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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)

CHANGE IN USE OF PROCEEDS

References are made to (i) the section headed “Future Plans and Use of Proceeds” in the prospectus of Yunkang Group Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) dated May 5, 2022 (the “**Prospectus**”) in relation to the listing (the “**Listing**”) of the shares of the Company on Main Board of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) by way of global offering (the “**Global Offering**”), and (ii) the section headed “Directors’ Report – Use of Proceeds from the Global Offering” in the annual report of the Company for the year ended December 31, 2023 (the “**Annual Report**”).

USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING

As disclosed in the Annual Report, the Company raised net proceeds of approximately HK\$811.8 million (the “**Net Proceeds**”) from the Global Offering. As set out in the Prospectus, the Company intended to apply the Net Proceeds for the following purposes:

- (i) approximately HK\$446.5 million or 55% of the Net Proceeds will be used in expanding and deepening the Group’s medical institution alliance network;
- (ii) approximately HK\$162.3 million or 20.0% of the Net Proceeds will be used in upgrading and enhancing the Group’s operational capabilities as a medical operation service provider;
- (iii) approximately HK\$81.2 million or 10.0% of the Net Proceeds will be used in expanding the Group’s diagnostic capabilities and enriching the Group’s diagnostic testing portfolio;
- (iv) approximately HK\$40.6 million or 5.0% of the Net Proceeds will be used in potential investment and acquisition opportunities;
- (v) approximately HK\$40.6 million or 5.0% of the Net Proceeds will be used in recruiting and training up the Group’s talent pool; and
- (vi) approximately HK\$40.6 million or 5.0% of the Net Proceeds will be used for the Group’s working capital and general corporate purposes.

CHANGE IN USE OF NET PROCEEDS

As of May 31, 2024, being the latest practicable date for the purpose of this announcement, the Group has utilized approximately HK\$445.1 million of the Net Proceeds. The amount of Net Proceeds which remained unutilized as of May 31, 2024 amounted to approximately HK\$366.7 million (the “**Unutilized Net Proceeds**”). For the reasons set forth under “Reasons for and Benefits of Change in Use of Proceeds” below, the board of directors of the Company (the “**Board**”) has resolved to change the use of the Unutilized Net Proceeds as follows:

Intended use of Net Proceeds	Original allocation of Net Proceeds as set out in the Prospectus (HK\$ million)	Utilized amount of Net Proceeds as of May 31, 2024 (HK\$ million)	Unutilized amount of Net Proceeds as of May 31, 2024 (HK\$ million)	Balance of unutilized amount of Net Proceeds after re-allocation (HK\$ million)	Expected timeline for full utilization (HK\$ million)
Expanding and deepening the Group’s medical institution alliance network (Note a)	446.5	220.1	226.4	184.0	End of 2026
– Establishment of new on-site diagnostic centers (Note a)	446.5	220.1	226.4	101.7	End of 2026
– Expansion of the Group’s medical institution alliance marketing network	–	–	–	82.3	End of 2026
Upgrading and enhancing the Group’s operational capabilities as a medical operation service provider (Note b)	162.3	130.4	31.9	59.4	End of 2026
– Establishment and optimization of self-operated laboratories (Note b)	81.2	81.2	–	34.1	End of 2026
– Research, development and application of various information technology systems and operational systems (Note b)	81.1	49.2	31.9	25.3	End of 2026
Expanding the Group’s diagnostic capabilities and enriching the Group’s diagnostic testing portfolio (Note b)	81.2	31.7	49.5	22.0	End of 2026
Potential investment and acquisition opportunities (Note a)	40.6	–	40.6	55.0	End of 2026
Recruiting and training up the talent pool (Note a)	40.6	22.3	18.3	36.3	End of 2026
Working capital and general corporate purposes	40.6	40.6	–	10.0	End of 2026
Total	811.8	445.1	366.7	366.7	

Note a: The expected timeline for utilizing the Unutilized Net Proceeds was on or before December 31, 2025 as disclosed in the Prospectus.

Note b: The expected timeline for utilizing the Unutilized Net Proceeds was on or before December 31, 2024 as disclosed in the Prospectus.

