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

If you have sold or transferred all your shares in Shenzhen Neptunus Interlong Bio-technique Company Limited*, you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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深圳市海王英特龍生物技術股份有限公司
SHENZHEN NEPTUNUS INTERLONG BIO-TECHNIQUE COMPANY LIMITED*
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 8329)

**(1) CONTINUING CONNECTED TRANSACTION IN RELATION TO
2021 HEALTHCARE FOOD AND FOOD PURCHASE
FRAMEWORK AGREEMENT;
AND
(2) CONTINUING CONNECTED TRANSACTION IN RELATION TO
RENEWAL OF DISTRIBUTION AGREEMENT**

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



A letter from the Board is set out on pages 5 to 18 of this circular and a letter from Gram Capital Limited is set out on pages 21 to 39 of this circular. A notice convening the EGM to be held at 10:00 a.m. on Friday, 14 January 2022 at Meeting Room, 24th Floor, Neptunus Yinhe Technology Mansion, 1 Keji Middle 3rd Road, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China (the "PRC") together with the form of proxy for use at the EGM have been issued to the Shareholders separately and are also published on the GEM website (www.hkgem.com) and the website of the Company.

Whether or not you are able to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM (i.e. not later than 10:00 a.m. on Thursday, 13 January 2022) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person if you so wish.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and in the Company's website at www.interlong.com.

References to time and dates in this circular are to Hong Kong time and dates.

* For identification purpose only

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CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

DEFINITIONS

In this circular, the following expressions shall, unless the context otherwise requires, have the following respective meanings:

“2017 Healthcare Food and Food Purchase Framework Agreement”	the purchase framework agreement dated 17 October 2017 entered into between the Company and Neptunus Group pursuant to which the Group will purchase certain food and healthcare food products from the Intermediate Parent Group for distribution in the PRC for the period from 1 January 2018 to 31 December 2020;
“2018 Distribution Agreement”	the distribution agreement entered into between Neptunus Changjian and Neptunus Pharmaceutical on 12 October 2018 relating to the purchase of various pharmaceutical products manufactured by Neptunus Pharmaceutical for distribution in the PRC for the period from 1 January 2019 to 31 December 2021;
“2020 Healthcare Food and Food Purchase Framework Agreement”	the purchase framework agreement dated 16 September 2020 entered into between the Company and Neptunus Group pursuant to which the Group will purchase certain food and healthcare food products from the Intermediate Parent Group for distribution in the PRC for the period from 1 January 2021 to 31 December 2023;
“2021 Distribution Agreement”	the distribution agreement entered into between Neptunus Changjian and Neptunus Pharmaceutical on 6 December 2021 relating to the purchase of various pharmaceutical products manufactured by Neptunus Pharmaceutical for distribution in the PRC for the period from the date on which the 2021 Distribution Agreement is approved by the Independent Shareholders at the EGM and ending on 31 December 2024 (both days inclusive);
“2021 Healthcare Food and Food Purchase Framework Agreement”	the purchase framework agreement entered into between the Company and Neptunus Group on 6 December 2021 pursuant to which the Group will purchase certain food and healthcare food products from the Intermediate Parent Group for distribution in the PRC for the period from the date on which the 2021 Healthcare Food and Food Purchase Framework Agreement is approved by the Independent Shareholders at the EGM to 31 December 2024 (both days inclusive);

DEFINITIONS

“associate”	has the meaning ascribed thereto under the GEM Listing Rules;
“Board”	the board of Directors;
“Company”	深圳市海王英特龍生物技術股份有限公司 (Shenzhen Neptunus Interlong Bio-technique Company Limited*), whose H shares are listed on the GEM;
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules;
“controlling shareholder”	has the meaning ascribed thereto under the GEM Listing Rules;
“Director(s)”	the director(s) of the Company;
“Domestic Shares”	domestic shares of RMB0.10 each in the issued share capital of the Company;
“EGM”	an extraordinary general meeting of the Company to be held to consider and approve by poll, among other things, the 2021 Healthcare Food and Food Purchase Framework Agreement, the 2021 Distribution Agreement, the Proposed Healthcare Food and Food Purchase Caps and the Proposed Pharmaceutical Products Purchase Caps;
“GEM”	GEM of the Stock Exchange;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM;
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2021 Healthcare Food and Food Purchase Framework Agreement, the 2021 Distribution Agreement, the Proposed Healthcare Food and Food Purchase Caps and the Proposed Pharmaceutical Product Purchase Caps;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;

DEFINITIONS

“H Shares”	ordinary shares of RMB0.10 each in the issued share capital of the Company which are listed and traded on GEM;
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors, to advise the Independent Shareholders as to the fairness and reasonableness of the 2021 Healthcare Food and Food Purchase Framework Agreement, the 2021 Distribution Agreement, the Proposed Healthcare Food and Food Purchase Caps and the Proposed Pharmaceutical Product Purchase Caps;
“Independent Shareholders”	Shareholders other than Neptunus Bio-engineering and any of its associates;
“Intermediate Parent Group”	collectively Neptunus Group and its subsidiaries (excluding the Group), or any one of them;
“Latest Practicable Date”	28 December 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Licences”	certain licences and certificates held by Neptunus Changjian in relation to sales and distribution of drugs and health supplements and food, including the drugs operation licences (藥品經營許可證), the hygiene certificate for healthcare food operation enterprises (保健食品經營企業衛生許可證), the food hygiene certificate (食品衛生許可證), the medical equipment operation corporate licence (醫療器械經營企業許可證) and the GSP certificate (藥品經營質量管理規範認證證書);
“Neptunus Bio-engineering”	深圳市海王生物工程股份有限公司 (Shenzhen Neptunus Bio-engineering Company Limited*), a joint stock limited company established under the laws of the PRC whose shares are listed on the Shenzhen Stock Exchange;
“Neptunus Changjian”	深圳海王長健醫藥有限公司 (Shenzhen Neptunus Changjian Pharmaceutical Company Limited*), a limited liability company established under the laws of the PRC which is wholly-owned by the Company;
“Neptunus Group”	深圳海王集團股份有限公司 (Shenzhen Neptunus Group Company Limited*), a joint stock limited company established under the laws of the PRC and the controlling shareholder of Neptunus Bio-engineering;

DEFINITIONS

“Neptunus Pharmaceutical”	深圳海王藥業有限公司 (Shenzhen Neptunus Pharmaceutical Company Limited*), a limited liability company established under the laws of the PRC which is wholly-owned by Neptunus Group;
“percentage ratio(s)”	has the meaning ascribed thereto under the GEM Listing Rules;
“PRC”	the People’s Republic of China;
“Proposed CCTs”	collectively, the continuing connected transactions contemplated under the 2021 Healthcare Food and Food Purchase Framework Agreement and the 2021 Distribution Agreement;
“Proposed Healthcare Food and Food Purchase Cap(s)”	the estimated maximum aggregate purchase amount under the 2021 Healthcare Food and Food Purchase Framework Agreement for each of the years ending 31 December 2022, 2023 and 2024;
“Proposed Pharmaceutical Product Purchase Cap(s)”	the estimated maximum aggregate purchase amount under the 2021 Distribution Agreement for each of the years ending 31 December 2022, 2023 and 2024;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholders”	the holders of the ordinary shares of RMB0.1 each of the Company;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

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LETTER FROM THE BOARD



深圳市海王英特龍生物技術股份有限公司
SHENZHEN NEPTUNUS INTERLONG BIO-TECHNIQUE COMPANY LIMITED*
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 8329)

Executive Directors:
Mr. Zhang Feng (*Chairman*)
Mr. Huang Jian Bo

Non-executive Directors:
Mr. Zhang Yi Fei
Ms. Yu Lin
Mr. Shen Da Kai
Mr. Xu Yan He

Independent Non-executive Directors:
Mr. Yick Wing Fat, Simon
Mr. Poon Ka Yeung
Mr. Zhang Jian Zhou

Registered Office:
Suite 2103, 21st Floor,
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Hong Kong:*
18th Floor, United Centre,
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Hong Kong

30 December 2021

To the Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTION IN RELATION TO
2021 HEALTHCARE FOOD AND FOOD PURCHASE
FRAMEWORK AGREEMENT;
AND
(2) CONTINUING CONNECTED TRANSACTION IN RELATION TO
RENEWAL OF DISTRIBUTION AGREEMENT**

INTRODUCTION

Reference is made to the announcement dated 6 December 2021 issued by the Company in relation to 2021 Healthcare Food and Food Purchase Framework Agreement, the 2021 Distribution Agreement, the Proposed Healthcare Food and Food Purchase Caps and the Proposed Pharmaceutical Product Purchase Caps.

* For identification purpose only

LETTER FROM THE BOARD

The purpose of this circular is to provide, inter alia, (a) the Shareholders with further information relating to the 2021 Healthcare Food and Food Purchase Framework Agreement, the 2021 Distribution Agreement, the Proposed Healthcare Food and Food Purchase Caps, and the Proposed Pharmaceutical Product Purchase Caps; (b) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders relating to the 2021 Healthcare Food and Food Purchase Framework Agreement, the 2021 Distribution Agreement, the Proposed Healthcare Food and Food Purchase Caps and the Proposed Pharmaceutical Product Purchase Cap; and (c) a letter from the Independent Board Committee to the Independent Shareholders relating to the 2021 Healthcare Food and Food Purchase Framework Agreement, the 2021 Distribution Agreement, the Proposed Healthcare Food and Food Purchase Caps, and the Proposed Pharmaceutical Product Purchase Caps.

BACKGROUND

As disclosed in the Company's announcement dated 6 December 2021, the Company entered into the 2021 Healthcare Food and Food Purchase Framework Agreement with Neptunus Group, the controlling shareholder and a connected person of the Company on 6 December 2021 (after trading hours) pursuant to which the Group will purchase certain food and healthcare food products from the Intermediate Parent Group for distribution in the PRC for the period from the date on which the 2021 Healthcare Food and Food Purchase Framework Agreement is approved by the Independent Shareholders at the EGM to 31 December 2024 (both days inclusive).

