

10 December 2024

*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 (i) the transactions contemplated under the 2023 Supplemental Yidianyao Distribution Agreement (the “**2024 Yidianyao Cap Revision**”); (ii) the transactions contemplated under 2024 Yidianyao Distribution Agreement (the “**Yidianyao Sales Transactions**”); and (iii) the transactions contemplated under the 2024 Pharmaceutical Distribution Agreement (the “**Pharmaceutical Product Purchase Transactions**”, collectively with 2024 Yidianyao Cap Revision and Yidianyao Sales Transactions, the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 10 December 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 15 November 2024, the Company has (a) entered into the 2023 Supplemental Yidianyao Distribution Agreement with Neptunus Yidianyao to (i) revise the Existing Annual Cap for the year ending 31 December 2024 to the Revised Annual Cap; and (ii) terminate the 2023 Yidianyao Distribution Agreement with effect from 1 January 2025; and (b) entered into the 2024 Yidianyao Distribution Agreement with Neptunus Yidianyao, pursuant to which the Group will provide pharmaceutical products, food, healthcare food products and medical devices to Yidianyao Group for distribution in the PRC for the period from 1 January 2025 or the date of the EGM, whichever is later, to 31 December 2027 (both days inclusive).

On the even date, Neptunus Changjian and Neptunus Pharmaceutical entered into the 2024 Pharmaceutical Distribution Agreement to continue the purchase and distribution of pharmaceutical products from 1 January 2025 or the date of the EGM, whichever is later, to 31 December 2027 (both days inclusive).

With reference to the Board Letter, the Transactions constitute continuing connected transactions of the Company and are subject to the reporting, announcement 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 Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions 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 resolutions to approve the Transactions 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 independent financial adviser in respect of the continuing connected transaction as contained in the Company's circular dated 11 January 2023. Save for the aforesaid engagement, there was no other services provided by Gram Capital to the Company during the past two years immediately preceding the Latest Practicable Date.

Notwithstanding the aforesaid past engagement, 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 a hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

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 an independent financial adviser engagement 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 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 Transactions. 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 Yidianyao, 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 Transactions. 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.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

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

### **Background of and reasons for the Transactions**

#### **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 medical devices, and the purchase and sales of medicines, healthcare food products and medical devices.

Set out below are the Group's consolidated financial information for the six months ended 30 June 2024 (with comparative figures in 2023) and the two years ended 31 December 2023 as extracted from the Company's interim report for the six months ended 30 June 2024 (the "2024 Interim Report") and annual report for the year ended 31 December 2023 (the "2023 Annual Report"):

	For the year ended 31 December 2023 (audited) RMB'000	For the year ended 31 December 2022 (audited) RMB'000	Year-on-year change %
Revenue	1,064,861	986,691	7.92
– Manufacturing and selling of medicines	576,679	694,840	(17.01)
– Sales and distribution of medicines and healthcare products	488,182	291,851	67.27
Gross profit	447,511	444,142	0.76
Profit and total comprehensive income for the year	14,526	63,830	(77.24)

The Group's revenue and gross profit were approximately RMB1,064.9 million and approximately RMB447.5 million respectively for the year ended 31 December 2023 ("FY2023"), representing increases in revenue and gross profit of approximately 7.92% and approximately 0.76% respectively as compared to those for the year ended 31 December 2022 ("FY2022").

The Group's profit and total comprehensive income was approximately RMB14.5 million for FY2023, representing a substantial decrease of approximately 77.24% as compared to that for FY2022. With reference to 2023 Annual Report, such decrease was mainly due to the increase in other operating expenses caused by impairment of goodwill of a subsidiary of the Company and the increase in research and development fee.

	For the six months ended 30 June 2024 (unaudited) RMB'000	For the six months ended 30 June 2023 (unaudited) RMB'000	Year-on-year change %
Revenue	544,504	555,531	(1.98)
– Manufacturing and selling of medicines	295,150	407,492	(27.57)
– Sales and distribution of medicines and healthcare products	249,354	148,039	68.44
Gross profit	194,966	245,316	(20.52)
Profit and total comprehensive income for the period	41,254	31,090	32.69

The Group's revenue was approximately RMB544.5 million for the six months ended 30 June 2024 ("1H2024"), representing a slight decrease of approximately 1.98% as compared to that for the six months ended 30 June 2023 ("1H2023"). However, the Group's gross profit for 1H2024 recorded a decrease of approximately 20.52% as compared to that for 1H2023. With reference to 2024 Interim Report, such decrease in gross profit was mainly attributable to the decrease in the Group's gross profit margin caused by the change in the sales model of certain products in 1H2024.

The Group's profit and total comprehensive income for 1H2024 was approximately RMB41.3 million for 1H2024, representing an increase of approximately 32.69% as compared to that for 1H2023. With reference to 2024 Interim Report, such increase was mainly due to the decrease in selling and distribution expenses, partially offset by the decrease in gross profit for 1H2024 due to the change in the sales model of certain products in 1H2024.