REASONS FOR AND BENEFITS OF CHANGE IN USE OF PROCEEDS

The Company has adhered to the business philosophy of “in-depth services and lean operations” since the Listing. On one hand, the Group constantly deepens its understanding of and response to the demands of medical institution customers by exploring new ways and new modes of serving customers in order to consolidate the Group’s development foundation and professional brand with in-depth services; on the other hand, the Group constantly improves its operational and management mechanism and procedure, leveraged on the fast-growing digital technologies and remained focused on lean operations to improve customer experience and satisfaction with better and more efficient services.

Since the demand for phased testing and screening services nationwide declined in 2023, the medical service market has changed significantly, and the medical service enterprises are facing various new challenges and opportunities. Based on its prediction on the macroenvironment and its insights into the microenvironment, the Group has decided to adjust the use of proceeds from the Global Offering in order to improve the efficiency of the use of funds raised, seize business development opportunities in a timely manner, balance the use of funds in a more reasonable and scientific manner to promote the Group’s high-quality business development.

(i) Expanding and deepening the Group’s medical institution alliance network

The Group has continuously expanded its medical institution alliance network across the PRC, and as of the end of 2023, the Group had successfully provided professional diagnostic services for more than 1,500 medical institutions in collaboration with medical institution alliances under 416 jointly constructed on-site diagnostic centers across the country and had created a number of benchmark projects for the joint initiative, so as to facilitate the rapid development of medical institution alliances in major areas such as infectious diseases, reproductive health, genetic diseases and pathology, and promote improvement on the overall technical level and operational efficiency of regional medical institution alliances. Therefore, approximately HK\$184.0 million or 50.2% of the Unutilized Net Proceeds will continue to be utilized for expanding and deepening the Group’s medical institution alliance network.

In order to continue to build more on-site diagnostic centers with medical institutions around the world, the Group will continue to deepen the services and operations of its medical institution alliance network, focusing more on the needs of its customers and making sure the accessibility of the Group’s advanced technological platforms, expert resources, product solutions, business cooperation solutions, professional logistics capabilities, digital operation capabilities, and marketing and service capabilities to its customers and integrating them for the creation of the customers’ value chain, so as to provide better service experience for the customers and continuously improve operational efficiency. Therefore, the Group has decided to re-allocate HK\$42.4 million among the Unutilized Net Proceeds to upgrade and enhance operational capabilities and continue to attract, train and retain talents to achieve high-quality development of the medical institution alliance service network.

Under this segment, the Group plans to invest a total of HK\$101.7 million in the construction of various medical institution alliance on-site diagnostic centers, including but not limited to pathology diagnostic centers, genetic disease diagnostic centers, infectious disease diagnostic centers and precision medicine centers. Meanwhile, in addition to the continuous investment in the construction of the above-mentioned various on-site diagnostic centers under this segment, the Group has allocated approximately HK\$82.3 million for the expansion of the Group's medical institution alliance marketing network. By strengthening investment in sales and customer service representative offices in various regions, building marketing channels and establishing a broader and deeper customer service network, the Group's sales, marketing and after-sales customer service personnel can interact more closely with customers and establish stronger and deeper cooperative relationships. Through such closer and more frequent communication and collaboration, the Group can better understand the needs of its customers to design and provide solutions to meet those needs, thereby improving the quality of the overall customer service system and maintaining the Group's market position.

(ii) Upgrading and enhancing the Group's operational capabilities as a medical operation service provider

The Group believes that as a medical operation service provider, the continuous upgrading and improvement of operational capabilities is of great significance to the Group's strategic development and business expansion. Therefore, the Group has decided to increase the allocation to this segment by HK\$27.5 million to approximately HK\$59.4 million, representing 16.2% of the Unutilized Net Proceeds. Regarding this segment, the Group plans to focus on the following areas: (i) approximately HK\$34.1 million will be used to improve local service capabilities, in particular, strategically establishing small self-operated stand-alone clinical laboratories in selected regions and areas in the PRC in close proximity to the Group's major customers or based on market needs and optimizing the facilities of the Group's existing laboratories and the laboratory operation team to better serve customers in a timely manner; (ii) digitalization is the Group's strategy and a growing trend in the healthcare industry. The Group has decided to allocate approximately HK\$25.3 million for the investment in construction of the operating platform, including basic investment and research and development ("R&D") applications in artificial intelligence technology, information technology and logistics platform and the like, which will help to continuously deepen the Group's capabilities in the field of in-depth services and lean operations.

