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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)

**CONNECTED TRANSACTION IN RELATION TO
GRANT OF SUBSCRIPTION TO CONNECTED PERSONS
PURSUANT TO THE PROPOSED
THIRD PHASE OWNERSHIP SCHEME**

References are made to the announcements of the Company dated 23 December 2019, 11 February 2020, 16 November 2020, 11 December 2020, 8 April 2021, 11 April 2022, 26 April 2022, 15 June 2022 and 12 October 2023, and the circulars of the Company dated 16 January 2020, 24 November 2020, 15 April 2021, 27 April 2022 and 21 June 2022 in relation to the proposed adoption and approval of the Ownership Scheme and its revised draft, first phase ownership scheme, second phase ownership scheme and its revised draft. The Ownership Scheme and the grant of mandate to the Board to deal with matters regarding the Ownership Scheme were approved by the 2020 first extraordinary general meeting of the Company convened on 11 February 2020. The revised draft of the Ownership Scheme was approved by the 2020 fifth extraordinary general meeting of the Company convened on 11 December 2020. The first phase ownership scheme and second phase ownership scheme and its revised draft of the Ownership Scheme and the grant of mandate to the Board to deal with matters regarding these schemes were approved by the 2021 second extraordinary general meeting, the annual general meeting for the year 2021 and 2022 first extraordinary general meeting of the Company convened on 6 May 2021, 20 May 2022 and 8 July 2022, respectively.

On 12 October 2023, the Board proposed to adopt the Third Phase Ownership Scheme and the Administrative Measures. The adoption of the Third Phase Ownership Scheme and the Administrative Measures is subject to the approval of Shareholders by way of special resolutions at the EGM. Please refer to the circular of the Company dated 13 October 2023 for full text of the terms of the Third Phase Ownership Scheme and the Administrative Measures.

PARTICIPATION PRINCIPLES

The Third Phase Ownership Scheme follows the principles of independent decision by the Company and voluntary participation of employees. There will not be any such situation of forcing employees to participate in the Third Phase Ownership Scheme by way of apportionment or forced distribution.

TARGET PARTICIPANTS

The scope of the Holders of the Third Phase Ownership Scheme shall include Directors, senior management and supervisors of the Company, key research and development (“R&D”) and sales personnel who have made outstanding contribution to the performance in the assessment period or will have important impact on the future performance of the Company, general managers of the business divisions of the Company, key management personnel including general managers of the subsidiaries and heads of level 1 functional departments at the headquarter of the Company. The total number of participants under the Third Phase Ownership Scheme is 84, of which 8 are Directors (excluding independent non-executive Directors), Supervisor and senior management. The finalized participants shall be determined in accordance with the actual subscription to be made.

Shareholders holding more than 5% of the shares of the Company and actual controllers shall not participate in the Third Phase Ownership Scheme.

Holders of the Third Phase Ownership Scheme shall voluntarily waive their rights, including the right to vote on the shares of the Company indirectly entitled to due to their participation in the Third Phase Ownership Scheme, and shall only retain rights including their rights to the dividends and investment income of such shares.

SOURCE OF FUNDS

Funds for participation of the Company’s employees in the Third Phase Ownership Scheme come from the special fund (the “**Special Fund**”) of the Third Phase Ownership Scheme set aside by the Company. The total amount of funds for the Third Phase Ownership Scheme is RMB71,037,901, all of which are the Special Fund set aside by the Company. There is no circumstance where the Company provides financial assistance to employees or provide guarantees for their loans, or where third parties provide incentives, grants and subsidies, and make up the balance to target participants.

The Special Fund shall be extracted with net profit attributable to the Shareholders of the Company after deducting the extraordinary gains or loss in 2018 (RMB947.2163 million) as the base. During the period of assessment (2019-2028), the Company will use the compound growth rate of net profit achieved in each year as the assessment indicator to calculate and set aside a progressive Special Fund for each period. The ratios are set out in details as below:

**Compound growth rate of net profit
achieved in each year of assessment (X)**

**Percentage of progressive Special Fund with a
compound growth rate
of over 15%**

$X \leq 15\%$	0
$15\% < X \leq 20\%$	25%
$20\% < X$	35%

SOURCE OF SHARES

Underlying shares (the “**Underlying Shares**”) purchased through means as permitted by the laws and regulations (excluding the subscription of new shares issued by the Company), including purchases through the secondary market (including but not limited to auction transactions and block trades).

Under the Third Phase Ownership Scheme, where the Underlying Shares are purchased through the secondary market, it shall be completed within six months after the resolution on the Third Phase Ownership Scheme is reviewed and approved by the general meeting.