#### **A. THE 2024 YIDIANYAO CAP REVISION AND YIDIANYAO SALES TRANSACTIONS**

##### **Information on Neptunus Yidianyao**

With reference to the Board Letter, Neptunus Yidianyao is a limited liability company established under the laws of the PRC, which is principally engaged in the retail of pharmaceutical products, healthcare food products and medical devices.

##### **Reasons for and benefits of the Yidianyao Sales Transactions and the 2024 Yidianyao Cap Revision**

With reference to the Board Letter,

- (1) since the commencement of the 2023 Yidianyao Distribution Agreement, the pharmaceutical products, food, healthcare food products and medical devices sold 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 2024 to 31 October 2024 (the "10M2024"), the aggregate sales amount under the 2023 Existing Yidianyao Distribution Agreement was approximately RMB9,825,792. As a result, the Board expects that the proposed annual caps for the transactions contemplated under the 2023 Existing Yidianyao Distribution Agreement for the year ending on 31 December 2024 ("FY2024") will not be sufficient to meet the business needs of the Company in the future.
- (2) With the implementation of various healthcare industrial policies and healthcare reform, the pharmaceutical products and healthcare food products retail markets in the PRC will continue to grow. As Neptunus Yidianyao owns more than 3,000 chain drugstores and its retail networks for pharmaceutical products and healthcare food products are well established nationwide in the PRC, the Board considers that the 2023 Existing Yidianyao Distribution Agreement and 2024 Yidianyao Distribution Agreement will (i)

improve the distribution and sales of the pharmaceutical products, healthcare food products and medical devices of the Group; (ii) improve the Group's market share in the pharmaceutical products and healthcare food products industry in the PRC; (iii) enhance the Group's market competitiveness in the PRC; and (iv) generate stable revenue for the Group in the coming few years.

We also searched over the internet to understand the prospect of the healthcare and pharmaceutical industry in PRC:

- For the purpose of, amongst others, modernizing drug distribution and optimising modern drug distribution system, enhancing drug distribution efficiency and promotion of high-quality development of the pharmaceutical industry, Ministry of Commerce of the PRC issued the 《商務部關於“十四五”時期促進藥品流通行業高質量發展的指導意見》 (Ministry of Commerce directional opinions on enhancing drug distribution industry high-quality development enhancement during “14th Five-year” period\*) in October 2021. The opinions directed, amongst others, (i) optimisation of industrial structure; (ii) acceleration on formation of drug distribution network in the rural areas; and (iii) improvement on service capacity of drug distribution in the urban areas.
- With reference to the 《2023年藥品流通行業運行統計分析報告》 (Report on Drug Distribution Industry Operational Statistic & Analysis Report\*) (the “Report”) published on the website of Ministry of Commerce of the PRC in August 2024, sales volume of the national drug distribution increase steadily in 2023. The Report stated that in 2023, (i) sales volume of pharmaceutical retail market was RMB640.2 billion, representing an increase of 7.6% as compared to that for the previous year after excluding incomparable factors; and (ii) sales volume of pharmaceutical wholesale market was RMB2,290.2 billion, representing an increase of 7.5% as compared to that for the previous year after excluding incomparable factors.
- With reference to the Seventh National Population Census released by National Bureau of Statistics of China in May 2021, from 2010, the proportion of “population aged 60 and over” to “total population” increased by 5.44 percentage point to 18.70% in 2020. With reference to the data released by World DataBank, life expectancy at birth in the PRC was approximately 78.6 years in 2022 (being the latest available data) as compared to that of 76.2 years in 2012. Aging population and prolonged life expectancy may drive the demand for drugs and healthcare products.

Considering the (i) the directional opinions on enhancing drug distribution issued by PRC government; (ii) the increase in the sales volume of pharmaceutical market; and (iii) aging population issue in the PRC, the demand for healthcare food products in the PRC will increase and the such market in the PRC will continue to grow.

As mentioned in the 2024 Interim Report, the main products distributed and sold by the Group currently 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 medium and large-sized chain pharmacies. As confirmed by the Directors, Neptunus Jinzun is one of the major distributed products under the 2024 Yidianyao Distribution Agreement.

As advised by the Directors, the revenue generated from Yidianyao Sales Transactions were accounted for the Group's revenue under the segment of sales and distribution of medicines and healthcare products. As shown in the section headed "Information on the Group" above, revenue from the sales and distribution of medicines and healthcare products recorded increases of approximately 67.27% for FY2023 (as compared to that for FY2022) and approximately 68.44% for 1H2024 (as compared to that for 1H2023). The sales and distribution of medicines and healthcare products is also a major business segment of the Group for FY2023 and 1H2024, accounting for approximately 45.84% and approximately 45.79% of the Group's revenue respectively.

