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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)

**CONTINUING CONNECTED TRANSACTION IN RELATION TO THE 2023
DISTRIBUTION AGREEMENT**

THE 2023 DISTRIBUTION AGREEMENT

Reference is made to the announcement of the Company dated 19 November 2020 in relation to the 2020 Nepstar Distribution Agreement.

As the 2020 Nepstar Distribution Agreement will expire on 31 December 2023, on 28 December 2023 (after trading hours), the Company has entered into the 2023 Distribution Agreement with Neptunus Yidianyao, a connected person of the Company, pursuant to which the Group will provide pharmaceutical products, food, healthcare food products and medical device to Yidianyao Group for distribution within the PRC.

IMPLICATIONS OF THE GEM LISTING RULES

As at the date of this announcement, Neptunus Yidianyao is indirectly held as to 57.82% by Mr. Zhang Si Min, the brother of one of the executive Directors, Mr. Zhang Feng. Neptunus Yidianyao is an associate of Mr. Zhang Feng and thus a connected person of the Company under Rule 20.07(4) of the GEM Listing Rules. Accordingly, the 2023 Distribution Agreement constitutes a continuing connected transaction for the Company under Chapter 20 of the GEM Listing Rules.

As all of the applicable percentage ratios calculated with reference to the highest Proposed Sales Cap are more than 0.1% but less than 5%, the 2023 Distribution Agreement will be subject to reporting, announcement and annual review requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

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The details of the 2023 Distribution Agreement are as follows:

Date

28 December 2023

Parties

- (1) The Company; and
- (2) Neptunus Yidianyao

Subject matter

Pursuant to the 2023 Distribution Agreement, among other things, the Group will provide pharmaceutical products, food, healthcare food products and medical device to Yidianyao Group for distribution within the PRC.

Such pharmaceutical products, mainly including antibiotics, cardio-cerebral medicines, respiratory medicines, anti-allergy medicines and digestive medicines, and medical device 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 2023 Distribution Agreement, pharmaceutical products to be provided by the Group will account for a very substantial portion.

Term

The term of the 2023 Distribution Agreement is from 1 January 2024 to 31 December 2026 (both days inclusive), subject to the fulfilment of the conditions precedent.

Conditions Precedent

The transactions contemplated under the 2023 Distribution Agreement are conditional upon:

- (i) the approval of the 2023 Distribution Agreement by the Board; 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.

As at the date of this announcement, condition precedent (i) above has been fulfilled.

Pricing basis and payment terms

Pursuant to the 2023 Distribution Agreement, the sales prices of the products are not fixed. The sales prices 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 average prices and relevant terms with which such products are offered to at least two or more independent customers (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 customers.

For the internal control measures implemented by the Company to ensure that the terms of the 2023 Distribution Agreement are no less favourable to the Group than the terms available from independent third parties, please refer to the section headed "Internal Control Measures" in this announcement.

The consideration of the products supplied by the Group shall be settled by Neptunus Yidianyao within 60 days after the issue date of the invoice.

Annual caps

The Proposed Sales Caps for each of the years ending 31 December 2024, 2025 and 2026 are RMB10,000,000 (approximately HK\$11,098,779), RMB10,000,000 (approximately HK\$11,098,779) and RMB10,000,000 (approximately HK\$11,098,779), respectively.

Details of the historical transaction amounts and historical sales caps are set out in the table below:

Year ended 31 December 2021		Year ended 31 December 2022		Eleven months ended 30 November 2023	Year ending 31 December 2023
<i>(RMB)</i>		<i>(RMB)</i>		<i>(RMB)</i>	<i>(RMB)</i>
Historical transaction amount	Historical sales cap	Historical transaction amount	Historical sales cap	Historical transaction amount	Historical sales cap
(audited)		(audited)		(unaudited)	
10,823,000	52,000,000	13,458,000	69,000,000	13,858,808	90,000,000

The Directors have been monitoring the transaction amounts of the continuing connected transactions under the 2020 Nepstar Distribution Agreement. As at the Latest Practicable Date, the existing sales cap for the continuing connected transactions for the year ending 31 December 2023 has not been exceeded. The Directors expects that the actual transaction amounts will not exceed the existing sales cap for the continuing connected transactions under the 2020 Nepstar Distribution Agreement for the year ending 31 December 2023.

In arriving at the Proposed Sales Caps, the Directors (including the independent non-executive Directors) have considered the following factors:

- a) the audited historical transaction amounts under the 2020 Nepstar Distribution Agreement for the years ended 31 December 2021 and 31 December 2022 and the unaudited historical transaction amounts under the 2020 Nepstar Distribution Agreement for the eleven months ended 30 November 2023; and
- b) the demand of Yidianyao Group for the products is not estimated to grow in the next three years, and the actual growth rate under the 2020 Nepstar Distribution Agreement.

Based on the Proposed Sales Caps set out above, the Directors (including the independent non-executive Directors) are of the view that the Proposed Sales Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. If the transaction amount under the 2023 Distribution Agreement are expected to exceed the Proposed Sales Caps, the Company will re-comply with the requirements under Chapter 20 of the GEM Listing Rules.

