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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)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS FOR 2023

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS FOR 2023

References are made to the announcements of the Company dated 5 September 2014, 24 September 2015, 25 October 2016, 14 November 2016, 28 November 2016 and 16 August 2019 and the circulars of the Company dated 7 October 2014, 22 October 2015, 5 December 2016 and 5 September 2019, in relation to, among others, the 2014 Joincare Purchases Framework Agreement, the Supplemental Agreement, the 2017 Joincare Purchases Framework Agreement and the 2020 Joincare Purchases Framework and the revision of the annual caps (as applicable).

In order to renew the 2020 Joincare Purchases Framework Agreement, which will expire on 31 December 2022, and taking into account the continuous development of the Group's business in developing and manufacturing various kinds of antifungal and antibiotics related products and new products, the Company and Joincare entered into the 2023 Joincare Purchases Framework Agreement on 7 November 2022, pursuant to which Joincare Group will sell products and raw materials which are mainly used for the production of antifungal and antibiotics related drug preparation products to the Group from 1 January 2023 to 31 December 2023.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Joincare, being the controlling shareholder of the Company, directly and indirectly held approximately 44.77% of the total issued share capital of the Company, therefore Joincare and its associates are connected persons of the Company and the transactions contemplated under the 2023 Joincare Purchases Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio for the proposed annual cap under the 2023 Joincare Purchases Framework Agreement is higher than 0.1% but lower than 5%, the transactions contemplated thereunder are therefore subject to the reporting, announcement and annual review requirements but exempted from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Given that (i) Mr. Zhu Baoguo, the non-executive Director and the chairman of the Company, is also the chairman of Joincare and indirectly holds 45.56% equity interest in Joincare as at the date of this announcement; and (ii) Mr. Qiu Qingfeng and Mr. Yu Xiong, each being a non-executive Director, are also directors of Joincare, therefore Mr. Zhu Baoguo, Mr. Qiu Qingfeng and Mr. Yu Xiong were deemed to have a material interest in the 2023 Joincare Purchases Framework Agreement and the transactions contemplated thereunder and had abstained from voting at the Board meetings approving the 2023 Joincare Purchases Framework Agreement. Apart from Mr. Zhu Baoguo, Mr. Qiu Qingfeng and Mr. Yu Xiong, no other Directors were required to abstain from voting at the Board meetings approving the 2023 Joincare Purchases Framework Agreement.

THE 2023 JOINCARE PURCHASES FRAMEWORK AGREEMENT

Principle Terms

The principal terms of the 2023 Joincare Purchases Framework Agreement are as follows:

Date: 7 November 2022

Parties: (i) the Company; and
(ii) Joincare

Term: From 1 January 2023 to 31 December 2023

Subject Matter: The Company and Joincare agreed conditionally to cause Joincare Group to sell products and raw materials which are mainly used for the production of antifungal and antibiotics related drug preparation products to the Group during the term of the 2023 Joincare Purchases Framework Agreement. The primary products and raw materials to be purchased by the Group from Joincare Group pursuant to the 2023 Joincare Purchases Framework Agreement include 7-ACA, D7-ACA and voriconazole (伏立康唑).

7-ACA and D7-ACA are major raw materials of the Group's cephalosporins categories bulk medicine products (頭孢類原料藥產品) such as crude ceftriaxone sodium (頭孢曲松粗品), ceftriaxone sodium (頭孢曲松鈉), cefuroxime sodium (頭孢呋辛鈉) and cefodizime sodium (頭孢地嗪鈉). Ceftriaxone sodium are made out of crude ceftriaxone sodium with further processing.

Voriconazole is the major raw material of the Group's voriconazole for injection (注射用伏立康唑), which is a broad-spectrum triazole antifungal medicine used primarily for treatment of fungal infections for immunocompromised patients.

