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丽珠医药
LIVZON

麗珠醫藥集團股份有限公司

LIVZON PHARMACEUTICAL GROUP INC.*

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock code: 1513)

CONTINUING CONNECTED TRANSACTIONS

ENTERING INTO THE 2022 WATER ELECTRICITY FRAMEWORK AGREEMENT AND THE 2022 LABOUR SERVICES FRAMEWORK AGREEMENT WITH JOINCARE

Entering into the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement with Joincare

On 30 December 2021, the Company convened a Board meeting to consider and approve the continuing connected transactions in relation to receipt of (1) water, electricity, steam, natural gas and sewage treatment and (2) labour services from the Joincare Group by the Group for the period from 1 January 2022 to 31 December 2022, with a cap of RMB37.35 million and RMB16.33 million, respectively. On the same day, the Company and Joincare entered into the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement in relation to the above-mentioned continuing connected transactions.

Implications of the Hong Kong Listing Rules

As at the date of this announcement, Joincare directly and indirectly owns approximately 44.66% equity interests in the Company, therefore it is the controlling shareholder of the Company. Therefore, Joincare and its associates are the connected persons of the Company and the transactions contemplated under the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules, respectively. As (i) Mr. Zhu Baoguo, a non-executive Director and the chairman of the Company, is also the chairman of Joincare and indirectly holds 46.95% equity interest in Joincare as at the date of this announcement; (ii) Mr. Qiu Qingfeng, a non-executive Director, is a director and a vice president of Joincare; (iii) Mr. Yu Xiong, a non-executive Director, is the president of Joincare, Mr. Zhu Baoguo, Mr. Qiu Qingfeng and Mr. Yu Xiong are deemed to have material interests in the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement and the transactions contemplated thereunder, and have abstained from voting at the Board meeting in relation to the approval of the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement and the transactions contemplated thereunder. Except for Mr. Zhu Baoguo, Mr. Qiu Qingfeng and Mr. Yu Xiong, no other Directors are required to abstain from voting at the Board meeting in relation to the approval of the above matters.

As the highest applicable percentage ratios of the 2022 Water Electricity Cap and the 2022 Labour Services Cap are higher than 0.1% but lower than 5%, respectively, the transactions contemplated under the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement are subject to the reporting and announcement requirements, but are exempted from the independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

I. THE 2022 WATER ELECTRICITY FRAMEWORK AGREEMENT

On 30 December 2021, the Company and Joincare entered into the 2022 Water Electricity Framework Agreement in relation to the continuing connected transactions for receipt of water, electricity, steam, natural gas and sewage treatment from the Joincare Group by the Group for the period from 1 January 2022 to 31 December 2022 with a cap of RMB37.35 million.

Date

30 December 2021

Parties

Purchaser: the Company

Seller: Joincare

Term

From 1 January 2022 to 31 December 2022

Conditions precedent

The 2022 Water Electricity Framework Agreement and the transactions contemplated thereunder are subject to the approval of the Board.

Subject Matter

Pursuant to the 2022 Water Electricity Framework Agreement, during the period from 1 January 2022 to 31 December 2022, the Group will receive water, electricity, steam, natural gas and sewage treatment from the Joincare Group. The Group may enter into specific implementation contracts (including but not limited to settlement terms and payment arrangement) with the Joincare Group in respect of receipt of water, electricity, steam, natural gas and sewage treatment, provided that such detailed terms of the implementation contracts shall not contravene the terms of the 2022 Water Electricity Framework Agreement.

Annual Cap and Basis of Determination

During the period from 1 January 2022 to 31 December 2022, the Group will receive water, electricity, steam, natural gas and sewage treatment from the Joincare Group with a cap of RMB37.35 million. The annual cap was determined by the Group and the Joincare Group on arm's length negotiations by taking into account factors such as the historical transaction amounts and the Group's production plan for 2022. The 2022 Water Electricity Cap is higher than the transaction amounts in previous years, and it was mainly due to the rise in market prices

of electricity and steam and estimated increase in energy consumption required for production in 2022. Among which, since the second half of 2021, the unit price of electricity has increased by approximately 29%, and the unit price of steam has increased by approximately 85%. In addition, the Group is expected to use new environmentally friendly treatment equipment in 2022, thereby resulting in additional consumption of natural gas. Furthermore, the sewage treatment fees is expected to increase in line with the increase in raw material price during 2021.

Historical Transaction Amounts

Unit: RMB million

For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ended 31 December 2020	For the eleven months ended 30 November 2021
(Audited)	(Audited)	(Audited)	(Unaudited)
10.28	16.35	19.84	18.79

Pricing Principles

The prices for provision of water, electricity, steam and natural gas by the Joincare Group to the Group will be determined on arm's length negotiations by reference to the prevailing market prices, and the prices of sewage treatment will be calculated with reference to the volume of sewage treatment and the relevant costs of materials consumed.