The Board expects that the proposed annual caps for the transactions contemplated under the 2023 Existing Yidianyao Distribution Agreement for the year ending on 31 December 2024 will not be sufficient to meet the business needs of the Company in the future, taking into account the expected market demand of the pharmaceutical products, food, healthcare food products and medical devices under the current market condition.

Having considered the above factors and our analyses on the Revised Annual Cap for FY2024, we concur with the Directors that the Yidianyao Sales Transactions and the 2024 Yidianyao Cap Revision 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 Yidianyao Sales Transactions and the 2024 Yidianyao Cap Revision**

Set out below are the principal terms of the Yidianyao Sales Transactions, details of which are set out under the section headed "1. The 2023 Supplemental Yidianyao Distribution Agreement and 2024 Yidianyao Distribution Agreement" of the Board Letter.

**Date:** 15 November 2024

**Parties:** The Company; and  
Neptunus Yidianyao

**Subject matter:** Pursuant to the 2024 Yidianyao Distribution Agreement, among other things, the Group will provide pharmaceutical products, food, healthcare food products and medical devices to Yidianyao Group for distribution within the PRC (the “Yidianyao Products”).

Such pharmaceutical products, mainly including antibiotics, cardio-cerebral vascular medicines, respiratory medicines, anti-allergy medicines and digestive medicines, and medical devices are manufactured by the Group and other manufacturers, whereas the food and healthcare food products, including liver protection products and soft candy products, are sourced from other manufacturers. Under the 2024 Yidianyao Distribution Agreement, pharmaceutical products to be provided by the Group will account for a very substantial portion.

**Term:** Subject to the fulfilment of the conditions precedent therein, the term of the 2024 Yidianyao Distribution Agreement is from 1 January 2025 or the date of the EGM, whichever is later, and ending on 31 December 2027 (both days inclusive).

#### **Pricing basis and payment terms**

Pursuant to the 2024 Yidianyao Distribution Agreement, the sales prices of the products shall be agreed between the parties on an arm's length basis through negotiations with reference to the then prevailing market price of similar products and taking into account factors such as costs, trading volume and market competition. In order to identify similar products for comparison, the Group will consider the specific efficacy and composition of the relevant products on the market. The Group will also assess the sales prices and relevant terms of similar products that are offered to Yidianyao Group and compare those prices and terms with the prices and relevant terms with which such products are offered to at least two or more independent distributors, who are also customers of the Group (if available), as well as the market prices of similar products under similar sales terms and conditions (if available) on a quarterly basis. The sales prices of the products supplied by the Group to Yidianyao Group shall not be lower than the sales prices of similar products in similar quantities supplied by the Group to its independent distributors. If there is no sales price of similar product in similar quantities offered by the Group to its independent customers, the sale prices of the products supplied by the Group to Yidianyao Group shall not be lower than the sales prices of similar products in similar quantities supplied by independent supplier to Yidianyao Group.



Based on our independent research on continuing connected transactions conducted by other companies listed on the Stock Exchange involving provision of services/products by connected persons, we noted that comparing prices with those offered by independent third parties for the same/similar service/products is one of the commonly adopted pricing policies.

For our due diligence purpose, we (i) obtained from the Company a product list in relation to the sale of Yidianyao Products by the Group to Neptunus Yidianyao for 10M2024, the pricing of which were available for comparison with those supplied by the Group to independent distributors for 10M2024 as confirmed by the Directors; and (ii) randomly selected three types of products, being approximately 20% of all types of products. Upon our further request, the Company provided us with a full transaction list and we selected an individual transaction from the selected three types of products for each quarter of the first three quarters of 2024 on a random selection basis. Upon our request, the Company provided us (a) an invoice regarding the sale of such products by the Group to Neptunus Yidianyao; and (b) a corresponding invoice regarding the sale of the same products by the Group to two independent third parties. Given that (i) the number of selected types of products accounted for approximately 20% of all types of products; and (ii) selected invoices covered the period for 10M2024, we are of the view that the selected samples are fair and representative. We noted from such documents that the prices of such products sold by the Group to Neptunus Yidianyao were higher than those sold to independent third parties.

With reference to the Board Letter, in order to ensure that (i) the terms of the 2023 Yidianyao Distribution Agreement and 2024 Yidianyao Distribution Agreement are no less favourable to the Group than the terms offered by the Group to independent distributors; and (ii) to protect the interests of the Company and its Shareholders as a whole, the Company will adopt certain internal control measures, details of which are set out under the section headed “Internal Control Measures of the Proposed CCTs” of the Board Letter. Having considered that (i) there will be price monitor procedures, which will be conducted on a quarterly basis and further action may be taken; and (ii) the Group’s finance department would collect the data of the transactions to ensure that the Revised Annual Cap and Proposed Yidianyao Sales 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 Yidianyao Sales Transactions are in accordance with the pricing policies; and (ii) that the relevant proposed annual caps will not be exceeded.

