

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



HUAKANG BIOMEDICAL HOLDINGS COMPANY LIMITED

華康生物醫學控股有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 8622)

DISCLOSEABLE TRANSACTION AND ADVANCE TO ENTITY REPAYMENT ARRANGEMENT IN RELATION TO ACQUISITION OF 19% EQUITY INTEREST OF THE TARGET COMPANY AND PROVISION OF LOAN

Reference is made to the announcements of Huakang Biomedical Holdings Company Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) dated 6 January 2023, 7 February 2023, 9 February 2023 and 30 June 2023 (the “**Announcements**”) in respect of the Transactions involving the Sale and Purchase Agreement and Loan Agreement. Unless defined otherwise, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

THE REPAYMENT ARRANGEMENT

The Board announces that, on 21 March 2024, Huakang SZ entered into the Repayment Agreement with the Vendor and Target Company, pursuant to which, among others, (i) the Target Company shall repay Huakang SZ the Loan of RMB3,800,000 by six instalments; (ii) the Target Company shall repay the Refundable Consideration of RMB1,900,000 in the seventh and eighth instalments; (iii) the Target Company shall repay in the eighth instalment the interests accrued on the Loan of RMB3,800,000 at the rate of 5.75% per annum until all the outstanding amount of the Loan owed by the Target Company to Huakang SZ has been fully repaid to Huakang SZ; and (iv) upon the full repayment of the Refundable Consideration, Huakang SZ shall unconditionally return 19% equity interest in the Target Company to the Target Company or its designated representative. As at the date of this announcement, RMB200,000 for the first instalment and RMB400,000 for the second instalment have been repaid by the Target Company to the Group in accordance with the repayment schedule under the Repayment Agreement.

GEM LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios set out in Rule 19.07 of the GEM Listing Rules in respect of the Repayment Arrangement and the transactions contemplated therein is more than 5% but are less than 25%, the entering into of the Repayment Agreement and the transactions contemplated therein constitute a discloseable transaction for the Company under Chapter 19 of the Listing Rules and are therefore subject to the notification and announcement requirements under Chapter 19 of the Listing Rules.

The aggregate outstanding amounts to be repaid by the Target Company under the Repayment Agreement exceeds 8% under the assets ratio as defined under Rule 19.07(1) of the GEM Listing Rules. The Repayment Arrangement constitutes an advance to entity under Rule 17.15 of the GEM Listing Rule. As such, the Repayment Agreement is also subject to the general disclosure obligations

under Rules 17.15 and 17.17 of the GEM Listing Rules.

However, due to the inadvertent oversight by the Board and the management of the Company, the Repayment Agreement has not been notified and announced by the Company in a timely manner in accordance with Chapters 17 and 19 of the GEM Listing Rules.

Shareholders and potential investors should exercise caution when dealing in the Shares.

BACKGROUND

On 19 December 2022, Huakang SZ, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with the Vendor and amended and supplemented by a supplemental agreement dated 9 February 2023 and a second supplemental agreement dated 30 June 2023 (collectively, the “**Sale and Purchase Agreement**”), pursuant to which the Vendor agreed to sell, and Huakang SZ agreed to purchase, 19% equity interest in the Target Company, at a cash consideration of RMB1,900,000. The Group had fully paid the consideration directly to the Target Company on 19 December 2022 as paid-up capital in accordance with the Sale and Purchase Agreement and Huakang SZ has become and is still a shareholder of the Target Company holding 19% of its equity interest as at the date of this announcement.

On 20 December 2022, Huakang SZ entered into a loan agreement with the Target Company amended and supplanted by a supplemental loan agreement dated 9 February 2023 (collectively, the “**Loan Agreement**”), pursuant to which Huakang SZ agreed to grant an unsecured loan in the principal amount of RMB3.8 million with maturity date on 19 December 2023 and bearing interest at the rate of 5.75% per annum.