Price, payment and other transaction terms: Detailed terms such as quantities, types, prices and payment of each order shall be specified in the separate contracts to be entered into between members of the Group and Joincare Group from time to time, provided that terms of such separate contracts shall not contravene the terms of the 2023 Joincare Purchases Framework Agreement.

Pricing Principles

The prices at which the products and raw materials are to be sold by Joincare Group to the Group shall be (i) the indicative prices (if any) prescribed by the national price administration department of the PRC; (ii) where (i) is not available, the comparable market prices based on quotation(s) of the same products and raw materials with comparable order quantities and quality obtained from other third party suppliers; or (iii) where (i) and (ii) are not available, the prices to be agreed between the parties, provided that such prices and other terms and conditions shall not be less favourable than the prices and terms and conditions offered by Joincare Group to third parties for similar transactions.

As at the date of this announcement, there was no indicative price prescribed by the national price administrative department of the PRC for all products and raw materials purchased by the Group from Joincare Group. Accordingly, prices for all products and raw materials to be purchased from Joincare Group will be determined by reference to the prevailing market prices and being not less favourable to comparable quotations offered by independent third party suppliers. In particular, the Company expects that prices for 7-ACA and D7-ACA and voriconazole will be principally determined with reference to the lowest price offered from comparable quotations by two independent third party suppliers, respectively.

In determining the prevailing market price of the products and raw materials for a particular purchase order, subject to availability of quotations at the particular time, the Group will invite two quotations from independent third party suppliers to provide a reference on the prevailing market prices for the relevant products and raw materials to be purchased from Joincare Group. Given that, to the best knowledge of the Directors, except Joincare Group, there are no more than five independent third party suppliers for 7-ACA and D7-ACA and voriconazole in the PRC market that meet the requirements of the Group, respectively, the Directors are of the view that two quotations for 7-ACA and D7-ACA and two quotations for voriconazole from independent third party suppliers are practical and sufficient to ensure that purchase orders made to Joincare Group will represent prevailing market prices. Such quotations will be reviewed and evaluated from both technical and commercial perspectives, including but not limited to prices, supply stability, product quality and credit terms, by designated personnel of the Group, comprising the officer of the procurement department, the manager of the procurement department, and the senior officer of the finance department, who are specialised in procurement functions, to ensure that the prices of the products and raw materials to be purchased from Joincare Group will be no less favourable to the prices and other terms and conditions for such products and raw materials being offered by independent third party suppliers.

The aforesaid pricing principles are in line with the pricing principles adopted under the 2020 Joincare Purchases Framework Agreement. In particular, the prices for voriconazole under the 2020 Joincare Purchases Framework Agreement were principally determined with reference to the price offered by one independent third party supplier because there is only one supplier other than Joincare Group which supplies the required sterile raw materials for voriconazole in the PRC. As the voriconazole required by the Group for 2023 is changed from sterile to non-sterile, the number of qualified independent third party suppliers for voriconazole will be no longer just one in the PRC market.

Historical Transaction Amounts

The historical annual caps and the historical transaction amounts under the 2020 Joincare Purchases Framework Agreement are set out as follows:

For the year ended 31 December

	2020 (RMB million)	2021 (RMB million)	2022 (RMB million)
Historical annual caps	445.00	456.00	467.00
Historical transaction amounts	298.05 ⁽¹⁾	251.97 ⁽¹⁾	147.04 ^{(1) (2) (3)}

Notes:

- (1) For 7-ACA and D7-ACA, due to tightened control of use of antibiotics by the PRC government, the demand of the Group's cephalosporins categories bulk medicine products have been decreasing in recent years. Therefore, the Group's procurement volume of 7-ACA and D7-ACA was less than expected. For voriconazole, to the best knowledge of the Directors, hospital or clinic visits as well as hospitalization rate in China decreased as a result of the COVID-19 outbreak, resulting in a decreased demand of the Group's voriconazole for injection. As such, the Group's procurement volume of voriconazole was also less than expected.
- (2) Representing the unaudited transaction amounts for the nine months ended 30 September 2022. As at the date of this announcement, the transaction amounts under the 2020 Joincare Purchases Framework Agreement have not exceeded the annual cap for the year ending 31 December 2022.
- (3) In respect of the nine months ended 30 September 2022, in light of the scheduled maintenance of the production workshop of voriconazole for injection in July and August 2022, the procurement of voriconazole was therefore less than expected.