Reasons and Benefits of Entering into the 2022 Water Electricity Framework Agreement

Jiaozuo Hecheng and Shanghai Livzon Biotechnology are located inside the production site of Jiaozuo Joincare and require Jiaozuo Joincare to provide water, electricity, steam, natural gas and sewage treatment for production and operation purposes. If Jiaozuo Hecheng and Shanghai Livzon Biotechnology purchase such services separately from the independent third parties, it may take time for Jiaozuo Hecheng and Shanghai Livzon Biotechnology to complete various procedures and formalities, which may affect their production and operation, and Jiaozuo Hecheng and Shanghai Livzon Biotechnology will have to pay for the relevant activation fees and bear the additional administrative costs incurred. Therefore, the receipt of water, electricity, steam, natural gas and sewage treatment from Jiaozuo Joincare by Jiaozuo Hecheng and Shanghai Livzon Biotechnology can reduce the potential impact on the production and operation of Jiaozuo Hecheng and Shanghai Livzon Biotechnology and save costs.

The Directors (including independent non-executive Directors) considered that the 2022 Water Electricity Framework Agreement (including the proposed annual cap) was entered into by the Company on normal commercial terms in the ordinary and usual course of business of the Group, and that the terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

II. THE 2022 LABOUR SERVICES FRAMEWORK AGREEMENT

On 30 December 2021, the Company and Joincare entered into the 2022 Labour Services Framework Agreement in relation to the continuing connected transactions for receipt of labour services from the Joincare Group by the Group for the period from 1 January 2022 to 31 December 2022 with a cap of RMB16.33 million.

Date

30 December 2021

Parties

Purchaser: the Company

Seller: Joincare

Term

From 1 January 2022 to 31 December 2022

Conditions precedent

The 2022 Labour Services Framework Agreement and the transactions contemplated thereunder are subject to the approval of the Board.

Subject Matter

Pursuant to the 2022 Labour Services Framework Agreement, during the period from 1 January 2022 to 31 December 2022, the Group will receive research and development (“**R&D**”) services in drugs from the Joincare Group. The Group may enter into specific implementation contracts (including but not limited to settlement terms and payment arrangement) with the Joincare Group in respect of receipt of labour services, provided that such detailed terms of the implementation contracts shall not contravene the terms of the 2022 Labour Services Framework Agreement.

Annual Cap and Basis of Determination

During the period from 1 January 2022 to 31 December 2022, the Group will receive R&D services in drugs from the Joincare Group with a cap of RMB16.33 million. The annual cap was determined by the Group and the Joincare Group on arm’s length negotiations by taking into account factors such as the estimated time and amount of money to be invested in the R&D of similar drugs of the Group and complexity of R&D. The 2022 Labour Services Cap is higher than the transaction amounts in previous years, and it was mainly due to that the Group, as compared to 2021, intends to conduct technological upgrades for more products in 2022, including breeding new strains to enhance the fermentation unit of strains. Given the R&D of new strains requires substantial efforts, it is expected that the fees for R&D services will increase substantially.

Historical Transaction Amounts

Unit: RMB million

For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ended 31 December 2020	For the eleven months ended 30 November 2021
(Audited)	(Audited)	(Audited)	(Unaudited)
0	0	9.35	4.13

Pricing Principles

The prices for the provision of R&D services in drugs by the Joincare Group to the Group will be determined on arm's length negotiations by reference to the Group's expected R&D investment and market conditions.

Reasons and Benefits of Entering into the 2022 Labour Services Framework Agreement

Shanghai Fangyu and Henan Institute propose to provide R&D services in drugs to the Group. Shanghai Fangyu is a professional R&D institution with extensive experience in R&D of drugs. There were many successful cases of R&D of drugs which were more difficult than this cooperative R&D of drugs, which will help advance the R&D progress of drugs. Henan Institute is a core R&D institution focusing on biopharmaceutical intermediates and active pharmaceutical ingredients (“APIs”), integrating the R&D strengths in APIs of the Joincare Group and the Group, which will help advance the R&D progress of drugs. The continuation of cooperation with Shanghai Fangyu and Henan Institute will ensure the progress of current R&D work will not be interrupted.