On 21 March 2023, Mr. Zhang Shugang, a director and substantial shareholder of the Company, executed a deed of personal guarantee in favour of the Group as security for the Loan and the consideration paid under the Sale and Purchase Agreement.

Details of the transactions involving the Sale and Purchase Agreement and the Loan Agreement are set out in the Company’s announcements dated 6 January 2023, 7 February 2023, 9 February 2023, 30 June 2023 and 28 March 2024.

Upon the maturity of the Loan, the Target Company failed to make repayment of the Loan and the interest accrued.

Given that the Conditions of the Sale and Purchase Agreement were not fulfilled on 31 December 2023 and no further extension of the date to fulfil the Conditions was subsequently agreed, the Vendor is required to refund to Huakang SZ the consideration of RMB1,900,000 (the “**Refundable Consideration**”) and Huakang SZ should transfer the 19% equity interest in the Target Company to the Vendor.

Given that the Target Company and the Vendor have failed to make due repayment in relation to the Loan Agreement and the Sale and Purchase Agreement respectively, the Group has taken action steps for recovery of the outstanding sums including (i) issuing a demand letter to the Target Company to request immediate repayment of the Loan and the loan interest receivables; (ii) issuing another demand letter to the Vendor to request immediate refund of the consideration paid in the sum of RMB1,900,000; and (iii) actively negotiating with the Vendor and the Target Company for repayment.

On 21 March 2024, Huakang SZ entered into a repayment agreement with the Vendor and Target Company (the “**Repayment Agreement**” and collectively, the “**Repayment Arrangement**”). As at the date of this announcement, a total of RMB600,000 has been repaid by the Target Company to the Group.

THE REPAYMENT AGREEMENT

The principal terms of the Repayment Agreement are summarized as follows:

Date: 21 March 2024

Parties:

1. Huakang SZ;
2. The Vendor; and
3. The Target Company

Acknowledgement of the Outstanding amounts:

- (i) Huakang SZ and the Vendor acknowledged that the Vendor owed Huakang SZ in the sum of RMB1,900,000 as at 21 March 2024.
- (ii) Huakang SZ and the Target Company acknowledged that the Target Company owed Huakang SZ in the sum of RMB3,800,000 plus interest as at 21 March 2024.

Term of repayment:

1. The Target Company shall repay the Refundable Consideration of RMB1,900,000 to Huakang SZ on behalf of the Vendor. Upon the full repayment of the Refundable Consideration, Huakang SZ shall unconditionally return 19% equity interest in the Target Company to the Target Company or its designated representative.
2. The Target Company shall fully repay Huakang SZ as the following repayment schedule by 8 instalments in total:

Repayment of the Loan (RMB3,800,000)				
Instal-ment	Repayment deadline	Repayment amount (RMB)	Outstanding amount of the Loan (RMB)	Accrued interest (RMB)
1 st	31 March 2024	200,000	3,600,000	280,010
2 nd	30 June 2024	400,000	3,200,000	331,477
3 rd	30 September 2024	800,000	2,400,000	377,729
4 th	31 December 2024	800,000	1,600,000	412,417
5 th	31 March 2025	800,000	800,000	435,102
6 th	30 June 2025	800,000	0	446,570
Repayment of the Refundable Consideration (RMB1,900,000) and the accrued interest of the Loan (RMB446,570)				
Instal-ment	Repayment Deadline	Repayment Amount (RMB)	Total outstanding amount owed to Huakang SZ (RMB)	
7 th	30 September 2025	800,000	1,546,570	
8 th	31 December 2025	1,100,000 together with accrued interest of RMB446,570	0	

3. The Target Company shall repay Huakang SZ (i) the Loan of RMB3,800,000 in the above 1st to 6th instalments, (ii) the interests accrued on the Loan of RMB3,800,000 at the rate of 5.75% per annum until all the outstanding amount of the Loan owed by the Target Company to Huakang SZ has been repaid to Huakang SZ in the 8th instalment, and (iii) the Refundable Consideration of RMB1,900,000 in the above 7th and 8th instalments.