As further disclosed in the Company's announcement dated 6 December 2021, Neptunus Changjian, a wholly-owned subsidiary of the Company, entered into the 2021 Distribution Agreement with Neptunus Pharmaceutical, a fellow subsidiary and a connected person of the Company on 6 December 2021 (after trading hours) pursuant to which Neptunus Changjian will continue to purchase various pharmaceutical products manufactured by Neptunus Pharmaceutical and distribute such products within the PRC for the period from the date on which the 2021 Distribution Agreement is approved by the Independent Shareholders at the EGM to 31 December 2024 (both days inclusive).

1. THE 2021 HEALTHCARE FOOD AND FOOD PURCHASE FRAMEWORK AGREEMENT

The details of the 2021 Healthcare Food and Food Purchase Framework Agreement are as follows:

Date

6 December 2021

Parties

- (i) The Company; and
- (ii) Neptunus Group.

LETTER FROM THE BOARD

Subject Matter

Pursuant to the 2021 Healthcare Food and Food Purchase Framework Agreement, among other things, the Group will purchase certain food and healthcare food products from the Intermediate Parent Group for distribution in the PRC.

Term

The 2021 Healthcare Food and Food Purchase Framework Agreement will become effective from the date on which it is approved by the Independent Shareholders at the EGM and ending on 31 December 2024 (both days inclusive).

Conditions Precedent

The transactions contemplated under the 2021 Healthcare Food and Food Purchase Framework Agreement are conditional upon:

- (i) the approval by the Independent Shareholders at the EGM; and
- (ii) all applicable law, regulation and obligation imposed by the relevant statutory or governmental bodies having been complied with, and all necessary consents from the relevant statutory or governmental bodies having been obtained or waived.

Pricing Basis and Payment Terms

Pursuant to the 2021 Healthcare Food and Food Purchase Framework Agreement, purchase prices of food and healthcare food products shall be agreed between the parties on an arm's length basis through negotiations with reference to the following basis:

In the case where there are similar products in the market, the purchase prices of food and healthcare food products offered to the Group shall be determined with reference to the then prevailing market prices of similar products agreed by both parties after arm's length negotiation, and such purchase prices shall not be higher than the purchase prices of similar products obtained from other independent suppliers by the Group.

In the case where there are no similar products in the market:

- (i) where the Intermediate Parent Group supplies the relevant food and healthcare food products to the Group non-exclusively, the purchase prices of food and healthcare food products offered to the Group shall not be higher than the purchase prices of similar products in similar quantities offered by the Intermediate Parent Group to other independent customers; and

LETTER FROM THE BOARD

- (ii) where the Intermediate Parent Group supplies the relevant food and healthcare food products to the Group exclusively, the purchase prices of food and healthcare food products offered to the Group shall not be higher than the purchase prices set by the Group. Such purchase prices set by the Group would be determined with reference to the Group's distribution prices of similar products offered to its independent customers and its historical gross profit margin of such similar products.

The consideration of food and healthcare food products purchased by the Group shall be settled within sixty (60) days after the issue date of the invoice or the receipt of food and healthcare food products, whichever is earlier.

Annual Caps

The Proposed Healthcare Food and Food Purchase Caps for each of the years ending 31 December 2022, 2023 and 2024 are RMB35,000,000, RMB42,000,000 and RMB50,000,000 respectively.

Details of the historical transaction amounts and historical purchase caps under the 2017 Healthcare Food and Food Purchase Framework Agreement and 2020 Healthcare Food and Food Purchase Framework Agreement are set out in the table below:

For the year ended 31 December 2019 (RMB)		For the year ended 31 December 2020 (RMB)		For the nine months ended 30 September 2021 (RMB)	For the year ending 31 December 2021 (RMB)
Historical transaction amount (audited)	Historical purchase cap	Historical transaction amount (audited)	Historical purchase cap	Historical transaction amount (unaudited)	Historical purchase cap
<u>27,829,800</u>	<u>36,000,000</u>	<u>27,569,000</u>	<u>47,000,000</u>	<u>21,015,800</u>	<u>25,000,000</u>

In arriving at the Proposed Healthcare Food and Food Purchase Caps, the Directors have considered the following factors and applied rounding adjustments to the percentage figures below:

- (i) the unaudited historical purchase amount under the 2020 Healthcare Food and Food Purchase Framework Agreement during the period from 1 January 2021 to 30 September 2021;
- (ii) the estimated annual growth rate of 18% of the demand of the Group for food and healthcare food products, which is based on the actual growth rate of 23.37% of the historical purchase amount under 2017 Healthcare Food and Food Purchase Framework Agreement from 2018 to 2019; and

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- (iii) a buffer of approximately 5% to cover the unforeseen circumstances, for instance, an unexpected increase in the demand of the food and healthcare food products and other relevant factors, etc. for the transactions in 2022.

The transaction amounts for 2020 were not taken into consideration by the Directors as the market was adversely affected by the outbreak of the COVID-19. For the nine months ended 30 September 2021, the Group has seen an increase in the demand for food and healthcare food products as compared to the corresponding period in 2020 due to the market recovery from COVID-19. As the Directors have seen that the Group's demand for food and healthcare food products has resumed growth due to that the COVID-19 pandemic was largely under control in the country since the end of 2020, the Company has not taken into account the effect of COVID-19 when determining the Proposed Healthcare Food and Food Purchase Caps for the years 2022 to 2024, but instead referred to the pre-COVID-19 growth of the demand for food and healthcare food products when determining the the Proposed Healthcare Food and Food Purchase Caps for the years 2022 to 2024. The Directors have been monitoring the transaction amounts of the continuing connected transactions under the 2020 Healthcare Food and Food Purchase Framework Agreement. As at the Latest Practicable Date, the existing annual cap for the continuing connected transactions for the year ending 31 December 2021 has not been exceeded. The Directors expects that the actual transaction amounts will not exceed the existing annual cap for the continuing connected transactions under the 2020 Healthcare Food and Food Purchase Framework Agreement or the year ending 31 December 2021.

If the transaction amounts under the 2021 Healthcare Food and Food Purchase Framework Agreement are expected to exceed the Proposed Healthcare Food and Food Purchase Caps, the Company will re-comply with the requirements under Chapter 20 of the GEM Listing Rules.

Termination of the 2020 Healthcare Food and Food Purchase Framework Agreement

Upon the commencement of the term of the 2021 Healthcare Food and Food Purchase Framework Agreement, the 2020 Healthcare Food and Food Purchase Framework Agreement shall be terminated with immediate effect.

2. RENEWAL OF DISTRIBUTION AGREEMENT

2021 DISTRIBUTION AGREEMENT

The details of the 2021 Distribution Agreement are as follows:

Date

6 December 2021

LETTER FROM THE BOARD

Parties

- (i) Neptunus Changjian; and
- (ii) Neptunus Pharmaceutical.

Subject Matter

Pursuant to the 2021 Distribution Agreement, among other things, Neptunus Changjian will purchase various pharmaceutical products manufactured by Neptunus Pharmaceutical and distribute such products within the PRC.

Term

The 2021 Distribution Agreement will become effective from the date on which it is approved by the Independent Shareholders at the EGM and ending on 31 December 2024 (both days inclusive).

Conditions Precedent

The transactions contemplated under the 2021 Distribution Agreement are conditional upon:

- (i) the approval by the Independent Shareholders at the EGM; and
- (ii) all applicable law, regulation and obligation imposed by the relevant statutory or governmental bodies having been complied with, and all necessary consents from the relevant statutory or governmental bodies having been obtained or waived.

Pricing Basis and Payment Terms

Pursuant to the 2021 Distribution Agreement, the purchase prices of the pharmaceutical products offered to the Group shall be determined with reference to the then prevailing market prices of similar products agreed by both parties after arm's length negotiation, and such purchase prices shall not be higher than the purchase prices of similar products obtained from other independent suppliers by the Group.

The consideration of the pharmaceutical products purchased by Neptunus Changjian will be settled within forty-five (45) days after the issue date of the invoice or the receipt of the products, whichever is earlier. All the terms of the 2021 Distribution Agreement are arrived at after arm's length negotiations between Neptunus Changjian and Neptunus Pharmaceutical.

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Annual Caps

The Proposed Pharmaceutical Product Purchase Caps for each of the years ending 31 December 2022, 2023 and 2024 are RMB86,000,000, RMB97,000,000 and RMB108,000,000 respectively.

Details of the historical transaction amounts and historical purchase caps under the 2018 Distribution Agreement are set out in the table below:

For the year ended 31 December 2019 (RMB)		For the year ended 31 December 2020 (RMB)		For the nine months ended 30 September 2021 (RMB)	For the year ending 31 December 2021 (RMB)
Historical transaction amount (audited)	Historical purchase cap	Historical transaction amount (audited)	Historical purchase cap	Historical transaction amount (unaudited)	Historical purchase cap
98,370,300	110,000,000	105,431,000	140,000,000	50,148,000	180,000,000

In arriving at the Proposed Pharmaceutical Product Purchase Caps, the Directors have considered the following factors and applied rounding adjustments to the percentage figures below:

- (i) Historical transaction amounts for purchasing medicines from Neptunus Pharmaceutical under the 2018 Distribution Agreement for the years ended 31 December 2019, 2020 and for the nine months ended 30 September 2021; and the expectation that the fourth quarter of 2021 will be the peak season for sales of each type of pharmaceutical products which are the subject matters of the 2021 Distribution Agreement. For the year ended 31 December 2019, the proportion of historical transaction amounts of pharmaceutical products for the fourth quarter of the year to that for the full year was approximately 32.22%, whereas the proportion for the first three quarters of 2019 were approximately 19.82%-27.61%. For the year ended 31 December 2020, the proportion of historical transaction amounts of pharmaceutical products for the fourth quarter of the year to that for the full year was approximately 32.58%, whereas the proportion for the first three quarters of 2020 were approximately 14.55%-28.62%.
- (ii) the estimated annual growth rate of 12% of the demand of the Group for pharmaceutical products, which is based on the historical transaction amounts for the three years ended 31 December 2020, and taking into account of the average actual growth rate of approximately 11% of the historical transactions amounts for the three years ended 31 December 2020; and

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- (iii) A buffer of approximately 5% to cover unforeseen circumstances, for instance, an unexpected increase in the demand for the pharmaceutical products and other relevant factors, etc. for the transactions in 2022.