The Directors (including independent non-executive Directors) considered that the 2022 Labour Services Framework Agreement (including the proposed annual cap) was entered into by the Company on normal commercial terms in the ordinary and usual course of business of the Group, and that the terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

III. INTERNAL CONTROL MEASURES

In order to ensure that the actual prices of the transactions contemplated under the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement between the Group and the Joincare Group are on normal commercial terms and on terms no less favourable to the Group than that available from third parties, the Group adopts the following internal control procedures for its daily operation:

(i) Each transaction to be conducted under the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement will be signed by the designated staff of the department requesting such transaction and the finance department, and the general manager of the relevant subsidiary and/or the president of the Company.

(ii) The Group will conduct regular checks to review and assess whether the transactions have been conducted in accordance with the terms of the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement. Such checks will be conducted by the general manager of finance of the Company on a monthly basis and the secretary of the Board on a quarterly basis and will be reported to the Board.

(iii) To ensure the continuing connected transactions contemplated under the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement will not exceed the annual caps, each subsidiary will submit monthly financial figures to the financial department of the Company for consolidation and analysis. The Group will conduct transactions in accordance with the annual plan which is formulated by the finance department of the Group at the year end of the preceding year and is subject to quarterly review. In particular, the finance department of the Company is responsible for monitoring the actual transactions amounts between the Group and the Joincare Group on a monthly basis to ensure that the annual caps will not be exceeded. In the event the amount of continuing connected transactions incurred and to be incurred under the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement is expected to exceed

the annual caps, the general manager of finance of the Company shall report to the management of the Company in a timely manner for its determination as to whether revision to the annual caps is required to ensure compliance of the requirements under the Hong Kong Listing Rules.

(iv) The relevant departments and the finance department of the Company will review the internal pricing policy or mechanism, provisions and implementation status with respect to the continuing connected transactions on an annual basis, including but not limited to identifying the connected persons of the Group and their processes for handling the continuing connected transactions. In the event that the relevant departments consider adjustment to the pricing policy or mechanism is required, they shall make amendment proposals with detailed reasons and supporting materials for the management of the Company to consider and determine appropriate actions to be taken.

(v) The auditor of the Company will conduct an annual review of the transactions contemplated under the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement.

(vi) The audit committee of the Company shall review the continuing connected transactions contemplated under the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement twice a year to confirm whether the relevant transactions are on fair and reasonable terms and in the interest of the Company and the Shareholders as a whole.

Having considered the internal control measures mentioned above, the Directors (including the independent non-executive Directors) consider that such internal control measures are sufficient to ensure the transactions contemplated under the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement will be entered into on normal commercial terms, and will not impair the interests of the Company and the Shareholders as a whole.

IV. INFORMATION OF THE PARTIES

The Company, through its subsidiaries, is principally engaged in the R&D, production and sales of drug preparation products, APIs and intermediates, as well as diagnostic reagents and equipment.

Joincare is a joint stock company incorporated in the PRC and was listed on the Shanghai Stock Exchange in 2001. It is principally engaged in three major business segments, namely R&D, production and sales of (i) drug preparation products; (ii) APIs and intermediates, and (iii) food and health-care food. The ultimate beneficial owner of Joincare is Mr. Zhu Baoguo, a non-executive Director and the chairman of the Company.

V. IMPLICATIONS OF THE HONG KONG LISTING RULES

As at the date of this announcement, Joincare directly and indirectly owns approximately 44.66% equity interests in the Company, therefore it is the controlling shareholder of the Company. Therefore, Joincare and its associates are the connected persons of the Company and the transactions contemplated under the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules, respectively. As (i) Mr. Zhu Baoguo, a non-executive Director and the chairman of the Company, is also the chairman of Joincare and indirectly holds 46.95% equity interest in Joincare as at the date of this announcement; (ii) Mr. Qiu Qingfeng, a

non-executive Director, is a director and a vice president of Joincare; (iii) Mr. Yu Xiong, a non-executive Director, is the president of Joincare, Mr. Zhu Baoguo, Mr. Qiu Qingfeng and Mr. Yu Xiong are deemed to have material interests in the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement and the transactions contemplated thereunder, and have abstained from voting at the Board meeting in relation to the approval of the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement and the transactions contemplated thereunder. Except for Mr. Zhu Baoguo, Mr. Qiu Qingfeng and Mr. Yu Xiong, no other Directors are required to abstain from voting at the Board meeting in relation to the approval of the above matters.