(iii) Expanding the Group's diagnostic capabilities and enriching the Group's diagnostic testing portfolio

Since the Listing, the Group has been continuously strengthening its diagnostic and testing capabilities in multiple disease fields. The number of testing items has increased from more than 2,000 when it was listed to more than 3,000 as of May 31, 2024, forming a competitive product and diagnostic service portfolio. Considering that the Group's current testing items are able to meet most of the diagnostic testing needs, the Group has decided to reserve part of the unutilized amount originally allocated for this purpose, namely approximately HK\$22.0 million, representing 6.0% of the Unutilized Net Proceeds. Going forward, the Group will adopt a technological innovation and R&D model that is more efficient and closer to clinical needs. By integrating the resources of domestic and overseas universities, research institutes and high-quality suppliers, and with the aid of advanced technologies such as digital healthcare and artificial intelligence, the Group will assist its hospital clients in building a platform for scientific research and innovation and the transformation of achievement, and jointly promote the standardized application of innovative diagnostic products in clinical practice.

(iv) Potential investment and acquisition opportunities

The Group has decided to increase the allocation of the Unutilized Net Proceeds for potential investment and acquisition opportunities by HK\$14.4 million to approximately HK\$55.0 million, representing 15.0% of the Unutilized Net Proceeds, and extend the proposed timeline for full utilization from December 31, 2025 to December 31, 2026. In view of the significant changes to and impacts on the medical service market due to the decline in the demand for phased testing and screening nationwide since 2023, the Group has not used the proceeds for potential investment and acquisitions after the Listing, but it will continue to pay attention to and seek potential investment and acquisition opportunities to further enhance its diagnostic testing capabilities and operational capabilities. In terms of selection criteria for investment and acquisition targets, the Group will actively consider acquiring or investing in companies that have synergistic businesses with the Group, including but not limited to upstream companies engaged in advanced diagnostic technology, molecular biology, biotechnology and their clinical applications. The Group will evaluate technology, market position, reputation and potential synergies when making investment decisions.

(v) Recruiting and training up the talent pool

Medical technicians and core operations and management personnel are the backbone of the Group's long-term development. As the Group's business continues to expand, there is increasing demand for more and higher-quality talents and teams. In order to utilize the proceeds more efficiently to support the comprehensive development of the Group's talents, the Group has decided to merge the original sub-items of this item and increase the allocation to this segment by HK\$18.0 million to approximately HK\$36.3 million, representing 9.9% of the Unutilized Net Proceeds, in order to continue to attract, cultivate and retain talents through competitive compensation and equity incentive plans.

(vi) Working capital and general corporate purposes

The Group has decided to re-allocate HK\$10.0 million, representing 2.7% of the Unutilized Net Proceeds, to working capital and general corporate purposes, which will enhance the Group's financial management flexibility.

The Board confirms that there are no material changes in the nature of the business of the Group and considers that the proposed change in use of proceeds is in the interests of the Company and its shareholders as a whole and will not have any material adverse effect on the existing business and operations of the Group.

The Board will continuously assess the changing market conditions and may revise or amend such plans where necessary to cope with the changing market conditions in order to strive for better performance of the Group.

The shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

By order of the Board
Yunkang Group Limited
Zhang Yong
Chairman

Guangzhou, the PRC
June 28, 2024

As of the date of this announcement, the Board comprises Mr. Zhang Yong as chairman and executive Director; Ms. Huang Luo, Dr. Wang Pinghui and Dr. Wang Ruihua as non-executive Directors; and Mr. Yu Shiyong, Mr. Lan Fenghui and Mr. Xie Shaohua as independent non-executive Directors.