If the Proposed Pharmaceutical Product Purchase Caps are expected to exceed in the relevant period, the Company will re-comply with the requirements under Chapter 20 of the GEM Listing Rules.

INTERNAL CONTROL MEASURES

In order to ensure that (i) the terms of the 2021 Healthcare Food and Food Purchase Framework Agreement are no less favourable to the Group than the terms available from independent suppliers; (ii) the terms of the 2021 Distribution Agreement are no less favourable to the Group than the terms available from independent suppliers; and (iii) to protect the interests of the Company and the Shareholders as a whole, the Company will adopt the following internal control measures regarding the Proposed CCTs:

- (a) In relation to the 2021 Healthcare Food and Food Purchase Framework Agreement:–

- (i) In the case where there are similar products in the market:
- The prices of food and healthcare food products would be determined with reference to the prevailing market prices of similar products agreed by both parties after arm's length negotiation. In order to obtain the prevailing market price, relevant departments of the Group will obtain quotes from at least two independent suppliers which are as established as, and of similar scale with the Intermediate Parent Group on a quarterly basis for similar products; and
 - If at any time the relevant departments of the Group find out that in respect of a transaction, the price of a product offered by the Intermediate Parent Group is higher than that offered by other independent suppliers and/or the terms of a product offered by the Intermediate Parent Group are less favourable than those offered by other independent suppliers, such findings shall be reported to the general manager of the Company or the relevant subsidiary of the Group for review. The relevant general manager shall then discuss with one of the Directors to evaluate whether the Group should continue to purchase such product from the Intermediate Parent Group or amend the relevant terms, with reference to factors such as the corporate background of such supplier, its reputation and reliability, and its ability to conduct the transaction in accordance with the terms of the agreement provided by it.

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(ii) In the case where there are no similar products in the market:

- If the Intermediate Parent Group also supplies the relevant food and healthcare food products to other independent customers, the prices of such products should not be higher than the prices of similar products in similar quantities offered by the Intermediate Parent Group to its independent customers. The Group will monitor this type of transaction by collecting documents from the Intermediate Parent Group on a quarterly basis, evidencing the sales prices of the products that are offered by the Intermediate Parent Group to its independent customers;
- If at any time the relevant departments of the Group find out that in respect of a transaction, the Intermediate Parent Group offers lower price and/or more favourable terms in respect of a product to its independent customers, such findings shall be reported to the general manager of the Company or the relevant subsidiary of the Group for review. The relevant general manager shall then discuss with one of the Directors to evaluate whether the Group should continue to purchase such product from the Intermediate Parent Group or amend relevant terms, provided that the terms of purchase made by the Group and the independent customers of the Intermediate Parent Group or its customers are similar; and
- If the Intermediate Parent Group only supplies the relevant food and healthcare food products to the Group, the prices of such products should not be higher than the purchase prices set by the Group. Such purchase prices set by the Group would be determined with reference to the Group's distribution prices of similar products offered to its independent customers and its historical gross profit margin of such similar products. The Group will monitor this type of transaction by evaluating its average distribution price of the products offered to its independent customers on a quarterly basis. If at any time the Intermediate Parent Group reject to accept the purchase price made by the Group for a product, the general manager of the Company or the relevant subsidiary of the Group shall then discuss with one of the Directors to evaluate whether the Group should continue to purchase such product from the Intermediate Parent Group or whether the Group should increase the sales price of such product.

(b) In relation to the 2021 Distribution Agreement:

- (i) The Group will compare the price of the products offered by Neptunus Pharmaceutical with that offered by independent suppliers. In order to obtain the prevailing market prices, relevant departments of the Group will obtain quotes with same sales terms from at least two independent suppliers which are as established as, and of similar scale with Neptunus Pharmaceutical on a quarterly basis for similar products. The quotes obtained from independent suppliers are usually applicable for purchase made within 30 days from the

LETTER FROM THE BOARD

date of the quotes. However, there will not be substantial price fluctuation within a quarter. The relevant departments of the Group will compare the quotations and provided that the products to be sold to the Group by the independent suppliers are of similar quality and quantity with the same sale terms, the final purchase price will be determined based on the lowest quotation obtained from the independent suppliers.

- (ii) If at any time the relevant departments of the Group find out that the price of a product offered by Neptunus Pharmaceutical is higher than that offered by other independent suppliers and/ or the terms of a product offered by Neptunus Pharmaceutical are less favourable than those offered by other independent suppliers, such findings shall be reported to the general manager of the Company or the relevant subsidiary of the Group for review. The relevant general manager shall then discuss with one of the Directors (excluding independent non-executive Directors and Directors who have a material interest in the relevant transaction) who have relevant experience to evaluate whether the Group should continue to purchase such product from Neptunus Pharmaceutical or amend the relevant terms, with reference to factors such as the corporate background of such independent supplier, its reputation and reliability, and its ability to conduct the transaction in accordance with the terms of the agreement provided by it.
- (c) the Group would monitor the Proposed CCTs in accordance with the internal control policies. The relevant department of the Group would review regularly whether the Proposed CCTs are implemented in accordance with the terms of the 2021 Healthcare Food and Food Purchase Framework Agreement or the 2021 Distribution Agreement. Shall there be any material change in the market price of the products, the parties shall negotiate to adjust the pricing policies to ensure the fairness and reasonableness of the pricing policies;
- (d) the Group's finance department would collect the data of the Proposed CCTs to ensure that the Proposed Healthcare Food and Food Purchase Caps and the Proposed Pharmaceutical Product Purchase Caps are not exceeded;
- (e) the Group will engage the auditors to conduct an annual review of the Proposed CCTs to opine on whether the Proposed Healthcare Food and Food Purchase Caps and the Proposed Pharmaceutical Product Purchase Caps have been exceeded;
- (f) the Company's audit committee would review the implementation of the Proposed CCTs and review the report in relation to the Proposed CCTs prepared by the management of the Group, in order to evaluate comprehensiveness and effectiveness of the Group's internal control measures on Proposed CCTs; and
- (g) the independent non-executive Directors would review the implementation of the Proposed CCTs annually.

LETTER FROM THE BOARD

Taking into account that: (i) the above methods and procedures comprise the necessary components of an internal control system with designated department and responsible officer, clear approval process and monitoring system and detailed and explicit assessment criteria; and (ii) the abovementioned review procedures and approval process against the detailed assessment criteria can ensure that the transactions will be executed in compliance with the pricing principles stipulated in the 2021 Healthcare Food and Food Purchase Framework Agreement and the 2021 Distribution Agreement, the Directors consider that the above methods and procedures can ensure that the Proposed CCTs will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2021 HEALTHCARE FOOD AND FOOD PURCHASE FRAMEWORK AGREEMENT

Since the commencement of the 2020 Healthcare Food and Food Purchase Framework Agreement, the healthcare food products purchased by the Company were well received by the market in the PRC and the sales volume grew at a rate higher than expected. During the period from 1 January 2021 to 30 September 2021, the aggregate purchase amount under the 2020 Healthcare Food and Food Purchase Framework Agreement was approximately RMB21,015,800.

Considering the (i) aging population issue in the PRC, (ii) the increase in the number of people in the PRC becoming aware of the importance of good health and (iii) the promulgation of the Outline of “Healthy China 2030” Plan (「健康中國2030」規劃綱要), the demand for healthcare food products in the PRC will increase and the such market in the PRC will continue to grow. The Board expects that the annual caps under the 2020 Healthcare Food and Food Purchase Framework Agreement for each of the years ending 31 December 2022 and 2023 will not be sufficient to meet the needs of the Company in the future, taking into account the expected market demand of the healthcare food products under the current market condition. Furthermore, considering the fact the Intermediate Parent Group has the expertise and experience in manufacturing of the healthcare food products and has a good reputation, the Board believes that it is in the interest of the Company to continue to co-operate with the Intermediate Parent Group for the year ending on 31 December 2024. Accordingly, the Board proposed to enter into the 2021 Healthcare Food and Food Purchase Framework Agreement to revise the proposed annual caps for the years ending 31 December 2022 and 2023 and apply for the proposed annual cap for the year ending 31 December 2024, as it believes this will bring the Group higher operating revenues and have a positive impact on the profitability of the Group.

To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, no Director has a material interest in the transaction contemplated under the 2021 Healthcare Food and Food Purchase Framework Agreement, save and except that the chairman of the Board and executive Director, Mr. Zhang Feng, is also a director of Neptunus Group. In this connection, Mr. Zhang Feng had abstained from voting on the written resolutions of the Board for approving the 2021 Healthcare Food and Food Purchase Framework Agreement. Having considered the above, the remaining Directors (other than the independent non-executive Directors who will express their views after considering the advice from the Independent Financial Adviser) take the view that the 2021 Healthcare Food

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and Food Purchase Framework Agreement: (i) has been entered into in the Group's ordinary and usual course of business; and (ii) is on normal commercial terms determined on an arm's length basis and the terms of the 2021 Healthcare Food and Food Purchase Framework Agreement (including the Proposed Healthcare Food and Food Purchase Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2021 DISTRIBUTION AGREEMENT

On 4 January 2013, the Company acquired the entire equity interests in Neptunus Changjian with a view to expanding its business in marketing, sales and distribution of drugs and healthcare food. The Board considers that the entering into of the 2021 Distribution Agreement will (i) bring to the Group higher operating revenues by the distribution and sale of pharmaceutical products which will have a positive impact on the profitability of the Group; and (ii) assist the Group to expand its marketing team and retail network and strengthen its connections with distributors and retailers.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Director has a material interest in the transactions contemplated under the 2021 Distribution Agreement, save and except that the chairman of the Board and executive Director, Mr. Zhang Feng, who is also a chairman of the board of directors of Neptunus Pharmaceutical, and non-executive Director Ms. Yu Lin who is also a director of Neptunus Pharmaceutical. In this connection, Mr. Zhang Feng and Ms. Yu Lin had abstained from voting on the written resolutions of the Board for approving the 2021 Distribution Agreement. Having considered the above, the remaining Directors (other than the independent non-executive Directors who will express their views after considering the advice from the Independent Financial Adviser) take the view that the 2021 Distribution Agreement: (i) has been entered into in the Group's ordinary and usual course of business; and (ii) is on normal commercial terms determined on an arm's length basis and the terms of the 2021 Distribution Agreement (including the Proposed Pharmaceutical Product Purchase Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP, NEPTUNUS GROUP, NEPTUNUS CHANGJIAN AND NEPTUNUS PHARMACEUTICAL

The Group is principally engaged in the research and development, production and sales of medicines, and the purchase and sales of medicines and healthcare food products.