The consideration of food pharmaceutical products, food, healthcare food products and medical devices supplied by the Group shall be settled by Neptunus Yidianyao within sixty (60) days after the issue date of the invoice.

According to ageing analysis of trade and other receivable as contained in the 2024 Interim Report and as advised by the Directors, approximately 70.9% trade and other receivable would be settled within three months, of which approximately 77.2% would be settled within two months. Accordingly, we are of the view that the payment arrangement under the Yidianyao Sales Transactions is justifiable.

### Proposed annual caps

Set out below are (i) the historical transaction amounts of the Yidianyao Sales Transactions for the two years ended 31 December 2023 and 10M2024 with previous/existing annual caps; and (ii) the Revised Annual Cap for FY2024 and the Proposed Yidianyao Sales Caps for the three years ending 31 December 2027:

	For the year ended 31 December 2021 RMB	For the year ended 31 December 2022 RMB	For the year ended 31 December 2023 RMB	For the year ending 31 December 2024 RMB
Historical transaction amounts	10,823,000	13,458,000	14,788,000	9,825,792 (note)
Previous/existing annual caps	52,000,000	69,000,000	90,000,000	10,000,000
Utilisation rates	20.8%	19.5%	16.4%	98.3% (note)
	Revised Annual Cap RMB	For the year ending 31 December 2025 RMB	For the year ending 31 December 2026 RMB	For the year ending 31 December 2027 RMB
Proposed annual caps	17,000,000	60,000,000	70,000,000	82,000,000

Note: the figure was for 10M2024

With reference to the Board Letter, the Revised Annual Cap and Proposed Yidianyao Sales Caps were determined with reference to various factors, details of which are set out under the section headed “(D) Annual Cap(s) of 2023 Supplemental Yidianyao Distribution Agreement and the 2024 Yidianyao Distribution Agreement” of the Board Letter.

According to the above table, the annualised amounts for FY2024 (based on historical transaction amounts of approximately RMB9.8 million for 10M2024) would be approximately RMB11.8 million, which exceed the original annual cap of approximately RMB10.0 million for FY2024.

For our due diligence purpose, we obtained the calculation (the “Yidianyao Sales Calculation”) of the Revised Annual Cap and Proposed Yidianyao Sales Caps from the Company. After reviewing the Yidianyao Sales Calculation, we noted that (i) the Revised Annual Cap for FY2024 represented the estimated amounts of Yidianyao Sales Transactions (the “Estimated Sales Amounts”) for FY2024; and (ii) the Proposed Yidianyao Sales Caps for the three years ending 31 December 2027 were calculated by (a) the Estimated Sales Amounts for the three years ending 31 December 2027; and (b) a buffer of 5% in addition to (a).

#### *The Estimated Sales Amounts for FY2024*

We noted from the Yidianyao Sales Calculation that Revised Annual Cap for FY2024 represented an increase of approximately 15.0% to the historical transaction amount of Yidianyao Sales Transactions for FY2023. Based on the historical transaction amounts for the three years ended 31 December 2023, the compound annual growth rate (“CAGR”) of historical transaction amounts for the three years ended 31 December 2023 amounted to approximately 16.9% (the “2021 to 2023 Yidianyao Growth Rate”). As the increase of 15.0% is close to the 2021 to 2023 Yidianyao Growth Rate of approximately 16.9%, we are of the view that the Estimated Sales Amounts for FY2024 is fair and reasonable.

#### *The Estimated Sales Amounts for FY2025*

We further noted that the Estimated Sales Amounts for FY2025 represented an implied growth rate of approximately 236.1% as compared to those for FY2024. To assess the fairness of the Estimated Sales Amounts for FY2025, in particular the significant growth in the Estimated Sales Amounts for FY2025, we conducted the following analyses:

- We discussed with the Directors for the reasons of the significant growth in the Estimated Sales Amounts for FY2025. We understood that the significant increase was due to the change of scope in authorized product list under Yidianyao Sales Transactions.

With reference to the Board Letter, the categories of pharmaceutical products sold by the Company, which has increased from approximately 15 categories under the 2023 Yidianyao Distribution Agreement to approximately 60 categories under the 2024 Yidianyao Distribution Agreement. The newly expanded product categories can be broadly classified into two types: (1) products previously sold to other distributors of the Group, but not to Yidianyao Group and (2) products that are not previously sold by Neptunus Changjian. The inclusion of these products in the 2024 Yidianyao Distribution Agreement allows the Group to leverage its existing product portfolio and extend its reach to Yidianyao Group's distribution network. This increase in product categories will significantly enhance the Group's sales potential.

- Upon our request, we obtained the authorized product list under the 2023 Existing Yidianyao Distribution Agreement and 2024 Yidianyao Distribution Agreement.

We noted that the number of authorized products under 2024 Yidianyao Distribution Agreement is approximately 286.7% more than the number of authorized products under 2023 Existing Yidianyao Distribution Agreement.

