

5 December 2024

*To: The independent board committee and the independent shareholders of Yunkang Group Limited*

Dear Sir/Madam,

## CONTINUING CONNECTED TRANSACTION

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the 2025-2027 Reagents, Consumables and Equipment Procurement Framework Agreement (the “**Transaction**”) (including the relevant annual caps), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 5 December 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, under the Existing 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 continue to secure a reliable supply of reagents, consumables and equipment for the Group’s business operations, the Company and Da An Gene entered into the 2025-2027 Reagents, Consumables and Equipment Procurement Framework Agreement on 11 November 2024.

With reference to the Board Letter, the Transaction constitutes continuing connected transaction of the Company, and is therefore subject to the annual reporting, annual review, announcement and Independent Shareholders’ approval requirements under the Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Yu Shiyong, Mr. Lan Fenghui and Mr. Xie Shaohua (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transaction (including the relevant annual caps) are on normal commercial terms and are fair and reasonable; (ii) whether the Transaction (including the relevant annual caps) are in the interests of the Company and the Shareholders as a whole and conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Transaction (including the relevant annual caps) at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

## **INDEPENDENCE**

As at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

## **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Transaction. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The 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 the 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 therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Da An Gene or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transaction. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transaction, we have taken into consideration the following principal factors and reasons:

### 1. Information of the Group

With reference to the Company's annual report for the year ended 31 December 2023 ("FY2023") (the "2023 Annual Report"), the Group is a comprehensive and professional medical operation service provider in the PRC, which is committed to focusing on the health needs of customers, providing competitive solutions and services, and creating a happy life for the public. The Group has gradually become a leading medical operation platform through professional medical diagnostic services, strong standardization capabilities, and innovative business model of diagnostic testing services for medical institution alliances. The Group's service portfolio mainly includes diagnostic outsourcing services, diagnostic testing services for medical institution alliances and diagnostic testing services for non-medical institutions.

## 2. Information on Da An Gene

With reference to the Board Letter, Da An Gene is a biomedical high-tech 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.

## 3. Reasons for and benefits of the Transaction

With reference to the Board Letter, Da An Gene Group has been a reliable supplier in the long-time cooperation with the Group. It is also one of the leading suppliers of certain testing reagents in the industry. The Company believes that it is in the Group's ordinary course of business to procure reagents, consumables and equipment to support the Group's diagnostic testing service from Da An Gene Group as if procuring from other suppliers.

As advised by the Directors, Da An Gene Group has been a major supplier of the Group and consistently supplying high-quality product to the Group with timely after-sales services. Based the information provided by the Company, (i) for FY2023, the Transaction amount represented approximately 8% of the Group's total procurement of reagents, consumables and equipment; and (ii) for the nine months ended 30 September 2024 ("9M2024"), the Transaction amount represented approximately 13% of the Group's total procurement of reagents, consumables and equipment.

Having considered the above and that the reagents, consumables and equipment procured under the Transaction are necessary for the daily operation of the Group, we are of the view that the Transaction is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group.

## 4. Principal terms of the Transaction

### *Agreement date*

11 November 2024

### *Parties*

- (1) The Company; and
- (2) Da An Gene

### *Subject matter*

Pursuant to the 2025-2027 Reagents, Consumables and Equipment Procurement Framework Agreement, Da An Gene agrees to provide reagents, consumables and equipment to the Company.

*Term*

From 1 January 2025 to 31 December 2027

*Pricing policy*

The prices of the reagents, consumables and equipment under the 2025-2027 Reagents, Consumables and Equipment Procurement Framework Agreement shall be 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 quotations from not less than two independent suppliers that provide similar reagents, consumables and equipment before placing orders with Da An Gene Group. Based on the fee quotes provided by other independent suppliers, the Group 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.

Further details of the pricing policy are set out under the section headed "2. Pricing Policy" of the Board Letter.

For our due diligence purpose, we conducted a sampling check on the historical Transaction as detailed below:

- (a) We obtained a list of historical Transaction by products for each of the year ended 31 December 2022 ("FY2022"), FY2023 and 9M2024 and randomly selected one product for each period (three selected products in total) from the list.
- (b) For each selected product, we randomly selected a month of corresponding year/period and requested the Company to provide list of orders for the selected product in the selected month.
- (c) From the list of orders, we randomly selected three orders and the Company provided us with (i) invoices regarding the selected orders; and (ii) invoices regarding procurements of the selected product from independent third parties during the year/period or internal quotations comparison record duly signed by, among others, the Group's finance department and legal department (whereas the Group did not procure the selected product from independent third parties after comparing quotations provided).