Neptunus Group is a joint stock limited company established under the laws of the PRC, and together with its subsidiaries, it is a large enterprise group with its competitive edge in the pharmaceutical industry in the PRC. It has already formed a comprehensive industry chain including research and development, manufacturing of pharmaceutical products and pharmaceutical commercial circulation.

LETTER FROM THE BOARD

Neptunus Changjian is a limited liability company established under the laws of the PRC and is a wholly-owned subsidiary of the Company. Neptunus Changjian is principally engaged in the business of sales and distribution of drugs, health supplements and food and is the holder of the Licences.

Neptunus Pharmaceutical is a limited liability company established under the laws of the PRC. Neptunus Pharmaceutical is principally engaged in the business of production and manufacturing of pharmaceutical products.

IMPLICATIONS OF THE GEM LISTING RULES

As at the Latest Practicable Date, Neptunus Group is the controlling shareholder of Neptunus Bio-engineering, and Neptunus Bio-engineering is the controlling shareholder of the Company, which directly and indirectly holds approximately 73.51% of the entire share capital of the Company. Therefore, Neptunus Group is a connected person of the Company under Rule 20.07(1) of the GEM Listing Rules. Accordingly, the transactions under the 2021 Healthcare Food and Food Purchase Framework Agreement constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules.

As at the Latest Practicable Date, Neptunus Pharmaceutical is wholly-owned by Neptunus Group which in turn is the controlling shareholder of Neptunus Bio-engineering. Neptunus Bio-engineering is the controlling shareholder of the Company under the GEM Listing Rules. Therefore, Neptunus Pharmaceutical is an associate of Neptunus Bio-engineering and thus a connected person of the Company under the Rule 20.11 of the GEM Listing Rules. Accordingly, the transactions under the 2021 Distribution Agreement constitute continuing connected transactions for the Company under chapter 20 of the GEM Listing Rules.

As certain applicable percentage ratios calculated with reference to the highest Proposed Healthcare Food and Food Purchase Caps exceed 5%, the 2021 Healthcare Food and Food Purchase Framework Agreement will be subject to reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 20 of the GEM Listing Rules.

As all the applicable percentage ratios for the Proposed Pharmaceutical Product Purchase Caps exceed 5% on an annual basis, the 2021 Distribution Agreement will be subject to reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 20 of the GEM Listing Rules.

EGM

An EGM will be convened and held to approve the 2021 Healthcare Food and Food Purchase Framework Agreement, the 2021 Distribution Agreement, the Proposed Healthcare Food and Food Purchase Caps and the Proposed Pharmaceutical Product Purchase Caps. Neptunus Bio-engineering and its associates will abstain from voting at the EGM.

LETTER FROM THE BOARD

RECOMMENDATION

The Company has established an Independent Board Committee comprising three independent non-executive Directors, namely Mr. Yick Wing Fat, Simon, Mr. Poon Ka Yeung and Mr. Zhang Jian Zhou, to consider the 2021 Healthcare Food and Food Purchase Framework Agreement, the 2021 Distribution Agreement, the Proposed Healthcare Food and Food Purchase Caps and the Proposed Pharmaceutical Product Purchase Caps and to recommend to the Independent Shareholders how to vote in the EGM.

Gram Capital has been appointed as the Independent Financial Adviser for the purpose of advising the Independent Board Committee and the Independent Shareholders in relation to the 2021 Healthcare Food and Food Purchase Framework Agreement, the 2021 Distribution Agreement, the Proposed Healthcare Food and Food Purchase Caps and the Proposed Pharmaceutical Product Purchase Caps. Gram Capital considers that the terms and conditions of the 2021 Healthcare Food and Food Purchase Framework Agreement, the 2021 Distribution Agreement, the Proposed Healthcare Food and Food Purchase Caps and the Proposed Pharmaceutical Product Purchase Caps are fair and reasonable and the entering into of the 2021 Healthcare Food and Food Purchase Framework Agreement and the 2021 Distribution Agreement is in the interests of the Company and the Shareholders as a whole. The text of the letter of advice from Gram Capital containing its recommendation is set out on pages 21 to 39 of this circular.

The Independent Board Committee, having taken into account and based on the recommendation of Gram Capital, considers that the 2021 Healthcare Food and Food Purchase Framework Agreement, the 2021 Distribution Agreement, the Proposed Healthcare Food and Food Purchase Caps and the Proposed Pharmaceutical Product Purchase Caps are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the 2021 Healthcare Food and Food Purchase Framework Agreement, the 2021 Distribution Agreement, the Proposed Healthcare Food and Food Purchase Caps and the Proposed Pharmaceutical Product Purchase Caps.

ADDITIONAL INFORMATION

Your attention is also drawn to (a) the letter from the Independent Board Committee to the Independent Shareholders; (b) the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders; and (c) the additional information set out in the appendix to this circular.

Yours faithfully,

By order of the Board

Shenzhen Neptunus Interlong Bio-technique Company Limited*

Zhang Feng

Chairman

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



深圳市海王英特龍生物技術股份有限公司
SHENZHEN NEPTUNUS INTERLONG BIO-TECHNIQUE COMPANY LIMITED*
(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 8329)

30 December 2021

To the Independent Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTION IN RELATION TO
2021 HEALTHCARE FOOD AND FOOD PURCHASE
FRAMEWORK AGREEMENT;
AND
(2) CONTINUING CONNECTED TRANSACTION IN RELATION TO
RENEWAL OF DISTRIBUTION AGREEMENT**

We refer to the circular dated 30 December 2021 issued by the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein, unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider the 2021 Healthcare Food and Food Purchase Framework Agreement, the 2021 Distribution Agreement, the Proposed Healthcare Food and Food Purchase Caps and the Proposed Pharmaceutical Product Purchase Caps and to advise you as to the fairness and reasonableness of the same. The Independent Financial Adviser, Gram Capital, 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, as set out on pages 5 to 18 of the Circular, and the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders which contains its opinion in respect of the 2021 Healthcare Food and Food Purchase Framework Agreement and the 2021 Distribution Agreement as set out on pages 21 to 39 of the Circular. After taking into consideration the advice from Gram Capital, we concur with the views of Gram Capital and consider that each of the 2021 Healthcare Food and Food Purchase Framework Agreement and the 2021 Distribution Agreement has been entered into in the Group's ordinary and usual course of business, and the 2021 Healthcare Food and Food Purchase Framework Agreement and the 2021 Distribution Agreement are on normal commercial terms or better determined on an arm's length basis and in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the 2021 Healthcare Food and Food Purchase Framework Agreement, the 2021 Distribution Agreement, the Proposed Healthcare Food and Food Purchase Caps and the Proposed Pharmaceutical Product Purchase Caps.

Yours faithfully
Independent Board Committee

Mr. Yick Wing Fat, Simon
Independent Non-executive Director

Mr. Poon Ka Yeung
Independent Non-executive Director

Mr. Zhang Jian Zhou
Independent Non-executive Director

* *For identification purpose only*

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed CCTs for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

30 December 2021

*To: The Independent Board Committee and the Independent Shareholders
of Shenzhen Neptunus Interlong Bio-Technique Company Limited**

Dear Sir/ Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of Proposed CCTs (i.e. (i) the transactions contemplated under the 2021 Healthcare Food and Food Purchase Framework Agreement (the “**Healthcare Food and Food Purchase Transactions**”); and (ii) the transactions contemplated under the 2021 Distribution Agreement (the “**Distribution Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 30 December 2021 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.

On 6 December 2021, the Company has entered into the 2021 Healthcare Food and Food Purchase Framework Agreement with Neptunus Group, the controlling shareholder and a connected person of the Company, to revise the proposed annual caps for the years ending 31 December 2022 and 2023 and apply for the proposed annual cap for the year ending 31 December 2024. Under the 2021 Healthcare Food and Food Purchase Framework Agreement, the Group will purchase certain food and healthcare food products from the Intermediate Parent Group for distribution in the PRC for the period from the date on which the 2021 Healthcare Food and Food Purchase Framework Agreement is approved by the Independent Shareholders at the EGM and ending on 31 December 2024 (both days inclusive).

On the even date, Neptunus Changjian entered into the 2021 Distribution Agreement with Neptunus Pharmaceutical to continue the purchase and distribution of pharmaceutical products for the period from the date on which it is approved by the Independent Shareholders at the EGM and ending on 31 December 2024 (both days inclusive).

LETTER FROM GRAM CAPITAL

With reference to the Board Letter, the Proposed CCTs constitute continuing connected transactions of the Company and will be subject to the reporting, announcement, annual review and independent shareholders' approval requirements under the GEM Listing Rules.

The Independent Board Committee comprising Mr. Yick Wing Fat, Simon, Mr. Poon Ka Yeung and Mr. Zhang Jian Zhou (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Proposed CCTs are on normal commercial terms and are fair and reasonable; (ii) whether the Proposed CCTs are in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Proposed CCTs 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

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to a continuing connected transactions (details of which are set out in the Company's circular dated 18 December 2020). Save for the aforesaid engagement, there was no other service provided by Gram Capital to the Company during the past two years immediately preceding the Latest Practicable Date.