The significant growth in the Estimated Sales Amounts for FY2025 (i.e. 236.1%) is lower than the increase in the number of authorized products under 2024 Yidanyao Distribution Agreement, indicating that the growth of 236.1% is not overestimated on the assumption that the average sales of each products under the new authorized product list is same as those under the existing authorized product list (Note: as there is no historical figures for the newly added types of products with Neptunus Yidanyao, we consider that it is justifiable to estimate sales of newly added types of products based on average sales of each existing product as the average sales included all those existing products with large historical sales amounts as well as small historical sales amounts).

Given our analyses above, we consider the significant growth of 236.1% as mentioned above is justifiable. As the Estimated Sales Amounts for FY2024 being fair and reasonable, we are of the view that the Estimated Sales Amounts for FY2025 is fair and reasonable.

#### *The Estimated Sales Amounts for FY2026 and FY2027*

According to the Yidanyao Sales Calculation that the Estimated Sales Amounts (i) for FY2026 represented an increase of approximately 16.7% to that for FY2025; and (ii) for FY2027 represented an increase of approximately 17.1% to that for FY2026.

Having considered that the aforesaid increase rates of approximately 16.7% and approximately 17.1% were close to the 2021 to 2023 Yidanyao Growth Rate of approximately 16.9%, we are of the view that the aforesaid increase rates (i.e. 16.7% and 17.1% respectively) are justifiable.

Based on the above, we are of the view that the Estimated Sales Amounts for FY2026 and FY2027 are fair and reasonable.

#### *Buffer*

As mentioned above, a buffer of 5% was adopted on the Estimated Sales Amounts for the three years ending 31 December 2027.

To assess the fairness and reasonableness of the buffer of approximately 5%, we searched for circulars regarding continuing connected transactions published by other Hong Kong listed companies during the period from 1 October 2024 to the Announcement Date. We noted that out of the 18 circulars published by other Hong Kong listed companies that incorporated buffer in their proposed annual caps regarding continuing connected transactions, 10 of which incorporated buffer ranging from 5% to 10% in their proposed annual caps regarding continuing connected transactions and explicitly disclosed in such circulars.

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.

For the avoidance of doubt, there was no buffer for the Estimated Sales Amounts for FY2024. Given that the Revised Annual Cap shall be subject to the approval by the Independent Shareholders at the EGM (which is expected to be held on 31 December 2024), therefore it would be reasonable for not adopting buffer.

Having considered the above factors, including (i) the Estimated Sales Amounts for the four years ending 31 December 2027 being fair and reasonable; and (ii) the buffer of 5% to be justifiable and reasons for not adopting buffer on the Estimated Sales Amounts for FY2024, we are of the view that the Revised Annual Cap for FY2024 and the Proposed Yidianyao Sales Caps for the three years ending 31 December 2027 are fair and reasonable.

Shareholders should note that as the Revised Annual Cap and the Proposed Yidianyao Sales Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2027, and they do not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Yidianyao Sales Transactions. Consequently, we express no opinion as to how closely the actual revenue/expenses/costs to be recorded/incurred from the Yidianyao Sales Transactions will correspond with the Revised Annual Cap and the Proposed Yidianyao Sales Caps.

#### *Our conclusion*

Having reviewed and considered the terms of the 2024 Yidianyao Cap Revision and the Yidianyao Sales Transactions in particular the key terms as listed above (including the pricing policies, the Revised Annual Cap and Proposed Yidianyao Sales Caps being fair and reasonable; and no abnormal term observed), we are of the view that the terms of the 2024 Yidianyao Cap Revision and the Yidianyao Sales Transactions are on normal commercial terms and are fair and reasonable.

## **B. THE PHARMACEUTICAL PRODUCT PURCHASE 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 Pharmaceutical Product Purchase 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 pharmaceutical and healthcare food products. The Board considers that the entering into of the 2024 Pharmaceutical 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, due to (i) the directional opinions on enhancing drug distribution issued by PRC government, (ii) the increase in the sales volume of pharmaceutical market; and (iii) aging population issue in the PRC, the demand for healthcare food products in the PRC will increase and the such market in the PRC will continue to grow.

In addition, we noted from the Report that at the end of 2023, there were 14,800 (13,900 at the end of 2022 according to the report of previous year) pharmaceutical wholesalers and 6,725 (6,650 at the end of 2022 according to the report of previous year) drug retail chain enterprises in PRC, while the number of retail drug stores reached 667,000 (623,300 at the end of 2022 according to the report of previous year), which also indicated a generally positive prospect for the sale of distribution and sale of pharmaceutical products in PRC.

As mentioned in the 2024 Interim Report, the main products distributed and sold by the Group currently 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 medium and large-sized chain pharmacies. As confirmed by the Directors, Neptunus Ginkgo Leaves Tablets is one of the major distributed products under the 2024 Pharmaceutical Distribution Agreement.