INTERNAL CONTROL MEASURES

In order to ensure that the terms of the 2023 Distribution Agreement are no less favourable to the Group than the terms offered by the Group to independent customers and to protect the interests of the Company and the Shareholders as a whole, the Company has adopted the following internal control measures regarding the Proposed CCT:

- a) the prices of the products sold to Yidianyao Group would be determined with reference to the prevailing market prices of similar products agreed by both parties after arm's length negotiation. The Group will monitor the prices and terms of the transactions under the 2023 Distribution Agreement by evaluating the average price of the products and relevant terms offered to its independent customers and the market prices of similar products under similar sales terms and conditions on a quarterly basis.
- b) If at any time the relevant departments of the Group find out that in respect of a transaction, the price of a product offered to Yidianyao Group is lower than that offered by the Group to its independent customers and/or the terms of a product offered by the Group to Yidianyao Group are more favourable, 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 adjust the price of such product or amend the relevant terms, with reference to factors such as the corporate background of the independent customer, 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 CCT in accordance with the internal control policies. The relevant department of the Group would review regularly whether the Proposed CCT is implemented in accordance with the terms of the 2023 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 CCT to ensure that the Proposed Sales Caps are not exceeded.
- e) the Group will engage the auditors to conduct an annual review of the Proposed CCT to opine whether the Proposed Sales Caps have been exceeded.
- f) the Company's audit committee would review the implementation of the Proposed CCT and review the report in relation to the Proposed CCT prepared by the management of the Group, in order to evaluate the comprehensiveness and effectiveness of the Group's internal control measures on Proposed CCT.
- g) the independent non-executive Directors would review the implementation of the Proposed CCT annually.

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 should help to ensure that the transactions will be executed in compliance with the pricing principles stipulated in the 2023 Distribution Agreement, the Directors consider that the above methods and procedures can ensure that the Proposed CCT will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the minority Shareholders.

REASONS FOR AND BENEFITS OF ENTERING INTO OF THE 2023 DISTRIBUTION AGREEMENT

With the implementation of various healthcare industrial policies and healthcare reform, the pharmaceutical products and healthcare food 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 Distribution Agreement will (i) improve the distribution and sales of the pharmaceutical products, healthcare food products and medical device 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.

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 2023 Distribution Agreement, save and except that Mr. Zhang Si Min, being the brother of the chairman of the Board and executive Director, Mr. Zhang Feng, is indirectly interested in 57.82% of the equity interest in Neptunus Yidianyao. In this connection, Mr. Zhang Feng had abstained from voting on the written resolutions of the Board for approving the 2023 Distribution Agreement. Having considered the above, the Directors (including the independent non-executive Directors) take the view that the 2023 Distribution Agreement has been: (i) entered into in the Group's ordinary and usual course of business; and (ii) on normal commercial terms determined on an arm's length basis and the terms of the 2023 Distribution Agreement (including the Proposed Sales Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP AND NEPTUNUS YIDIANYAO

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 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 device. As Neptunus Yidianyao is indirectly held as to 57.82% interest by Mr. Zhang Si Min, the brother of one of the executive Directors, Mr. Zhang Feng, Neptunus Yidianyao is an associate of Mr. Zhang Feng and thus a connected person of the Company under the GEM Listing Rules. Other than Mr. Zhang Si Min, no individual holds more than a 15% interest in Neptunus Yidianyao.

IMPLICATIONS OF THE GEM LISTING RULES

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DEFINITIONS

In this announcement, the following terms have the same meanings as set out below:

“2020 Nepstar Distribution Agreement”	the distribution agreement dated 19 November 2020 entered into between the Company and Neptunus Yidianyao pursuant to which the Group will provide pharmaceutical products, food and healthcare food products to Yidianyao Group for distribution in the PRC for the period from 20 January 2021 to 31 December 2023;
“2023 Distribution Agreement”	the distribution agreement entered into between the Company and Neptunus Yidianyao on 28 December 2023 (after trading hours) pursuant to which the Group will provide pharmaceutical products, food, healthcare food products and medical device products to Yidianyao Group for distribution in the PRC for the period from 1 January 2024 to 31 December 2026 (both days inclusive);
“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*), a joint stock company incorporated in the PRC, whose H shares are listed on GEM;
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules;
“Director(s)”	the director(s) of the Company;
“GEM”	the GEM operated by the Stock Exchange;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM;
“Group”	the Company and its subsidiaries;

“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“percentage ratio(s)”	has the meaning ascribed thereto under the GEM Listing Rules;
“PRC”	the People’s Republic of China;
“Proposed CCT”	the continuing connected transactions contemplated under the 2023 Distribution Agreement;
“Proposed Sales Cap(s)”	each of, or collectively, the proposed sales caps for the three years ending 31 December 2024, 2025 and 2026 under the 2023 Distribution Agreement;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholders”	the holder(s) of ordinary shares of RMB0.1 each in the capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Neptunus Yidianyao”	深圳市海王易點藥醫藥有限公司 (Shenzhen Neptunus Yidianyao Pharmaceutical Company Limited*) (previously known as 深圳市海王星辰醫藥有限公司 (Shenzhen Nepstar Pharmaceutical Company Limited*)), a limited liability company established under the laws of the PRC which is indirectly held as to 57.82% interest by Mr. Zhang Si Min, the brother of Mr. Zhang Feng, who is an executive Director;
“Yidianyao Group”	Neptunus Yidianyao and its subsidiaries;
“%”	per cent.

By Order of the Board
Shenzhen Neptunus Interlong Bio-technique Company Limited*
Zhang Feng
Chairman

Shenzhen, the PRC, 28 December 2023

As at the date of this announcement, the executive Directors are Mr. Zhang Feng, Mr. Huang Jian Bo and Mr. Zhang Xiao Guang; the non-executive Directors are Mr. Zhang Yi Fei, Ms. Yu Lin and Mr. Jin Rui; and the independent non-executive Directors are Mr. Yick Wing Fat, Simon, Mr. Poon Ka Yeung and Mr. Zhang Jian Zhou.

For the purposes of illustration only, any amount denominated in RMB in this announcement was translated into HK\$ at the rate of RMB1 = HK\$0.9. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be, converted at any particular rate at all.

This announcement, 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 this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from its date of publication and on the Company’s website at www.interlong.com.

** For identification purpose only*