Notwithstanding the aforesaid engagements, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence as defined under Rule 17.96 of the GEM Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions and the transactions contemplated thereunder.

Having considered the above and that (i) none of the circumstances as set out under the Rule 17.96 of the GEM Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagement was only independent financial adviser engagements and will not affect our independence to act as the Independent Financial Advisers, we are of the view that we are independent to act as the Independent Financial Adviser.

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

LETTER FROM GRAM CAPITAL

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 are no undisclosed private agreements/ arrangements or implied understanding with anyone concerning the Proposed CCTs. 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 17.92 of the GEM Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM 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 in the Circular 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, Neptunus Group, Neptunus Pharmaceutical or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed CCTs. 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.

LETTER FROM GRAM CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

Background of and reasons for the Proposed CCTs

Information on the Group

With reference to the Board Letter, the Group is principally engaged in the research and development, production and sales of medicines, and the purchase and sales of medicines and healthcare food products.

Set out below are the Group's consolidated financial information for the six months ended 30 June 2021 (with comparative figures in 2020) and the two years ended 31 December 2020 as extracted from the Company's interim report for the six months ended 30 June 2021 (the "**2021 Interim Report**") and annual report for the year ended 31 December 2020 (the "**2020 Annual Report**"):

	For the year ended 31 December 2020 <i>(audited)</i> RMB'000	For the year ended 31 December 2019 <i>(audited)</i> RMB'000	Year-on-year change %
Revenue	1,031,369	1,080,871	(4.58)
– Manufacturing and selling of medicines	441,281	499,138	(11.59)
– Sales and distribution of medicines and healthcare products	590,088	581,733	1.44
Gross profit	574,360	643,038	(10.68)

The revenue and gross profit of the Group amounted to approximately RMB1.03 billion and RMB574.36 million respectively for the year ended 31 December 2020 ("**FY2020**"), representing decreases in revenue and gross profit of approximately 4.58% and approximately 10.68% respectively as compared to those for the year ended 31 December 2019 ("**FY2019**").

For FY2020, revenue derived from the manufacturing and selling of medicines segment of approximately RMB441,281,000, accounting for approximately 42.79% of the Group's total revenue; and revenue derived from sales and distribution of medicines and healthcare products segment of approximately RMB590,088,000, accounting for approximately 57.21% of the Group's total revenue. The Group's revenue from the manufacturing and selling of medicines segment for FY2020 decreased by approximately 11.59% as compared to that for FY2019, while the revenue of the sales

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and distribution of medicines and healthcare products segment for FY2020 increased by approximately 1.44% as compared to that for FY2019, resulting the overall revenue of the Group decreased slightly.

The Group's gross profit for FY2020 represented a decrease of approximately 10.68% as compared to that for FY2019, which was mainly attributable to the slight decrease in the overall revenue and the gross profit margin of the Group caused by the COVID-19 pandemic.

	For the six months ended 30 June 2021 (unaudited) RMB'000	For the six months ended 30 June 2020 (unaudited) RMB'000	Year-on-year change %
Revenue	391,194	459,546	(14.87)
– Manufacturing and selling of medicines	233,766	199,482	17.19
– Sales and distribution of medicines and healthcare products	157,428	260,064	(39.47)
Gross profit	185,303	239,800	(22.73)

The revenue and gross profit of the Group amounted to approximately RMB391.19 million and approximately RMB185.30 million for the six months ended 30 June 2021 (“**HY2021**”), representing a decrease in revenue and gross profit of approximately 14.87% and approximately 22.73% respectively as compared to those for the six months ended 30 June 2020 (“**HY2020**”).

For HY2021, revenue derived from the manufacturing and selling of medicines segment of approximately RMB233.77 million, accounting for approximately 59.76% of the Group's total revenue; and revenue derived from sales and distribution of medicines and healthcare products segment of approximately RMB157.43 million, accounting for approximately 40.24% of the Group's total revenue. For HY2021, the Group's revenue from the manufacturing and selling of medicines segment increased by approximately 17.19% as compared to that for HY2020, while the revenue of the sales and distribution of medicines and healthcare products segment for HY2021 decreased by approximately 39.47% as compared to that for HY2020, resulting the overall revenue of the Group decreased. As advised by the Directors, the decrease in the revenue generated from sales and distribution of medicines and healthcare products for HY2021 was mainly due to the Group's reduction of the distribution of several prescription products (the “**Certain Prescription Products**”). Upon our further request, the Directors confirmed that the Certain Prescription Products were contemplated under the 2018 Distribution Agreement and therefore such reduction only affected the estimated amounts of transactions contemplated under the 2021 Distribution Agreement and will not affect the estimated amounts of transactions contemplated under the 2021 Healthcare Food and Food Purchase Framework Agreement.

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The Group's gross profit for HY2021 represented a decrease of approximately 22.73% as compared to that for HY2020. The decrease was mainly attributed to the decrease in the Group's total revenue and the decrease in gross profit margin, which was mainly attributable to reasons such as the adjustment of freight charges as cost of sales of principal business according to the new revenue standards and the reduction in number of products with high gross profit margin sold as agent.

A. THE HEALTHCARE FOOD AND FOOD PURCHASE TRANSACTIONS

Information on Neptunus Group

With reference to the Board Letter, Neptunus Group is a joint stock limited company established under the laws of the PRC, and together with its subsidiaries, it is a large enterprise group with its competitive edge in the pharmaceutical industry in the PRC. It has already formed a comprehensive industry chain including research and development, manufacturing of pharmaceutical products and pharmaceutical commercial circulation.

Reasons for and benefits of the Healthcare Food and Food Purchase Transactions

With reference to the Board Letter, since the commencement of the 2020 Healthcare Food and Food Purchase Framework Agreement, the healthcare food products purchased by the Company were well received by the market in the PRC and the sales volume grew at a rate higher than expected. During the period from 1 January 2021 to 30 September 2021, the aggregate purchase amount under the 2020 Healthcare Food and Food Purchase Framework Agreement was approximately RMB21,015,800. Considering the (i) aging population issue in the PRC, (ii) the increase in the number of people in the PRC becoming aware of the importance of good health and (iii) the promulgation of the Outline of "Healthy China 2030" Plan (「健康中國2030」規劃綱要), the demand for healthcare food products in the PRC will increase and the such market in the PRC will continue to grow.

Upon our research, we noted that in August 2016, the Meeting of Political Bureau of the Communist Party of China Central Committee considered the "Healthy China 2030" Plan", pursuant to which, (i) "Healthy China" has been upgraded to a state-level strategy; and (ii) the targeted market size of the healthcare industry is expected to grow from more than RMB8 trillion in 2020 to RMB16 trillion in 2030. With reference to the National Bureau of Statistics of China, both the total population and the population aged 65 and over have been growing in the PRC in recent years. With reference to the World DataBank, in the PRC, the life expectancy at birth was approximately 75.9 years in 2015 with an annual increase of approximately 0.21 to 0.28 years from 2015 to 2019.

As mentioned in the 2021 Interim Report, the main products distributed by the Group are medicines and healthcare food products, which include the well-known product series of the Neptunus Ginkgo Leaves Tablets (海王銀杏葉片) and Neptunus Jinzun (海王金樽). Such products are mainly distributed to the end medical institutions through professional sales promotion companies and to the end users through large and

LETTER FROM GRAM CAPITAL

medium-sized chain pharmacies. As confirmed by the Directors, Neptunus Jinzun is one of the major distributed products under the 2020 Healthcare Food and Food Purchase Framework Agreement and the 2021 Healthcare Food and Food Purchase Framework Agreement.

The Board expects that the annual caps under the 2020 Healthcare Food and Food Purchase Framework Agreement for each of the year ending 31 December 2022 and 2023 will not be sufficient to meet the needs of the Company in the future, taking into account the expected market demand of the healthcare food products under the current market condition. Furthermore, considering the fact the Intermediate Parent Group has the expertise and experience in manufacturing of the healthcare food products and has a good reputation, the Board believes that it is in the interest of the Company to continue to co-operate with the Intermediate Parent Group for the year ending on 31 December 2024.

Having considered the above factors, we concur with the Directors that the Healthcare Food and Food Purchase Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

Principal terms of the Healthcare Food and Food Purchase Transactions

Set out below are the principal terms of the Healthcare Food and Food Purchase Transactions, details of which are set out under the section headed “THE 2021 HEALTHCARE FOOD AND FOOD PURCHASE FRAMEWORK AGREEMENT” of the Board Letter.

Date:	6 December 2021
Parties:	The Company; and Neptunus Group
Subject matter:	Pursuant to the 2021 Healthcare Food and Food Purchase Framework Agreement, among other things, the Group will purchase certain food and healthcare food products from the Intermediate Parent Group for distribution in the PRC.
Term:	The 2021 Healthcare Food and Food Purchase Framework Agreement will become effective from the date on which it is approved by the Independent Shareholders at the EGM and ending on 31 December 2024 (both days inclusive).

LETTER FROM GRAM CAPITAL

Pricing basis and payment terms

Pursuant to the 2021 Healthcare Food and Food Purchase Framework Agreement, purchase prices of food and healthcare food products shall be agreed between the parties on an arm's length basis through negotiations with reference to the following basis:

In the case where there are similar products in the market, the purchase prices of food and healthcare food products offered to the Group shall be determined with reference to the then prevailing market prices of similar products agreed by both parties after arm's length negotiation, and such purchase prices shall not be higher than the purchase prices of similar products obtained from other independent suppliers by the Group.

In the case where there are no similar products in the market:

- (i) where the Intermediate Parent Group supplies the relevant food and healthcare food products to the Group non-exclusively, the purchase prices of food and healthcare food products offered to the Group shall not be higher than the purchase prices of similar products in similar quantities offered by the Intermediate Parent Group to other independent customers; and
- (ii) where the Intermediate Parent Group supplies the relevant food and healthcare food products to the Group exclusively, the purchase prices of food and healthcare food products offered to the Group shall not be higher than the purchase prices set by the Group. Such purchase prices set by the Group would be determined with reference to the Group's distribution prices of similar products offered to its independent customers and its historical gross profit margin of such similar products.