Others:

In the event that the Target Company fails to repay any instalment(s) as agreed in accordance with the Repayment Agreement, Huakang SZ has the right to apply for enforcement against the remaining outstanding repayment and the Target Company is liable for all the costs incurred to Huakang SZ. The Target Company is also liable to pay Huakang SZ 10% of the outstanding balance as liquidated damages.

INFORMATION OF THE TARGET COMPANY AND THE VENDOR

The Target Company is a company incorporated in the PRC with limited liability and is principally engaged in the manufacturing and sale of AFE products and related supplements in the PRC. The Vendor is a company incorporated in the PRC with limited liability and is principally engaged in sales of healthcare foods and supplements in the PRC.

Details of the information of the Target Company and the Vendor and their ultimate beneficial owners are set out in the announcements dated 6 January 2023 and 7 February 2023.

To the best knowledge, information and belief of the Board, having made all reasonable enquiries, save as disclosed in the Announcements, as at the date of this announcement, the Vendor, the Target Company and their ultimate beneficial owners are independent of and not connected with the Company and its connected persons.

INFORMATION OF THE GROUP

The Group is principally engaged in research and development, manufacturing, marketing and sale of biological reagents and auxiliary reproductive supplies and equipment in the PRC.

REASONS FOR ENTERING INTO THE REPAYMENT ARRANGEMENT

Given that the Target Company and the Vendor have failed to make due repayment in relation to the Loan Agreement and the Sale and Purchase Agreement respectively, the Group has taken active steps for recovery of the outstanding sums including (i) issuing a demand letter to the Target Company to request immediate repayment of the Loan and the loan interest receivables; (ii) issuing another demand letter to the Vendor to request immediate refund of the consideration paid in the sum of RMB1,900,000; and (iii) actively negotiating with the Vendor and the Target Company for repayment.

Even after incurring significant amount of time and legal costs for enforcement actions and/or legal proceedings against the Vendor and the Target Company, the Group may not be able to successfully recover all the outstanding sums from the Vendor and the Target Company, while the repayment schedule under the Repayment Agreement lasts for around 1 year and 9 months with interest payable on the Loan.

The interest rate payable on the Loan for the instalment repayment is in line with the usual lending rate adopted by the banks in the PRC.

Huakang SZ shall remain as the beneficial owner of the 19% equity interest in the Target Company, as Huakang SZ shall only return the 19% equity interest in the Target Company to the Target Company upon the full repayment of the Refundable Consideration after the 8th instalment under the Repayment Agreement.

The Board considered that the Group should try to reach a consensus with the Target Company and the Vendor for repayment by instalments under the conditions agreed by all parties, in order to increase the possibility to maximize the recoverable amount of the outstanding sums owed to Huakang SZ before taking legal actions and/or enforcement actions against the Vendor and the Target Company.

If the Target Company fails to repay any outstanding amount in accordance with the repayment schedule under the Repayment Agreement, the Group will take enforcement actions and commence legal action against the Vendor and the Target Company and enforce Huakang SZ's rights under the Loan Agreement and the Sale and Purchase Agreement, where appropriate. The rights to take legal and/or enforcement actions against the Target Company are not being prejudiced by the Repayment Agreement.

The Board, after taking into account the above and the factors below, considers that the Repayment Arrangement and the entering of the Repayment Agreement is fair and reasonable and is in the interests of the Company and its shareholders as a whole:

- (1) the Repayment Arrangement and the entering of the Repayment Agreement with the Target Company and the Vendor were arrived at by all parties, namely (i) Huakang SZ, (ii) the Vendor and (iii) the Target Company, after arm's length negotiations; and
- (2) The Repayment Arrangement would be beneficial to the Group in terms of (i) recouping the outstanding amounts owed by the Target Company and the Vendor under the Loan Agreement and Sale and Purchase Agreement and (ii) receiving additional interests accrued on the Loan of RMB3,800,000 at the rate of 5.75% per annum until all the outstanding amounts on the Loan owed by the Target Company to Huakang SZ has been fully repaid to Huakang SZ in the last instalment.