Proposed Annual Cap and Basis of Determination

The proposed annual cap and estimated breakdown by categories of major products and raw materials under the 2023 Joicare Purchases Framework Agreement are set out as follows:

For the year ending 31 December 2023		
	<i>Proposed annual cap (RMB million)</i>	<i>% of proposed annual cap</i>
7-ACA and D7-ACA	312.00	96.00%
Voriconazole	13.00	4.00%
Total	325.00	100.00%

In arriving the proposed annual cap for the year ending 31 December 2023 and the estimated transaction amounts for (i) 7-ACA and D7-ACA and (ii) voriconazole under the 2023 Joicare Purchases Framework Agreement, the Directors have taken into account (a) the historical transaction amounts; (b) the Group's business and development plan; (c) the estimated market condition and demand of the Group's products, in particular cephalosporins categories bulk medicine products and voriconazole for injection in 2023; (d) the estimated market prices of the relevant products and raw materials to be procured from Joicare Group in 2023 with reference to historical market prices; and (e) the industry trend of the PRC pharmaceutical industry.

In respect of 7-ACA and D7-ACA, despite the general decreased demand of cephalosporins categories bulk medicine products due to tightened control of use of antibiotics by the PRC government, the excess production capacity of ceftriaxone sodium (頭孢曲松鈉) in the PRC market and the impact of COVID-19 in the past three years, the Company expects the procurement volume of 7-ACA and D7-ACA to increase in 2023 as compared from 2020 to 2022 because eight of the Group's customers have passed consistency evaluation for their cephalosporins categories preparation products in 2022, which use the Group's ceftriaxone sodium (頭孢曲松鈉), cefuroxime sodium (頭孢呋辛鈉) and cefodizime sodium (頭孢地嗪鈉) as raw materials. On top of the above eight customers, the Company expects that more customers will pass consistency evaluation in 2023. All these customers are expected to order from the Group more raw materials which are made of 7-ACA and D7-ACA in 2023 for their production needs. Once a medicine product passes consistency evaluation, it will be qualified to participate in the national centralised drug procurement. Therefore, if the customers mentioned above successfully win the bid in next round of the national centralised drug procurements, which are expected to be successively carried out from the end of 2022, the Company believes that the demand of the Group's cephalosporins categories bulk medicine products will significantly increase accordingly.

In respect of voriconazole, the Group purchased and will continue to purchase sterile voriconazole under the 2020 Joicare Purchases Framework Agreement, whereas the Group will purchase non-sterile voriconazole under the 2023 Joicare Purchases Framework Agreement. Such change in specification of voriconazole is due to the Group's business plan to gradually reduce its production of voriconazole for injection (0.1 gram) (the "0.1 g Strength"), which uses sterile voriconazole, and shift its production capacity to produce voriconazole for injection (0.2 gram) (the "0.2 g Strength"), which uses non-sterile voriconazole. The Group currently expects that the 0.2 Strength will pass consistency evaluation by the end of 2022 and will begin mass production in 2023. The Group expects that next round of the national centralised drug procurement will be carried out in early 2023, and assuming that the 0.2 g Strength succeeds in the bid, the Group expects to phase out the 0.1 g Strength and focus on production of the 0.2 g Strength. Taking into account (i) the unit price of non-sterile voriconazole is significantly lower than the unit price of sterile voriconazole, which is currently expected to be decreased by approximately 85% with reference to the current market prices; and (ii) an estimated annual sales of 0.2 g Strength by the Group which is calculated on the assumptions that the Group will be the selected bidder at first place among the successful bidders and therefore is entitled to choose the provinces or municipalities with higher purchaser orders and accordingly estimated to receive purchase order at twice of the average purchase orders among the successful bidders based on 70% of the