Under the scenario that there are similar products in the market (the “**Scenario I**”), as the purchase prices offered to the Group shall not be higher than the purchase prices of similar products obtained from other independent suppliers by the Group, we consider the pricing policy under this scenario is fair and reasonable.

Under the scenario that there are no similar products in the market (the “**Scenario II**”), as the purchase prices offered to the Group will be (a) not higher than that for similar products in similar quantities offered by the Intermediate Parent Group to other independent customers; or (ii) not higher than purchase prices set by the Group (which was made with reference to, among other things, historical gross profit margin of such similar products), we consider the pricing policy under this scenario is fair and reasonable.

LETTER FROM GRAM CAPITAL

With reference to the Board Letter, in order to ensure that (i) the terms of the 2021 Healthcare Food and Food Purchase Framework Agreement are no less favourable to the Group than the terms available from independent suppliers; and (ii) to protect the interests of the Company and its Shareholders as a whole, the Company will adopt certain internal control measures (the “**Healthcare Food and Food Purchase IC Measures**”), details of which are set out under the section headed “INTERNAL CONTROL MEASURES” of the Board Letter. Having considered that (i) under the Scenario I, there will be quotes collection procedures (from at least two independent suppliers with certain criteria); (ii) under the Scenario II, (a) there will be documents collecting procedures (for the purpose of evidencing sales prices offered by Intermediate Parent Group to its independent customers) and further reporting procedures (if necessary); or (b) there will be similar transaction monitoring procedures (for the purpose of setting purchase prices) and further reporting procedures (if necessary); (iii) the aforesaid procedures will be conducted on a quarterly basis (which is in line with the frequency of the Company’s publication of financial reports); and (iv) the Group’s finance department would collect the data of the transactions to ensure that the Proposed Healthcare Food and Food Purchase Caps are not exceeded, we are of the view that the internal control measures are sufficient to ensure (i) fair pricing of the transactions contemplated under the Healthcare Food and Food Purchase Transactions is in accordance with the pricing policies; and (ii) that the proposed annual cap will not be exceeded.

Upon our request, the Company provided us lists showing the Group’s purchase of healthcare food and food from 2019 to 2021. We selected one different type of healthcare food and food in each of 2019, 2020 and 2021 on a random basis and required the Group to provide copies of purchase invoice of aforesaid products from the Intermediate Parent Group. We obtained seven copies of invoices in respect of the Group’s purchase of food and healthcare food products from the Intermediate Parent Group together with relevant quotations from independent third party suppliers. According to the aforesaid documents, we noted that (i) there were two independent third party suppliers provided quotations; and (ii) the price as shown in the invoices (i.e. prices charged by the Intermediate Parent Group) were not higher than the price quotations offered by independent third parties. Accordingly, we consider the Healthcare Food and Food Purchase IC Measures is effective.

The consideration of food and healthcare food products purchased by the Group shall be settled within sixty (60) days after the issue date of the invoice or the receipt of food and healthcare food products, whichever is earlier.

LETTER FROM GRAM CAPITAL

Proposed annual caps

Set out below are (i) the historical transaction amounts of the Healthcare Food and Food Purchase Transactions for the two years ended 31 December 2020 and nine months ended 30 September 2021 with previous/existing annual caps; (ii) the Proposed Healthcare Food and Food Purchase Caps for the three years ending 31 December 2024:

	For the year ended 31 December 2019 RMB	For the year ended 31 December 2020 RMB	For the year ending 31 December 2021 RMB
Historical transaction amount	27,829,800	27,569,000	21,015,800 (note)
Previous / existing annual caps	36,000,000	47,000,000	25,000,000
Utilisation rate	77.31%	58.66%	N/A
	For the year ending 31 December 2022 RMB	For the year ending 31 December 2023 RMB	For the year ending 31 December 2024 RMB
Proposed Healthcare Food and Food Purchase Caps	35,000,000	42,000,000	50,000,000

Note: for the nine months ended 30 September 2021

With reference to the Board Letter, the Proposed Healthcare Food and Food Purchase Caps were determined with reference to various factors, details of which are set out under the sub-section headed “Annual caps” under the section headed “THE 2021 HEALTHCARE FOOD AND FOOD PURCHASE FRAMEWORK AGREEMENT” of the Board Letter.

For our due diligence purpose, we obtained and reviewed the calculation of the Proposed Healthcare Food and Food Purchase Caps for the three years ending 31 December 2024. We noted from the calculation that the Proposed Healthcare Food and Food Purchase Caps were estimated based on (i) the estimated transaction amount in 2021; (ii) an estimated annual growth rate of 18% for each of three years ending 31 December 2024; and (iii) buffers of 5%.

According to the calculation, the estimated transaction amount for 2021 is approximately RMB29.19 million (note: this figure is only for the purpose of estimating new caps for the three years ending 31 December 2024. The Directors undertakes that the actual transaction amount for the year ending 31 December 2021 will not exceed the existing annual cap for the year ending 31 December 2021 of RMB25 million).

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To assess the fairness and reasonableness of the estimated transaction amount for 2021 (for Proposed Healthcare Food and Food Purchase Caps purpose), we conducted following analyses:

- Based on the estimated transaction amount for 2021 (for Proposed Healthcare Food and Food Purchase Caps purpose), the estimated transaction amount for the last three months ending 31 December 2021 accounted for approximately 28% to the total estimated transaction amount for 2021 (for Proposed Healthcare Food and Food Purchase Caps purpose).
- Upon our request, the Directors provided us quarterly historical transaction amounts for the four years ended 31 December 2020. The Directors excluded figures for the year ended 31 December 2020 because of the outbreak of COVID-19. For the three years ended 31 December 2019, the average proportion of historical transaction amounts for the fourth quarter of the year to that for the full year amounted to approximately 26%.

As stated in the Board Letter, as the Directors have seen that the Group's demand for food and healthcare food products has resumed growth since the COVID-19 pandemic was largely under control in the country since the end of 2020, the Company has not taken into account the effect of COVID-19 when determining the Proposed Healthcare Food and Food Purchase Caps for the year 2022 to 2024, but instead referred to the pre-COVID-19 growth of the demand for food and healthcare food products when determining the Proposed Healthcare Food and Food Purchase Caps for the year 2022 to 2024.

As the historical transaction amounts for the first three quarters of 2021 were close to (with difference of less than 10%) those for the first three quarters of 2019, which indicated the recovery of the demand of such products by the market, we concur with the Directors that it is reasonable to determine the Proposed Healthcare Food and Food Purchase Caps for the year 2022 to 2024 with reference to the pre-COVID-19 growth of the demand for food and healthcare food products.

- As the proportion of the estimated transaction amount for fourth quarter 2021 to the total estimated transaction amount for 2021 (i.e. approximately 28%) is closed to the average proportion of approximately 26% as mentioned above, we consider the estimated transaction amount for fourth quarter of 2021 to be justifiable.
- Accordingly, we consider the estimated transaction amount for 2021, being the summation of the historical transaction amount for first three quarters of 2021 and the estimated transaction amount for fourth quarter of 2021, to be fair and reasonable.

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As mentioned above, the Directors considered an estimated annual growth rate of 18% for each of the three years ending 31 December 2024 as one of bases for the calculation of Proposed Healthcare Food and Food Purchase Caps for the three years ending 31 December 2024. Based on the historical transaction amounts for the three years ended 31 December 2019 (note: figures for the year ended 31 December 2020 were excluded as the outbreak of COVID-19), the average increase rate of historical transaction amounts for the three years ended 31 December 2019 amounted to approximately 18%. Accordingly, the estimated annual growth rate of 18% for each of the three years ending 31 December 2024 is justifiable.

As mentioned above, the Company has applied buffers of 5% to cover the unforeseen circumstances when determining the Proposed Healthcare Food and Food Purchase Caps. Having considered that the additional buffers were applied for unforeseeable circumstances such as (a) the unexpected increase in demand of products; and (b) other relevant factors such as the unexpected increase in price of products, we also consider the buffer of 5% to be justifiable.

In light of the above and that the Proposed Healthcare Food and Food Purchase Caps were close to the above estimation (including buffers), we concur with the Directors that the Proposed Healthcare Food and Food Purchase Caps for the three years ending 31 December 2024 are fair and reasonable.

Shareholders should note that as the Proposed Healthcare Food and Food Purchase 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 2024, and they do not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Healthcare Food and Food Purchase Transactions. Consequently, we express no opinion as to how closely the actual revenue/expenses/costs to be incurred from the Healthcare Food and Food Purchase Transactions will correspond with the Proposed Healthcare Food and Food Purchase Caps.

Termination of the 2020 Healthcare Food and Food Purchase Framework Agreement

Upon the commencement of the term of the 2021 Healthcare Food and Food Purchase Framework Agreement, the 2020 Healthcare Food and Food Purchase Framework Agreement shall be terminated with immediate effect.

Having reviewed and considered the terms of the 2021 Healthcare Food and Food Purchase Framework Agreement in particular the key terms as listed above (including the pricing policies and Proposed Healthcare Food and Food Purchase Caps being fair and reasonable; and no abnormal term observed), we are of the view that the terms of the Healthcare Food and Food Purchase Transactions are on normal commercial terms and are fair and reasonable.

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B. THE DISTRIBUTION TRANSACTIONS

Information on Neptunus Pharmaceutical

With reference to the Board Letter, Neptunus Pharmaceutical is a limited liability company established under the laws of the PRC. Neptunus Pharmaceutical is principally engaged in the business of production and manufacturing of pharmaceutical products.