As the highest applicable percentage ratios of the 2022 Water Electricity Cap and the 2022 Labour Services Cap are higher than 0.1% but lower than 5%, respectively, the transactions contemplated under the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement are subject to the reporting and announcement requirements, but are exempted from the independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“2022 Labour Services Cap”	The maximum amount of continuing connected transactions regarding the Group's receipt of labour services from the Joincare Group during 2022 approved by the Board on 30 December 2021, which amounted to RMB16.33 million
“2022 Labour Services Framework Agreement”	The framework agreement entered into between the Company and Joincare on 30 December 2021 in relation to the continuing connected transaction in relation to receipt of labour services from the Joincare Group by the Group for the period from 1 January 2022 to 31 December 2022, with a cap of RMB16.33 million
“2022 Water Electricity Cap”	The maximum amount of continuing connected transactions regarding the Group's receipt of water, electricity, steam, natural gas and sewage treatment from the Joincare Group during 2022 approved by the Board on 30 December 2021, which amounted to RMB37.35 million
“2022 Water Electricity Framework Agreement”	The framework agreement entered into between the Company and Joincare on 30 December 2021 in relation to the continuing connected transaction in relation to receipt of water, electricity, steam, natural gas and sewage treatment from the Joincare Group by the Group for the period from 1 January 2022 to 31 December 2022, with a cap of RMB37.35 million
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules

“Board”	the board of Directors
“Company”	Livzon Pharmaceutical Group Inc.* (麗珠醫藥集團股份有限公司), a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange and the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	collectively the Company and its subsidiaries
“Henan Institute”	Henan Province Joincare Biopharmaceutical Research Institute Co., Ltd.* (河南省健康元生物醫藥研究院有限公司), a subsidiary of Joincare, which is a limited liability company established in the PRC in 2020 and mainly engages in the manufacturing of pharmaceutical intermediates and chemical raw materials, and R&D of pharmaceutical products and technology services
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, as amended and supplemented or otherwise modified from time to time
“independent third party (ies)”	a person or persons or a company or companies that is not or are not the connected person(s) of the Group
“Jiaozuo Hecheng”	Jiaozuo Livzon Hecheng Pharmaceutical Manufacturing Co., Ltd.* (焦作麗珠合成製藥有限公司), a subsidiary of the Company, which is a limited liability company established in the PRC in 2009 and mainly engages in the production and sales of pharmaceutical intermediates and chemical products
“Jiaozuo Joincare”	Jiaozuo Joincare Pharmaceutical Industry Co., Ltd.* (焦作健康元生物製品有限公司), a subsidiary of Joincare, which is a limited liability company established in the PRC in 2005 and mainly engages in research, development, production and sales of pharmaceutical intermediates

“Joincare”		Joincare Pharmaceutical Industry Group Co., Ltd.* (健康元藥業集團股份有限公司) (Shanghai Stock Exchange stock code: 600380), a joint stock company incorporated in the PRC and listed on the Shanghai Stock Exchange in 2001, and is one of the controlling shareholders of the Group
“Joincare Group”		Joincare and its subsidiaries (excluding the Group for the purpose of the transactions contemplated under the 2022 Water Electricity Framework Agreement and the 2022 Labour Services Framework Agreement)
“PRC”		the People’s Republic of China, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan for the purpose of this announcement
“RMB”		Renminbi, the lawful currency of the PRC
“Shanghai Fangyu”		Shanghai Fangyu Health Pharmaceutical Technology Co., Ltd.*(上海方予健康醫藥科技有限公司), a subsidiary of Joincare, which is a limited liability company established in the PRC in 2013. It is mainly engaged in pharmaceutical related R&D, consulting and technical services
“Shanghai Livzon Biotechnology”	Livzon	Shanghai Livzon Biotechnology Co., Ltd., Jiaozuo Branch*(上海麗珠生物科技有限公司焦作分公司), a subsidiary of the Company, which a limited liability branch company established in the PRC in 2013. It is mainly engaged in the production and sales of pharmaceutical intermediates and chemical products
“Shanghai Exchange”	Stock	the Shanghai Stock Exchange (上海證券交易所)
“Shareholder(s)”		holder(s) of the share(s) of the Company
“Shenzhen Exchange”	Stock	the Shenzhen Stock Exchange (深圳證券交易所)
“Stock Exchange”		The Stock Exchange of Hong Kong Limited
“%”		per cent

By order of the Board
麗珠醫藥集團股份有限公司
Livzon Pharmaceutical Group Inc. *
Yang Liang
Company Secretary

Zhuhai, China

30 December 2021

As at the date of this announcement, the Executive Directors of the Company are Mr. Tang Yanggang (President) and Mr. Xu Guoxiang (Vice Chairman and Vice President); the Non-Executive Directors of the Company are Mr. Zhu Baoguo (Chairman), Mr. Tao Desheng (Vice Chairman), Mr. Qiu Qingfeng and Mr. Yu Xiong; and the Independent Non-Executive Directors of the Company are Mr. Bai Hua, Mr. Tian Qiusheng, Mr. Wong Kam Wa, Mr. Luo Huiyuan and Ms. Cui Lijie.

** For identification purpose only*