Director

Colin Lee

Director

Note: Mr. Alex Lau of Ballas Capital Limited has been a responsible officer of Type 6 (advising on corporate finance) regulated activity since 2004, and Mr. Colin Lee of Ballas Capital Limited has been a licensed representative of Type 6 (advising on corporate finance) regulated activity from 2013 to 2018 and since 2020.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules 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 circular 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 circular misleading.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Company since December 31, 2021, being the date to which the latest published audited financial statement of the Company have been made up.

INTERESTS OF DIRECTORS

Save as disclosed in the section headed “Relationship with Controlling Shareholders” of the Prospectus, the Directors are not aware of any Director or his respective associates having, as of the Latest Practicable Date, any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would be required to be disclosed under the Listing Rules.

Save as disclosed in the section headed “Connected Transactions” of the Prospectus, no Director was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant to the business of the Group taken as a whole.

Save as disclosed in the section headed “Connected Transactions” of the Prospectus, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired or disposed of by or leased to or which are proposed to be acquired, disposed of by or leased to, any member of the Group.

EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions contained in and referred to in this circular:

Name	Qualification
Ballas Capital Limited	A licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities

The Independent Financial Adviser has given and has not withdrawn its consent to the issue of this circular with inclusion of its letter and reference to its name in the form and context in which they appear respectively.

As at the Latest Practicable Date, the Independent Financial Adviser had no shareholding in the Company or any other member of the Group or right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities of the Company or any other member of the Group.

As at the Latest Practicable Date, the Independent Financial Adviser had no direct or indirect interests in any assets which had been acquired or disposed of by or leased to any member of the Group since December 31, 2021 (the date to which the latest published audited consolidated financial statements of the Company were made up) or proposed to be so acquired, disposed of or leased to.

The letter and recommendations from the Independent Financial Adviser are set out on pages 14 to 26 of this circular and are given for incorporation in this circular.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”), to be notified to the Company and the Stock Exchange, were as follows:

Interest in associated corporation of the Company

Name of Director	Capacity/Nature of interests	Name of associated corporation	Percentage of shareholding in the associated corporation
Mr. Zhang Yong	Beneficial Owner Interested in a controlled corporation	Huizekx Limited YK Development Limited	100% 64.04%

Interests in the Shares or underlying Shares of the Company

Name of Director	Capacity/Nature of interests	Number of Ordinary Shares	Approximate percentage of shareholding in the total issued share capital (%)
Mr. Zhang Yong	Interested in a controlled corporation	250,108,000 ⁽¹⁾ (L)	40.25% (L)

(L) denotes a long position

Note:

- (1) These shares are directly held by YK Development Limited, which is held as to 64.04% and controlled by Huizekx Limited, which is wholly-owned by Mr. Zhang Yong. Therefore, Huizekx Limited and Mr. Zhang Yong are deemed to be interested in the Shares held by YK Development Limited under the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had registered an interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

GENERAL

The Company's share registrar in Hong Kong is Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text in the case of any inconsistency.

DOCUMENTS ON DISPLAY

Copies of the following documents will be available for inspection on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.yunkanghealth.com for a period of 14 days from the date of this circular:

- (a) the audited financial statements of the Company and its subsidiaries and consolidated affiliated entities for the year ended December 31, 2021;
- (b) the Reagents, Consumables and Equipment Procurement Framework Agreement;
- (c) the letter from the Board, the text of which is set out on pages 4 to 11 of this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 12 to 13 of this circular;
- (e) the letter from the Independent Financial Adviser, the text of which is set out on pages 14 to 26 of this circular;
- (f) the written consent of the Independent Financial Adviser; and
- (g) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



Yunkang Group Limited

云康集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2325)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**Extraordinary General Meeting**”) of Yunkang Group Limited (the “**Company**”) will be held on Monday, October 31, 2022 at 3:00 p.m. at No. 9 Yayingshi Road, Science City, Huangpu District, Guangzhou, PRC, for the following purposes:

ORDINARY RESOLUTION

1. To consider and, if thought fit, approve, with or without modifications, the following resolution as ordinary resolution:

“**THAT:**

- (i) the revised annual caps for the Reagents, Consumables and Equipment Procurement Framework Agreement for the years ending December 31, 2022, 2023 and 2024 (the “**Revised Annual Caps (Second Revision)**”) in the amount of RMB563.285 million, RMB591.450 million and RMB621.022 million be and are hereby approved, confirmed and ratified; and
- (ii) any Director be and is hereby authorized to do all such acts or things and sign all documents deemed necessary, expedient or appropriate by him/her to give effect to and implement the Revised Annual Caps (Second Revision) for the Reagents, Consumables and Equipment Procurement Framework Agreement.”

By order of the Board
Yunkang Group Limited
Mr. Zhang Yong
Chairman and Executive Director

Guangzhou, the PRC, October 14, 2022

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (i) For the purpose of determining the identity of the shareholders of the Company entitled 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 dates inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant 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.
- (ii) A shareholder of the Company entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or, if he/she/it is the holder of two or more shares, more proxies to attend and vote instead of him/her/it. A proxy need not be a shareholder of the Company.
- (iii) Where there are joint registered holders of any share, any one of such persons may vote at the Extraordinary General Meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders be present at the Extraordinary General Meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.
- (iv) In order to be valid, the form of proxy must be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney or other person duly authorized, and must be deposited with the share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof) not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjourned meeting (i.e. not later than 3:00 p.m. on Saturday, October 29, 2022). 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.
- (v) The resolution at the Extraordinary General Meeting will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
- (vi) Shareholders attending the Extraordinary General Meeting in person or by proxy shall bear their own travelling and accommodation expenses, and shall produce their identity documents.
- (vii) References to dates and time in this notice are to Hong Kong dates and time.
- (viii) The English text of this notice shall prevail over the Chinese text for the purpose of interpretation.