Reasons for and benefits of the Distribution Transactions

With reference to the Board Letter, on 4 January 2013, the Company acquired the entire equity interests in Neptunus Changjian with a view to expanding its business in marketing, sales and distribution of drugs and healthcare food. The Board considers that the entering into of the 2021 Distribution Agreement will (i) bring to the Group higher operating revenues by the distribution and sale of pharmaceutical products which will have a positive impact on the profitability of the Group; and (ii) assist the Group to expand its marketing team and retail network and strengthen its connections with distributors and retailers.

As mentioned above, pursuant to “Healthy China 2030” Plan”, (i) “Healthy China” has been upgraded to a state-level strategy; and (ii) the targeted market size of the healthcare industry is expected to grow from more than RMB8 trillion in 2020 to RMB16 trillion in 2030. In addition, with reference to the 《2020年藥品流通行業運行統計分析報告》 published by Ministry of Commerce of the PRC in July 2021, the pharmaceutical circulation industry recorded (i) an increase in total sale of approximately 2.4% in 2020 as compared to that for the previous year and (ii) an average annual growth rate of approximately 7.5% from 2016 to 2020. At the end of 2020, there were approximately 13,100 pharmaceutical wholesalers and approximately 6,298 drug retail chain enterprises in PRC, while the number of retail drug stores reached approximately 0.55 million.

As mentioned in the 2021 Interim Report, the main products distributed by the Group are medicines and healthcare food products, which include the well-known product series of the Neptunus Ginkgo Leaves Tablets (海王銀杏葉片) and Neptunus Jinzun (海王金樽). Such products are mainly distributed to the end medical institutions through professional sales promotion companies and to the end users through large and medium-sized chain pharmacies. As confirmed by the Directors, Neptunus Ginkgo Leaves Tablets is one of the major distributed products under the 2021 Distribution Agreement.

Having the above factors, we concur with the Directors that the Distribution Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

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Principal terms of the Distribution Transactions

Set out below are the principal terms of the Distribution Transactions, details of which are set out under the section headed “THE 2021 DISTRIBUTION AGREEMENT” of the Board Letter.

Date:	6 December 2021
Parties:	Neptunus Changjian; and Neptunus Pharmaceutical
Subject matter:	Pursuant to the 2021 Distribution Agreement, among other things, Neptunus Changjian will purchase various pharmaceutical products manufactured by Neptunus Pharmaceutical and distribute such products within the PRC.
Term:	The 2021 Distribution Agreement will become effective from the date on which it is approved by the Independent Shareholders at the EGM and ending on 31 December 2024 (both days inclusive).

Pricing basis and payment terms

Pursuant to the 2021 Distribution Agreement, the purchase prices of the pharmaceutical products offered to the Group shall be determined with reference to the then prevailing market prices of similar products agreed by both parties after arm’s length negotiation, and such purchase prices shall not be higher than the purchase prices of similar products obtained from other independent suppliers by the Group.

We noted that pricing basis under the 2021 Distribution Agreement was different from that under the 2018 Distribution Agreement (Note: pursuant to the 2018 Distribution Agreement, the monthly average unit price of the pharmaceutical products provided by Neptunus Pharmaceutical to Neptunus Changjian shall not be higher than the corresponding monthly average unit price of the same type of products sold to the top five clients of Neptunus Pharmaceutical). Despite that the pricing policies were changed, having considered that the purchase prices offered to the Group will be directly compared with and shall not be higher than the purchase prices of similar products obtained from other independent suppliers by the Group, we consider the pricing policy under this scenario is fair and reasonable.

With reference to the Board Letter, in order to ensure that (i) the terms of the 2021 Distribution Agreement are no less favourable to the Group than the terms available from independent suppliers; and (ii) to protect the interests of the Company and its Shareholders as a whole, the Company will adopt certain internal control measures (the “**Distribution IC Measures**”), details of which are set out under the section headed “INTERNAL CONTROL MEASURES” of the Board Letter. Having

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considered that (i) there will be quotes collection procedures (from at least two independent suppliers with certain criteria); (ii) the aforesaid procedures will be conducted on a quarterly basis (which is in line with the frequency of the Company's publication of financial reports); and (iii) the Group's finance department would collect the data of the transactions to ensure that the Proposed Pharmaceutical Product Purchase Caps are not exceeded, we are of the view that the internal control measures are sufficient to ensure that (i) fair pricing of the transactions contemplated under the Distribution Transactions is in accordance with the pricing policy; and (ii) the proposed annual cap will not be exceeded.

As mentioned above, the pricing policy under the 2021 Distribution Agreement was different from that under the 2018 Distribution Agreement. Therefore, we did not select and review previous contracts / agreements of individual transactions contemplated under the 2018 Distribution Agreement as an approach to assess the effectiveness of the internal control procedures.

To assess the effectiveness of the Distribution IC Measures, we discussed with the Directors, we understood that (i) the Group's relevant departments involving in the Distribution IC Measures overlapped with the Group's relevant departments involving in the Healthcare Food and Food Purchase IC Measures, such as Neptunus Changjian's purchase department, marketing department and finance department, the Company's finance department, etc.; (ii) there will be quotes collection procedures under the Distribution IC Measures, which is similar to the quotes collection procedures under the Healthcare Food and Food Purchase IC Measures under the Scenario I.

Having considered the following factors, including,

- the Healthcare Food and Food Purchase IC Measures are more complicated than the Distribution IC Measures;
- there will be similar quotes collection procedures under both the Distribution IC Measures and the Healthcare Food and Food Purchase IC Measures;
- the Group's relevant departments involving in the Distribution IC Measures overlapped with the Group's relevant departments involving in the Healthcare Food and Food Purchase IC Measures; and
- as concluded above, we consider the Healthcare Food and Food Purchase IC Measures is effective,

we consider the Distribution IC Measures to be effective.

The consideration of the pharmaceutical products purchased by Neptunus Changjian will be settled within forty-five (45) days after the issue date of the invoice or the receipt of the products, whichever is earlier. All the terms of the 2021 Distribution Agreement are arrived at after arm's length negotiations between Neptunus Changjian and Neptunus Pharmaceutical.

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Proposed annual caps

Set out below are (i) the historical transaction amounts of the Distribution Transactions for the two years ended 31 December 2020 and nine months ended 30 September 2021 with existing annual caps; (ii) the Proposed Pharmaceutical Product Purchase Caps for the three years ending 31 December 2024:

	For the year ended 31 December 2019 RMB	For the year ended 31 December 2020 RMB	For the year ending 31 December 2021 RMB
Historical transaction amount	98,370,300	105,431,000	50,148,000 (note)
Previous / existing annual caps	110,000,000	140,000,000	180,000,000
Utilisation rate	89.43%	75.31%	N/A
	For the year ending 31 December 2022 RMB	For the year ending 31 December 2023 RMB	For the year ending 31 December 2024 RMB
Proposed Pharmaceutical Product Purchase Caps	86,000,000	97,000,000	108,000,000

Note: for the nine months ended 30 September 2021

With reference to the Board Letter, the Proposed Pharmaceutical Product Purchase Caps were determined with reference to various factors, details of which are set out under the sub-section headed “Annual caps” under the section headed “THE 2021 DISTRIBUTION AGREEMENT” of the Board Letter.

For our due diligence purpose, we obtained and reviewed the calculation of the Proposed Pharmaceutical Product Purchase Caps for the three years ending 31 December 2024. We noted from the calculation that the Proposed Pharmaceutical Product Purchase Caps were estimated based on (i) the estimated transaction amount in 2021; (ii) an estimated annual growth rate of 12% for each of three years ending 31 December 2024; and (iii) buffers of 5%.

According to the calculation, the estimated transaction amount for 2021 is approximately RMB72.68 million. To assess the fairness and reasonableness of the estimated transaction amount for 2021, we conducted following analyses:

- As mentioned above, the Group reduced the distribution of Certain Prescription Products during the six months ended 30 June 2021, which affect the estimated amounts of transactions contemplated under the 2021 Distribution Agreement. As the Proposed Pharmaceutical Products Purchase

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Caps for the three years ending 31 December 2024 were determined with reference to, among other things, the estimated transaction amount for 2021 (being the summation of the historical transaction amount for first three quarters of 2021 and the estimated transaction amount for fourth quarter of 2021), we consider the impact of the reduction in the distribution of Certain Prescription Products were reflected and considered in the Proposed Pharmaceutical Products Purchase Caps for the three years ending 31 December 2024.

- Based on the estimated transaction amount for 2021, the estimated transaction amount for fourth quarter of 2021 accounted for approximately 31% to the total estimated transaction amount for 2021.
- Upon our request, the Directors provided us quarterly historical transaction amounts for the three years ended 31 December 2020. The average proportion of historical transaction amounts for the fourth quarter of the year to that for the full year amounted to approximately 32%.
- As the proportion of the estimated transaction amount for fourth quarter of 2021 to the total estimated transaction amount for 2021 (i.e. approximately 31%) is closed to the average proportion of approximately 32% as mentioned above, we consider the estimated transaction amount for fourth quarter of 2021 to be justifiable.
- Accordingly, we consider the estimated transaction amount for 2021, being the summation of the historical transaction amount for first three quarters of 2021 and the estimated transaction amount for fourth quarter of 2021, to be fair and reasonable.

As mentioned above, an estimated annual growth rate of 12% for each of the three years ending 31 December 2024 was considered as one of bases for the calculation of Proposed Pharmaceutical Product Purchase Caps for the three years ending 31 December 2024. Based on the historical transaction amounts for the three years ended 31 December 2020, the average increase rate of historical transaction amounts for the three years ended 31 December 2020 amounted to approximately 11%. As the estimated annual growth rate of 12% for each of the three years ending 31 December 2024 is closed to the aforesaid average increase rate, we consider the estimated annual growth rate of 12% to be justifiable.

As mentioned above, the Company has applied buffers of 5% to cover the unforeseen circumstances when determining the Proposed Pharmaceutical Product Purchase Caps. Having considered that the additional buffers were applied for unforeseeable circumstances such as (a) the unexpected increase in demand of products; and (b) other relevant factors such as the unexpected increase in price of the products, we also consider the buffer of 5% to be justifiable.