We noted from the aforesaid documents that the unit prices of the selected products offered by Da An Gene Group were less than those offered by independent third parties.

Having considered historical Transaction amount for FY2022, FY2023 and 9M2024 and the populations of corresponding orders, we conducted the above sampling check on a three-dimension random selection basis (random selection on product, transaction month and orders) which covered the historical transaction period (up to the latest available month), we consider the number of samples reviewed to be (i) sufficient from an independent financial adviser's perspective; and (ii) fair and representative.

With reference to the Board Letter and as advised by the Directors, the Group adopted internal control system to govern connected transaction and the Directors consider that the internal control system of the Group is adequate to ensure that the Transaction will be on normal commercial terms and no less favourable to the Group than those offered by independent third parties.

With reference to the 2023 Annual Report:

- (a) The independent non-executive Directors have reviewed and confirmed that the Group's continuing connected transactions (including the Transaction) for FY2023 have been entered into, (i) in the ordinary and usual course of business of our Group; (ii) on normal commercial terms or better to the Group; and (iii) are according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.
- (b) The auditor of the Company was engaged to review and report on the Group's continuing connected transactions (including the Transaction) for FY2023 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the conclusions that nothing has caused them to believe that the continuing connected transactions (i) had not been approved by the Board; (ii) were not in accordance with the Company's pricing policies; (iii) were not entered into in accordance with the agreement governing them; and (iv) had exceeded the annual cap.

### *Proposed annual caps*

Set out below are the details of (i) the historical transaction amounts of the Transaction for FY2022, FY2023 and 9M2024 (together with respective annual caps); and (ii) the proposed annual caps for the three years ending 31 December 2027 in respect of the Transaction (the "Proposed Cap(s)") as extracted from the Board Letter:

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2023 RMB'000	For the year ending 31 December 2024 ("FY2024") RMB'000
Historical transaction amounts	563,219	17,945	22,753 (Note)
Existing annual caps	563,285	591,450	621,022
Utilisation rates	Approximately 99.99%	Approximately 3.03%	Undetermined

	For the year ending 31 December 2025 ("FY2025") RMB'000	For the year ending 31 December 2026 ("FY2026") RMB'000	For the year ending 31 December 2027 ("FY2027") RMB'000
<b>Proposed Cap(s)</b>	41,083	51,354	64,193

*Note:* The historical transaction amount was for 9M2024.

The Proposed Caps were determined with reference to the factors as set out under the section headed "4. Proposed Annual Caps and Basis of Determination" of the Board Letter.

As depicted from the above table, the utilisation rate of existing annual cap dropped from approximately 99.99% for FY2022 to approximately 3.03% for FY2023. The Transaction amount for 9M2024 represented approximately 3.66% of the existing annual cap for FY2024. With reference to the Board Letter, the existing annual caps were determined primarily with an aim to meet the anticipated significant increase in demand for COVID-19 testing at the particular point of time in 2022 due to the outbreak of the COVID-19 pandemic and the introduction of government measures to control the spread of the virus, which had led to an unexpected surge in demand for reagents, consumables and equipment. Nevertheless, since the end of the COVID-19 pandemic in 2023, the demand for phased testing and screening weakened nationwide, and the actual procurement needs of government and hospital clients for testing services significantly reduced. This led to a decrease in diagnostic testing services conducted by the Group throughout FY2023 and 9M2024. As a result, the utilization rate of the existing annual cap was low for FY2023, and it is expected that the utilization rate of the existing annual cap for FY2024 will remain at a low level.

In light of the above, we consider that it is reasonable for the Company to set the Proposed Caps lower than the existing annual caps for the three years ended 31 December 2024.

We noted that when the Company determines the Proposed Caps, the Company applied:

- (i) annualised Transaction amount for FY2024, based on Transaction amount for 9M2024 (i.e.  $\text{RMB}22,753,000/9 \times 12 = \text{approximately RMB}30,337,000$ );
- (ii) a buffer of "one month Transaction amount" (i.e.  $\text{RMB}22,753,000/9 = \text{approximately RMB}2,528,000$ ) (the "Buffer"); and
- (iii) annual growth of 25% from FY2024 to FY2027 (the "Growth").

Based on the above, (a) the Proposed Cap of RMB41,083,000 for FY2025 equals to 125% of sum of figure (i) and (ii) above; (b) the Proposed Cap increases by 25% from FY2025 to FY2026; and (c) the Proposed Cap increases by 25% from FY2026 to FY2027.