As advised by the Directors, the revenue further generated from Pharmaceutical Product Purchase Transactions (after distribution of relevant products) were accounted for the Group's revenue under the segment of sales and distribution of medicines and healthcare products. As discussed above, revenue from the sales and distribution of medicines and healthcare products recorded increase of approximately 67.27% for FY2023 (as compared to that for FY2022) and approximately 68.44% for 1H2024 (as compared to that for 1H2023). The sales and distribution of medicines and healthcare products is also the major business segment of the Group for FY2023 and 1H2024, accounting for approximately 45.84% and approximately 45.79% of the Group's revenue respectively.

Having the above factors, we concur with the Directors that the Pharmaceutical Product 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 Pharmaceutical Product Purchase Transactions**

Set out below are the principal terms of the Pharmaceutical Product Purchase Transactions, details of which are set out under the section headed “2. Renewal of the 2021 Pharmaceutical Distribution Agreement” of the Board Letter.

<b>Date:</b>	15 November 2024
<b>Parties:</b>	Neptunus Changjian; and Neptunus Pharmaceutical
<b>Subject matter:</b>	Pursuant to the 2024 Pharmaceutical Distribution Agreement, among other things, Neptunus Changjian will purchase various pharmaceutical products (the “ <b>Neptunus Pharmaceutical Products</b> ”) manufactured by Neptunus Pharmaceutical and distribute such products within the PRC.
<b>Term:</b>	Subject to the fulfilment of the conditions precedent therein, the 2024 Pharmaceutical Distribution Agreement will become effective from 1 January 2025 or the date of the EGM, whichever is later, and ending on 31 December 2027 (both days inclusive).

#### **Pricing basis and payment terms**

Pursuant to the 2024 Pharmaceutical 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 under similar transaction volumes.

In cases where the purchase prices of similar products from other third-party independent suppliers for similar transaction volumes are not available or cannot be obtained after reasonable commercial efforts, the purchase prices shall be determined by the parties based on (i) the final price of the relevant product sold by Neptunus Changjian to pharmacies and other institutions (the final price referred to herein being the average price Neptunus Changjian sold to the pharmacies and other institutions), and (ii) a pre-determined gross profit margin of Neptunus Changjian on the relevant product (ranging between 40% to 45%) and the implicit cost of sales (being the cost incurred by Neptunus Changjian for purchasing the product) back-extrapolated based on the “cost plus” approach.

As mentioned above, based on our independent research on continuing connected transactions conducted by other companies listed on the Stock Exchange involving provision of services/products by connected persons, we noted that comparing prices with those offered by independent third parties for the same/similar service/products is one of the commonly adopted pricing policies.

Furthermore, we searched for Hong Kong listed companies which are principally engaged in trading of pharmaceutical products, and have more than 50% of their revenue from such businesses in aggregate based on their respective latest published full-year financial information (the “Comparable Company(ies)”). Set out below are our findings on the gross profit margins, which are exhaustive as far as we were aware of and are fair and representative:

<b>Company name (stock code)</b>	<b>Principal businesses</b>	<b>Gross profit margin</b>
Pa Shun International Holdings Limited (574)	Pharmaceutical distribution and manufacture of pharmaceutical products	22.74%
Sinopharm Group Co. Ltd. (1099)	Distribution of pharmaceutical products, medical devices and health products, operation of retail pharmacies and production and sale of chemical reagents	8.13%
Kingworld Medicines Group Limited (1110)	(i) Distribution sale of branded imported pharmaceutical and healthcare products; and (ii) manufacturing and sales of electrotherapeutic, physiotherapeutic devices and general medical examination devices	26.02%
Shanghai Pioneer Holding Ltd (1345)	Provision of comprehensive marketing, promotion and channel management services for imported pharmaceutical products and medical devices	42.65%
Universal Health International Group Holding Limited (2211)	Distribution and retail of drugs and other pharmaceutical products	16.52%



Company name (stock code)	Principal businesses	Gross profit margin
Charmacy Pharmaceutical Co., Ltd. (2289)	(i) Distribution of western medicine, Chinese patent medicine and healthcare products to downstream distributors and retail terminals; and (ii) provision of consultation service on pharmaceutical products	6.65%
New Ray Medicine International Holding Limited (6108)	Distribution and trading of pharmaceutical products and the provision of marketing and promotion services	25.80%
YSB Inc. (9885)	(i) Wholesales of pharmaceutical and healthcare products offline or online through its online platform; (ii) retail of pharmaceutical and healthcare products through its retail shops; and (iii) operation of online platform that enable the pharmaceutical distributors and vendors to sell pharmaceutical and healthcare products using online platform	10.26%

Source: Stock Exchange's website and annual/interim reports of relevant Comparable Companies

We noted that the gross profit margin (ranging between 40% to 45%) stated under the pricing policies of the 2024 Pharmaceutical Distribution Agreement exceeded seven over eight of the Comparable Companies in the above table. Accordingly, we consider the pricing policy (cost plus) under the 2024 Pharmaceutical Distribution Agreement is fair and reasonable.