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In light of the above and that the Proposed Pharmaceutical Product Purchase Caps were close to the above estimation (including buffers), we concur with the Directors that the Proposed Pharmaceutical Product Purchase Caps for the three years ending 31 December 2024 are fair and reasonable.

Shareholders should note that as the Proposed Pharmaceutical Product Purchase 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 2024, and they do not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Distribution Transactions. Consequently, we express no opinion as to how closely the actual revenue/expenses/costs to be incurred from the Distribution Transactions will correspond with the Proposed Pharmaceutical Product Purchase Caps.

Having reviewed and considered the terms of the 2021 Distribution Agreement in particular the key terms as listed above (including the pricing policies and Proposed Pharmaceutical Product Purchase Caps being fair and reasonable; and no abnormal term observed), we are of the view that the terms of the Distribution Transactions are on normal commercial terms and are fair and reasonable.

GEM Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 20.51 to 20.57 of the GEM Listing Rules pursuant to which (i) the values of the Proposed CCTs must be restricted by the proposed annual caps; (ii) the terms of the Proposed CCTs must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Proposed CCTs must be included in the Company's subsequent published annual reports.

Furthermore, it is also required by the GEM 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 Proposed CCTs (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 Proposed CCTs; and (iii) has exceeded the proposed annual caps.

In the event that the total amounts of the Proposed CCTs are anticipated to exceeds the proposed annual caps, or that there is any proposed material amendment to the terms of the Proposed CCTs, as confirmed by the Directors, the Company shall comply with the applicable provisions of the GEM Listing Rules governing continuing connected transactions.

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

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RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Proposed CCTs are on normal commercial terms and are fair and reasonable; and (ii) the Proposed CCTs are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Proposed CCTs and we recommend the Independent Shareholders to vote in favour of the resolution(s) 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 over 25 years of experience in investment banking industry.

* *For identification purposes only*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM 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:

- (1) the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive; and
- (2) there are no other matters the omission of which would make any statement in this circular or this circular misleading.

2. DISCLOSURE OF INTERESTS

A. Interests and short positions of Directors and supervisors and chief executives in the Company

As at the Latest Practicable Date, the interests and short position of the Directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO including interests which they were taken or deemed to have under such provisions of the SFO, or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares of associated corporations of the Company:

Director/ Supervisor	Capacity	Type of interests	Name of associated corporation	Number of shares held in associated corporation	Approximate percentage of the associated corporation's issued share capital
Mr. Zhang Feng (Note (a))	Beneficial owner	Personal	Neptunus Bio-engineering	1,331,093	0.05%
Ms. Yu Lin (Note (b))	Beneficial owner	Personal	Neptunus Bio-engineering	900,000	0.03%
Mr. Shen Da Kai (Note (c))	Beneficial owner	Personal	Neptunus Bio-engineering	2,000,000	0.07%
Ms. Cao Yang (Note (d))	Beneficial owner	Personal	Neptunus Bio-engineering	200,000	0.01%

Notes:

- (a) Mr. Zhang Feng, chairman of the Board and deputy chairman of the board of directors of Neptunus Bio-engineering, was beneficially interested in approximately 0.05% of the entire issued share capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn held directly and indirectly the beneficial interest in approximately 73.51% of the entire issued share capital of the Company, of which 70.38% was directly held and 3.13% was indirectly held through Shenzhen Neptunus Oriental Investment Company Limited ("**Neptunus Oriental**").
- (b) Ms. Yu Lin, non-executive Director of the Company, was beneficially interested in approximately 0.03% of the entire issued share capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn held directly and indirectly the beneficial interest in approximately 73.51% of the entire issued share capital of the Company, of which 70.38% was directly held and 3.13% was indirectly held through Neptunus Oriental.
- (c) Mr. Shen Da Kai, non-executive Director, was beneficially interested in approximately 0.07% of the entire issued share capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn held directly and indirectly the beneficial interest in approximately 73.51% of the entire issued share capital of the Company, of which 70.38% was directly held and 3.13% was indirectly held through Neptunus Oriental.
- (d) Ms. Cao Yang, employee representative supervisor and human resources director of the Company and vice general manager, supervisor and head of human resources of Neptunus Changjian, was beneficially interested in approximately 0.01% of the entire issued share capital of Neptunus Bio-engineering, the Company's controlling shareholder, which in turn held directly and indirectly the beneficial interest in approximately 73.51% of the entire issued capital of the Company, of which 70.38% was directly held and 3.13% was indirectly held through Neptunus Oriental.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company nor their respective associates held any interests or short positions in the shares, 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 Part XV of the SFO, or were required, pursuant to section 352 of the SFO to be and were recorded in the register to be kept by the Company, or were required, pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

B. Substantial Shareholders' interests in Shares and underlying Shares

So far as the Directors and supervisors of the Company are aware, as at the Latest Practicable Date, the interests and/or short positions held by Shareholders (not being a Director, a supervisor or a chief executive of the Company) in Shares or underlying Shares of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or had otherwise notified to the Company were as follows:

Long positions in the Shares of the Company:

Name of Substantial Shareholder	Capacity	Number of Domestic Shares held	Approximate percentage of all the Domestic Shares	Approximate percentage of the Company's issued share capital
Neptunus Bio-engineering (Note (a))	Beneficial owner	1,181,000,000	94.33%	70.38%
	Interest in controlled corporation	52,464,500	4.19%	3.13%
Bank of Changsha Co., Ltd – Guangzhou Branch (Note(a))	Person having a security interest in shares	1,181,000,000	94.33%	70.38%
Neptunus Group (Note (b))	Interest in controlled corporation	1,233,464,500	98.52%	73.51%
Shenzhen Neptunus Holding Group Company Limited ("Neptunus Holding") (Previously known as "Shenzhen Yinhetong Investment Company Limited") (Note (c))	Interest in controlled corporation	1,233,464,500	98.52%	73.51%
Mr. Zhang Si Min (Note (d))	Interest in controlled corporation	1,233,464,500	98.52%	73.51%

Notes:

- (a) Neptunus Bio-engineering was deemed to be interested in the 52,464,500 Domestic Shares held by Neptunus Oriental as the entire issued share capital of Neptunus Oriental was beneficially owned by Neptunus Bio-engineering. Neptunus Bio-engineering was also directly interested in 1,181,000,000 Domestic Shares. Therefore, Neptunus Bio-engineering was directly and indirectly interested in 1,233,464,500 Domestic Shares.

On 25 March 2021, Neptunus Bio-engineering has pledged 1,181,000,000 Domestic Shares to Bank of Changsha Co., Ltd – Guangzhou Branch as a security of a loan provided by Bank of Changsha Co., Ltd – Guangzhou Branch. Therefore, Bank of Changsha Co., Ltd. – Guangzhou Branch was deemed to be interested in 1,181,000,000 Domestic Shares. The said share pledge does not fall within the scope of Rule 17.19 of the GEM Listing Rules as it is not for the purpose to secure the Company's debt or to secure guarantee or other support of the Company's obligations.

- (b) Neptunus Group was deemed to be interested in the 1,233,464,500 Domestic Shares, which relate to the same parcel of shares referred to in note (a) above, held by Neptunus Bio-engineering as Neptunus Group was beneficially interested in approximately 44.22% of the entire issued share capital of Neptunus Bio-engineering.
- (c) Neptunus Holding was deemed to be interested in 1,233,464,500 Domestic Shares, which relate to the same parcel of shares referred to in note (a) above, held by Neptunus Bio-engineering as Neptunus Holding was beneficially interested in approximately 59.68% of the entire issued share capital of Neptunus Group, which in turn was beneficially interested in approximately 44.22% of the entire issued share capital of Neptunus Bio-engineering.
- (d) Mr. Zhang Si Min ("**Mr. Zhang**") was deemed to be interested in 1,233,464,500 Domestic Shares, which relate to the same parcel of shares referred to in note (a) above, held by Neptunus Bio-engineering as Mr. Zhang was beneficially interested in 70% of the entire issued share capital of Neptunus Holding and the entire issued share capital of Shenzhen Haihe Investment and Development Company Limited ("**Haihe**"), which in turn was beneficially interested in approximately 59.68% and 20% of the entire issued share capital of Neptunus Group respectively. Neptunus Group was beneficially interested in approximately 44.22% of the entire issued share capital of Neptunus Bio-engineering.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed, the Directors, supervisors and the chief executive of the Company are not aware of any other persons who, as at the Latest Practicable Date, had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

3. MATERIAL ADVERSE CHANGE

The Directors confirm that there was no material adverse change in the financial or trading position or outlook of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up.

4. 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 which may not be terminated by the employer within one year without payment of any compensation (other than statutory compensation).

5. INTERESTS IN COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, controlling Shareholders, management Shareholders or substantial Shareholders of the Company or any of its respective close associates had any interest in a business that competes or might compete, either directly or indirectly, with the business of the Group or had or might have any other conflict of interests with the Group.

6. DIRECTORS' INTERESTS IN ASSETS OF THE GROUP OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors had any interest in any assets which had been, since 31 December 2020 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the date of this circular, none of the Directors was materially interested in contract or arrangement subsisting which was significant in relation to the business of the Group.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinions or advice, which are contained in this circular:

Name	Qualification
Gram Capital	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Gram Capital did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Gram Capital had given and had not withdrawn its consent to the publication of this circular with the inclusion of its letter and all reference to its name in the form and context in which it is included.

As at the Latest Practicable Date, Gram Capital did not have any interest, direct or indirect, in any assets which have been, since 31 December 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

8. DOCUMENTS FOR INSPECTION

Copies of the following documents are available on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (www.interlong.com) for 14 days from the date of this circular (inclusive):

- (a) the 2021 Healthcare Food and Food Purchase Framework Agreement;
- (b) the 2021 Distribution Agreement;
- (c) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (d) the letter from Gram Capital, the text of which is set out in this circular;
- (e) the written consent from Gram Capital referred to in the paragraph headed “EXPERT AND CONSENT” in this Appendix; and
- (f) this circular.