total purchase orders of voriconazole for injection in the PRC in 2021 (i.e. approximately 8.4 million bottles) according to the report purchased from IQVIA, an American company that provides information, services and technology for the healthcare industry, which is listed on the New York Stock Exchange, the Company therefore proposed lower annual cap in respect of voriconazole for the year ending 31 December 2023 under the 2023 Joincare Purchases Framework Agreement.

INTERNAL CONTROL MEASURES

To further ensure that the prices of the products and raw materials to be purchased by the Group from Joincare Group are on normal commercial terms as stated above and on terms no less favourable to the Group than that available from independent third party suppliers, the Group adopts a series of internal control procedures for its daily operation as follows:

- (i) Each purchase order to be placed under the 2023 Joincare Purchases Framework Agreement will be signed by the relevant officers of the department requesting such purchase, the quality control department, the finance department and the general manager of the Company.
- (ii) The Group will conduct regular checks to review and assess whether the products and raw materials have been purchased in accordance with the terms of the 2023 Joincare Purchases Framework Agreement. Such checks will be conducted by the financial controller of the Group on a monthly basis and the secretary of the Board on a quarterly basis.
- (iii) To ensure the continuing connected transactions under 2023 Joincare Purchases Framework Agreement will not exceed the proposed annual cap, each subsidiary is required to submit monthly sales figures to the financial department of the Company for consolidation and analysis. The Group will make procurement orders for products and raw materials in accordance with the annual procurement 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 with Joincare Group on a monthly basis to ensure that the proposed annual cap for the respective years will not be exceeded. In the event the amount of continuing connected transactions incurred and to be incurred for a financial year is expected to exceed the proposed annual cap, the financial controller of the Company shall report to the management of the Company for its determination as to whether revision to the annual cap is required to ensure compliance of the requirements under the Listing Rules.
- (iv) The procurement department and the finance department of the Group will review the internal pricing policy or mechanism on an annual basis. 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 auditors of the Company will conduct an annual review of the transactions contemplated under the 2023 Joincare Purchases Framework Agreement.

Having considered the internal control measures mentioned above, the Directors (including the independent non-executive Director) consider that such internal control measures are sufficient to ensure the transactions contemplated under the 2023 Joincare Purchases 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.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2023 JOINCARE PURCHASES FRAMEWORK AGREEMENT

Since 2007, the Group has commenced purchasing products and raw materials from Joincare Group which are mainly used for the production of antifungal and antibiotics related drug preparation products, and no material quality issue had been found on the products and raw materials supplied by Joincare Group. The Group has been continuously expanding its business, in order to facilitate the future growth of the Group's business, it is anticipated that more products and raw materials are needed for the Group's production of pharmaceutical products. Taking into account factors such as the quality, price and supply stability of products and raw materials supplied by Joincare Group and its reputation in the pharmaceutical industry, the Directors therefore consider that the continuous purchase of products and raw materials pursuant to the 2023 Joincare Purchases Framework Agreement is in the best interest of the Company in response to the Group's business development plan and production needs.

The Directors (including the independent non-executive Directors) consider that the entry into the 2023 Joincare Purchases Framework Agreement was in the ordinary and usual course of business of the Group and the transactions contemplated thereunder (including the proposed annual cap) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE COMPANY