With reference to the Board Letter, in order to ensure that (i) the terms of the 2024 Pharmaceutical 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, details of which are set out under the section headed "Internal Control Measures of the Proposed CCTs" of the Board Letter. Having considered that (i) there will be quotes collection procedures (from at least two independent suppliers); (ii) the aforesaid procedures will be conducted on a quarterly basis; (iii) any pricing determined using the back-extrapolated "cost plus" approach will require approval from the general manager of Neptunus Changjian; and (iv) 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 Pharmaceutical Product Purchase Transactions are in accordance with the pricing policy; and (ii) the proposed annual cap will not be exceeded.

For our due diligence purpose, we (i) obtained from the Company a product list in relation to the purchase of pharmaceutical products by the Group from Neptunus Pharmaceutical during the period from 14 January 2022 to 31 October 2024; and (ii) randomly selected five types of several products, being 20% of all types of products. Upon our further request, the Company provided us with full transaction lists for the aforesaid period and we further selected an individual transaction from the selected types of products for each quarter of 2022, 2023 and 2024 on a random selection basis. Upon our request, the Company further provided us (i) an invoice for each quarter during each of FY2022, FY2023 and the period from 1 January 2024 to 31 October 2024 from the list (12 invoices in total) regarding the purchase of the selected products by the Group from Neptunus Pharmaceutical; and (ii) 12 sets of corresponding quotation documents regarding the aforesaid individual procurements by the Group from two independent third parties. Given that (i) the number of selected types of products accounted for 20% of all types of products; and (ii) selected invoices covered the period for 2022, 2023 and 10M2024, we are of the view that the selected samples are fair and representative. We noted from such documents that the prices of pharmaceutical products purchased by the Group from Neptunus Pharmaceutical were not higher than those offered by independent third parties.

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 2024 Pharmaceutical Distribution Agreement are arrived at after arm's length negotiations between Neptunus Changjian and Neptunus Pharmaceutical.

According to ageing analysis of trade and other payables as contained in the 2024 Interim Report and as advised by the Directors, approximately 76.4% trade payables was settled within three months, of which approximately 86.9% would be settled within two months. Accordingly, we are of the view that the payment arrangement under the Pharmaceutical Product Purchase Transactions is justifiable.

#### **Proposed annual caps**

Set out below are (i) the historical transaction amounts of the Pharmaceutical Product Purchase Transactions for the two years ended 31 December 2023 and 10M2024 with existing annual caps; and (ii) the Proposed Pharmaceutical Product Purchase Caps for the three years ending 31 December 2027:

	For the year ended 31 December 2022 RMB	For the year ended 31 December 2023 RMB	For the year ending 31 December 2024 RMB
Historical transaction amounts	74,281,000	71,655,000	51,582,653 (note)
Previous/existing annual caps	86,000,000	97,000,000	108,000,000
Utilisation rates	86.4%	73.9%	47.8% (note)

	For the year ending 31 December 2025 RMB	For the year ending 31 December 2026 RMB	For the year ending 31 December 2027 RMB
Proposed Pharmaceutical Product Purchase Caps	103,000,000	123,000,000	147,000,000

*Note:* the figure was for 10M2024

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 section headed “Annual Caps of the 2024 Pharmaceutical 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 2027. We noted from the calculation that the Proposed Pharmaceutical Product Purchase Caps were estimated based on (i) the estimated transaction amounts for the three years ending 31 December 2027; and (iii) a buffer of approximately 5%.

Based on the information provided by the Company, we noted that historical transaction amounts of Pharmaceutical Product Purchase Transaction from 2021 to 2023 remained stable at the level of approximately RMB70 million to RMB75 million. The estimated transaction amounts for FY2025 represented a CAGR of approximately 17% as compared to that for FY2023.

#### *Estimated transaction amounts*

To assess the fairness and reasonableness of the estimated transaction amount for the three years ending 31 December 2027, in particular the abovementioned increase of 17% for FY2025 (as compared to stable movement from 2021 to 2023), we conducted following analyses:

- We summarized the historical transaction amounts of the Pharmaceutical Product Purchase Transactions from 2019 to 2023.

	2019	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Historical transaction amounts of the Pharmaceutical Product Purchase Transactions	98,370	105,431	72,842	74,281	71,655
Year-on-year percentage change	14%	7%	-31%	2%	-4%

According to the above table, the Group recorded a year-on-year increase of approximately 14% and approximately 7% in the historical transaction amounts of the Pharmaceutical Product Purchase Transactions for 2019 and 2020 respectively. In 2021, the historical transaction amount of the Pharmaceutical Product Purchase Transactions substantially dropped by approximately 31% as compared to that for 2020. As advised by the Directors, the aforesaid lowered growth in 2020 and turnaround from increase to decrease in 2021 were mainly due to the impact of COVID-19.