The Buffer of “one month Transaction amount” represents a buffer of approximately 8.33% (i.e. 1/12). We also noted from other Hong Kong listed companies’ circulars regarding continuing connected transactions that the incorporation of buffer of 10% in proposed annual caps is not uncommon among companies listed on the Stock Exchange. Accordingly, we consider incorporation of the Buffer of below 10% to be justifiable.

As aforementioned, (i) the Group’s service portfolio mainly includes diagnostic outsourcing services, diagnostic testing services for medical institution alliances and diagnostic testing services for non-medical institutions; and (ii) the Group procures reagents, consumables and equipment under the Transactions to support the Group’s diagnostic testing services. With reference to the 2023 Annual Report and as confirmed by the Directors, the Group’s diagnostic testing services cover main disease areas such as infectious diseases, reproductive health and genetic diseases. Accordingly, to assess the Growth of 25%, we searched and identified the following market information:

- (i) We noted from a report titled “Diagnostic Testing Market Size, Share, Trends & Growth Report, 2033” (<https://www.novaoneadvisor.com/report/diagnostic-testing-market>) published by Nova One Advisor that the global diagnostic testing market size was estimated at US\$211.27 billion in 2023 and is projected to hit around US\$449.78 billion by 2033, growing at a compound annual growth rate (“CAGR”) of 7.9% during the forecast period from 2024 to 2033. According to Nova One Advisor’s website, it is a Canada/India based company and one of the leading providers of strategic market insights, offering (a) executive-level blueprints of markets and solutions; and (b) flagship surveys.
- (ii) We also noted from a report titled “Global Genetic Testing Market Size & Outlook, 2024-2030” (<https://www.grandviewresearch.com/horizon/outlook/genetic-testing-market-size/global>) published by Grand View Research that (i) the global genetic testing market generated revenue of US\$8,811.0 million in year 2023 and is expected to reach US\$35,349.0 million by year 2030; and (ii) the market is expected to grow at a CAGR of 22% by year 2030. According to the website of Grand View Research, Grand View Research is an India & United States based market research and consulting company, registered in the State of California and headquartered in San Francisco. Grand View Research provides syndicated research reports, customized research reports, and consulting services. Grand View Research database is used by the world’s renowned academic institutions and Fortune 500 companies to understand the global and regional business environment. Its database features thousands of statistics and in-depth analysis on 46 industries in 25 major countries worldwide.

In addition, (i) for FY2023, the Transaction amount represented approximately 8% of the Group's total procurement of reagents, consumables and equipment for FY2023; and (ii) for the 9M2024, the Transaction amount represented approximately 13% of the Group's total procurement of reagents, consumables and equipment. As aforementioned, it is the Group's pricing policy that the Group will obtain quotations from not less than two independent suppliers that provide similar reagents, consumables and equipment before placing orders with Da An Gene Group. Should Da An Gene Group offer products with satisfactory quality and more favourable prices in future, the Group may opt to place more orders with Da An Gene Group, hence increasing the proportion of procurement from Da An Gene Group and the Transaction amount. For illustration purpose only, every "1%" increase in proportion of the Transaction amount to the Group's total procurement of reagents, consumables and equipment (from approximately 13% for 9M2024) will cause an increase of approximately 8% (i.e. 1/13) of the Transaction amount.

Given the above, we consider the Growth of 25% to be justifiable.

In light of the above, we consider that the Proposed Caps for the three years ending 31 December 2027 are fair and reasonable.

Shareholders should note that as the Proposed Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2027, and they do not represent forecasts of cost to be incurred under the Transaction. Consequently, we express no opinion as to how closely the actual cost to be incurred under the Transaction will correspond with the Proposed Caps.

Having considered the principal terms of the Transaction as set out above, we are of the view that the terms of the Transaction (including the Proposed Caps) are on normal commercial terms and are fair and reasonable.

## **5. Listing Rules implication**

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the value of the Transaction must be restricted by the Proposed Caps; (ii) the terms of the Transaction (including the Proposed Caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Transaction must be included in the Company's subsequent published annual reports. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Transaction (i) has not been approved by the Board; (ii) was not entered into, in all material respects, in accordance with the relevant agreement governing the Transaction; and (iii) has exceeded the Proposed Caps. In the event that the total amounts of the Transaction are anticipated to exceed the Proposed Caps, or that there is any proposed material amendment to the terms of the Transaction, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Transaction and thus the interest of the Independent Shareholders would be safeguarded.

#### **RECOMMENDATION**

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transaction are on normal commercial terms and are fair and reasonable; and (ii) the Transaction is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transaction and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,  
For and on behalf of  
**Gram Capital Limited**



**Graham Lam**  
*Managing Director*

*Note:* Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has around 30 years of experience in investment banking industry.