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

INFORMATION OF JOINCARE

Joincare is a joint stock company incorporated in the PRC with limited liability and was listed on the Shanghai Stock Exchange in 2001, which is a controlling shareholder of the Company. It is principally engaged in three major business segments, namely R&D, production and sales of (i) drug preparation products; (ii) active pharmaceutical ingredients 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.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Joincare, being the controlling shareholder of the Company, directly and indirectly held approximately 44.77% of the total issued share capital of the Company, therefore Joincare and its associates are connected persons of the Company and the transactions contemplated under the 2023 Joincare Purchases Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio for the proposed annual cap under the 2023 Joincare Purchases Framework Agreement is higher than 0.1% but lower than 5%, the transactions contemplated thereunder are therefore subject to the reporting, announcement and annual review requirements but exempted from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Given that (i) Mr. Zhu Baoguo, the non-executive Director and the chairman of the Company, is also the chairman of Joincare and indirectly holds 45.56% equity interest in Joincare as at the date of this announcement; and (ii) Mr. Qiu Qingfeng and Mr. Yu Xiong, each being a non-executive Director, are also directors of Joincare, therefore Mr. Zhu Baoguo, Mr. Qiu Qingfeng and Mr. Yu Xiong were deemed to have a material interest in the 2023 Joincare Purchases Framework Agreement and the transactions contemplated thereunder and had abstained from voting at the Board meetings approving the 2023 Joincare Purchases Framework Agreement. Apart from Mr. Zhu Baoguo, Mr. Qiu Qingfeng and Mr. Yu Xiong, no other Directors were required to abstain from voting at the Board meetings approving the 2023 Joincare Purchases Framework Agreement.

DEFINITIONS

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

“2014 Joincare Purchases Framework Agreement”	the framework agreement (as supplemented and amended by the Supplemental Agreement) entered into between the Company and Joincare on 5 September 2014 in respect of the purchase by the Group of certain products and raw materials which are mainly used for the production of antifungal and antibiotics related drug preparation products from Joincare Group for a term from 5 September 2014 to 31 December 2016
“2017 Joincare Purchases Framework Agreement”	the framework agreement entered into between the Company and Joincare on 25 October 2016 in respect of the purchase by the Group of certain products and raw materials which are mainly used for the production of antifungal and antibiotics related drug preparation products from Joincare Group for a term of three years from 1 January 2017 to 31 December 2019
“2020 Joincare Purchases Framework Agreement”	the framework agreement entered into between the Company and Joincare on 16 August 2019 in respect of the purchase by the Group of certain products and raw materials which are mainly used for the production of antifungal and antibiotics related drug preparation products from Joincare Group for a term of three years from 1 January 2020 to 31 December 2022
“2023 Joincare Purchases Framework Agreement”	the framework agreement entered into between the Company and Joincare on 7 November 2022 in respect of the purchase by the Group of certain products and raw materials which are mainly used for the production of antifungal and antibiotics related drug preparation products from Joincare Group for a term of one year from 1 January 2023 to 31 December 2023
“A Share(s)”	the ordinary shares in the registered capital of the Company with a nominal value of RMB1.00 each, which are listed and traded on the Shenzhen Stock Exchange
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“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 in accordance with the Company Law on 26 January 1985 with limited liability, its Shares are listed on the Stock Exchange and the Shenzhen Stock Exchange
“Company Law”	Company Law of the PRC(《中華人民共和國公司法》), as amended, supplemented or otherwise modified from time to time

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“COVID-19”	an ongoing global pandemic of the disease caused by a new coronavirus called SARS-CoV-2
“Directors”	the director(s) of the Company
“Group”	the Company and its subsidiaries collectively
“H Share(s)”	the ordinary shares in the registered capital of the Company with a nominal value of RMB1.00 each, which are listed and traded on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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 one of the Company’s controlling shareholders
“Joincare Group”	Joincare and its subsidiaries (for the purpose of this announcement, excluding the Group)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“PRC” or “China”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“R&D”	research and development
“Shares”	the A Shares and the H Shares
“Shareholders”	the holder(s) of the share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the conditional supplemental agreement entered into between the Company and Joincare on 24 September 2015 to further revise the annual caps for the two years ended 31 December 2015 and 2016 under the 2014 Joincare Purchases Framework Agreement
“%”	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
7 November 2022

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*