As stated in the 2023 Annual Report, in 2023, the pharmaceutical industry has gradually returned to the normal track of development following the end of COVID-19 pandemic.

Despite that COVID-19 pandemic had ended, the historical transaction amounts of the Pharmaceutical Product Purchase Transactions remained at level of RMB70 million in 2023. As advised by the Directors, in addition to the impact of COVID-19 from year 2020 to 2022, the popularity of Community Health Service Centers (社區衛生服務中心) affect the number of clients of the Group's chain pharmacies. As a result, the number of Products (which was procured by the Group according to the 2024 Pharmaceutical Distribution Agreement) to be distributed by the Group was also affected.

- As advised by the Directors, due to the policy restriction, the Group is not allowed to provide pharmaceutical products (including the Neptunus Pharmaceutical Products) to Community Health Service Centers (社區衛生服務中心) previously. However, due to that relevant policy restriction was relaxed in the middle of 2024, the Group may be allowed to provide the pharmaceutical products to Community Health Service Centers (社區衛生服務中心) since then.

Due to the above change, we summarised relevant figures in relation to Community Health Service Centers (社區衛生服務中心) as follows:

	2019	2020	2021	2022	2023
Number of visits in Community Health Service Centers (100 million person-times)	8.59	7.55	8.36	8.33	10.35

Source: National Bureau of Statistics of China

Based on the above, number of visits in Community Health Service Centers fluctuated at level of approximately 750 million person-times to 860 million person-times from year 2019 to 2022. In 2023, such figures substantially increased by approximately 24.2% as compared to that for year 2022. We also noted an article titled “2024年1-4月全國醫療服務情況” (Statistics of National Medical Services from January 2024 to April 2024\*) published on website of National Bureau of Statistics of China on 29 October 2024 that the number of visits to Community Health Service Centers for first four months ended 30 April 2024 was 356.4 million, representing a year-on-year increase of approximately 27.5%.

Despite that (i) the estimated transaction amount for FY2025 represented a CAGR of approximately 17% as compared to that for FY2023; and (ii) estimated transaction amounts for FY2026 and FY2027 represented a year-on-year growth of approximately 19% and approximately 20% respectively as compared to those for FY2025 and FY2026, having considered the above factors, in particular,

- the popularity of Community Health Service Centers (社區衛生服務中心) affected the number of clients of the Group’s chain pharmacies, which further affected number of the Neptunus Pharmaceutical Products to be distributed by the Group;
- relevant policy which restricted the Group’s supply of pharmaceutical products to Community Health Service Centers (社區衛生服務中心) was relaxed in the middle of 2024, the Group may be allowed to provide the pharmaceutical products to Community Health Service Centers (社區衛生服務中心) thereafter; and
- the number of visits in Community Health Service Centers (i) for 2023 increased by approximately 24.2% as compared to 2022; and (ii) for first four months ended 30 April 2024 represented a year-on-year increase of approximately 27.5%,

we are of the view that the implied increases as mentioned above are justifiable. Therefore, we are of the view that the estimated transaction amounts for the three years ending 31 December 2027 are fair and reasonable.

### *Buffer*

As mentioned above, a buffer of 5% was adopted on the estimated transaction amounts for the three years ending 31 December 2027.

Having considered that (i) our findings on the adoption of buffers by other listed companies as mentioned above; and (ii) the additional buffers were applied for unforeseeable circumstances such as (a) the unexpected increase in demand of Neptunus Pharmaceutical Products; and (b) other relevant factors such as the unexpected increase in price of Neptunus Pharmaceutical Products, we also consider the buffer of 5% to be justifiable.

Having considered the above factors, including (i) the estimated transaction amounts for the three years ending 31 December 2027 being fair and reasonable; and (ii) the buffer of 5% to be justifiable, we are of the view that the Proposed Pharmaceutical Product Purchase Caps for the three years ending 31 December 2027 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 2027, and they do not represent forecasts of revenue/expenses/costs to be recorded/incurred from the Pharmaceutical Product Purchase Transactions. Consequently, we express no opinion as to how closely the actual revenue/expenses/costs to be recorded/incurred from the Pharmaceutical Product Purchase Transactions will correspond with the Proposed Pharmaceutical Product Purchase Caps.

### *Our conclusion*

Having reviewed and considered the terms of the 2024 Pharmaceutical 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 Pharmaceutical Product Purchase 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 Transactions must be restricted by the proposed annual caps; (ii) the terms of the Transactions must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the Transactions 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 Transactions (i)

have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the Transactions; and (iv) have exceeded the proposed annual caps.

In the event that the total amounts of the Transactions are anticipated to exceeds the proposed annual caps, or that there is any proposed material amendment to the terms of the Transactions, 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 Transactions and thus the interest of the Independent Shareholders would be safeguarded.

#### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transactions are on normal commercial terms and are fair and reasonable; and (ii) the 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. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Transactions 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 around 30 years of experience in investment banking industry.

\* *For identification purpose only*