GEM LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios as defined under Rule 19.07 of the GEM Listing Rules in respect of the Repayment Arrangement exceeds 5% but are less than 25% for the Company, the Repayment Arrangement and the transactions contemplated therein constitute a discloseable transaction of the Company and is subject to notification and announcement requirements under Chapter 19 of the GEM Listing Rules.

The aggregate outstanding amounts to be repaid by the Target Company under the Repayment Agreement exceeds 8% under the assets ratio as defined under Rule 19.07(1) of the GEM Listing Rules. The Repayment Arrangement constitutes an advance to entity under Rule 17.15 of the GEM Listing Rule. As such, the Repayment Agreement is also subject to the general disclosure obligations under Rules 17.15 and 17.17 of the GEM Listing Rules.

The Company admits its delay in compliance with Chapters 17 and 19 of the GEM Listing Rules on the reporting and announcement requirements in respect of entering into the Repayment Agreement.

The breach of the GEM Listing Rules was mainly due to inadvertent oversight by the Company and the Company then considered the Repayment Arrangement being related to the transactions involving the Loan Agreement and the Sale and Purchase Agreement, which had already been disclosed previously in the Announcements. The Repayment Arrangement and Repayment Agreement were

subsequently included in the 2023 Annual Results announcement of the Company dated 28 March 2024.

REMEDIAL MEASURES

In view of the above incident, for the avoidance of future occurrence of non-compliance with the GEM Listing Rules, the Company has taken and/or will take the following remedial measures:

- (1) The Company has designated an executive Director with extensive business and financial management experience for overseeing the internal control and compliance in respect of the transactions of the Group;
- (2) The Company has engaged external independent legal advisers on an on-going basis to advise on the Group on transactional matters to be entered by the Group in order to ensure the Company duly complied with the GEM Listing Rules and advise the Board and management of the Company on the latest application and requirements of the GEM Listing Rules and compliance practice for notifiable transactions;
- (3) The Company has further enhanced its relevant internal control measures on contract signing procedures and approval and escalation protocols with reference to the requirements under the GEM Listing Rules;
- (4) The Company circulated the enhanced internal communication guideline to the management and responsible staff of the Group to remind them of the disclosure obligations under the GEM Listing Rules;
- (5) The Company will further enhance the internal compliance system to allow the Company Secretary of the Company to sit in the senior management decision process so as to monitor the progress of significant transactions which are subject to GEM Listing Rules compliance.
- (6) The Company Secretary of the Company will issue reminders and questionnaire to the Board and management of the Company on no less frequent than a monthly basis to keep track of the progress of any significant transactions of the Group so as to plan for the compliance work well in advance;
- (7) The Company will arrange additional training on regulatory compliance matters to the Board and the management of the Company on a regular basis to increase their awareness and knowledge of the GEM Listing Rules implications, particularly those concerning continuing obligations, notifiable transactions; and
- (8) the Company shall, as and when appropriate and necessary, consult professional adviser(s) before entering into possible notifiable transactions.

By Order of the Board
Huakang Biomedical Holdings Company Limited
Zhang Shuguang
Chairman and Executive Director

Hong Kong, 14 May 2024

As at the date of this announcement, the Executive Directors are Mr. Zhang Shuguang, Mr. Zhang Chunguang, Mr. Poon Lai Yin Michael and Mr. He Jiaming; and the independent non-executive Directors are Dr. Chow Kwok Fai Joseph, Dr. Cheng Faat Ting Gary and Ms. Chow Ching Man.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited 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 announcement 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 announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the Stock Exchange website at www.hkexnews.hk for at least seven days from the date of publication and on the Company’s website at www.huakangbiomedical.com.