NUMBER OF SHARES

The aggregate number of shares to be held in the Third Phase Ownership Scheme and other valid phases shall not exceed 10% of the total current share capital of the Company, and the aggregate number of shares corresponding to the share of the Third Phase Ownership Scheme and other valid phases to be held by a single employee shall not exceed 1% of the total current share capital of the Company.

The aggregate number of the Underlying Shares shall not include shares obtained by the Holders prior to the initial public offering of shares by the Company, shares purchased through the secondary market and shares obtained through equity incentives.

Subject to the implementation of the Third Phase Ownership Scheme and market conditions, there are uncertainties in the dates and prices for actual share purchases under the Third Phase Ownership Scheme, therefore there is uncertainty in the final amounts of the Underlying Shares.

DURATION AND LOCK-UP PERIOD

The duration of the Third Phase Ownership Scheme shall be 48 months, which is calculated from the time when the Company makes an announcement on the transfer of the last tranche of the Underlying Shares in the Third Phase Ownership Scheme to the account in the name of the Third Phase Ownership Scheme.

Lock-up periods of the Underlying Shares obtained by the Third Phase Ownership Scheme shall be 36 months, which is calculated from the time when the Company makes an announcement on the transfer of the last tranche of the Underlying Shares in the Third Phase Ownership Scheme to the account in the name of the Third Phase Ownership Scheme.

MANAGEMENT MODEL

The highest organ of authority responsible for the internal management of the Third Phase Ownership Scheme shall be the holders' meeting (the “**Holders' Meeting**”). The Holders' Meeting under the Third Phase Ownership Scheme shall elect a management committee (the “**Management Committee**”). The Management Committee shall perform the daily management of the Third Phase Ownership Scheme in accordance with the provisions of the Third Phase Ownership Scheme.

The Third Phase Ownership Scheme will be managed by the Company itself, or entrusted to a professional institution with asset management qualifications. The specific implementation method will be determined by the Company according to actual circumstances. If entrusted management is chosen, the Board will seek authorization from the general meeting on relevant appointment matters.

DISPOSAL OF INTERESTS

(1) Disposal methods after the expiration of the duration

After the expiration of the duration, assets of the Third Phase Ownership Scheme shall be disposed of in the following ways:

- (i) The Holders' Meetings of the Third Phase Ownership Scheme shall authorise the Management Committee to complete clearance within 15 working days from the expiration of the duration or termination of the Third Phase Ownership Scheme. After deducting relevant taxes and fees according to law, the allocation of interests shall be carried out in accordance with relevant regulations under the Administrative Measures.
- (ii) If any of the Underlying Shares is still included in the assets which are held by the Third Phase Ownership Scheme, the Management Committee shall determine a specific way of disposal.

(2) Disposal methods after the expiration of the lock-up period

After the lock-up period of the Third Phase Ownership Scheme expires, interests of the Third Phase Ownership Scheme may be disposed of according to one of the following ways:

- (i) to continue to hold the Underlying Shares during the duration;
- (ii) to sell the Underlying Shares that are purchased by the Third Phase Ownership Scheme within the duration;
- (iii) to transfer the ownership of the Underlying Shares to the personal accounts of Holders of the Third Phase Ownership Scheme;
- (iv) other ways as permitted by the laws, administrative regulations, rules or normative documents.

After the lock-up period of the Third Phase Ownership Scheme expires, the Management Committee may choose to sell the Underlying Shares when it is appropriate during the duration of the Third Phase Ownership Scheme. Where there is distributable income after the lock-up period of the Third Phase Ownership Scheme expires, the Management Committee shall allocate the distributable income. The Management Committee shall, after deducting relevant taxes and fees according to law, allocate the aforementioned distributable income according to the number of shares that are held by the Holders.

CONNECTED HOLDERS

The Third Phase Ownership Scheme include connected persons of the Company (the “**Connected Holders**”). Details of which are set out as follows:

Holder	Positions held with the Company/ subsidiaries of the Company	Maximum share of subscription (0'000 units)	Proportion to the total amount of the Third Phase Ownership Scheme
Tang Yanggang	Executive Director, President	426.2274	6.00%
Xu Guoxiang	Vice Chairman, Vice President	355.1895	5.00%
Yang Daihong	Vice President	213.1137	3.00%
Huang Yuxuan	Vice President	248.6327	3.50%
Si Yanxia	Vice President, Chief Financial Officer	177.5948	2.50%
Du Jun	Vice President	248.6327	3.50%
Yang Liang	Vice President, Secretary of the Board	177.5948	2.50%
Wang Maolin	Supervisor	71.0379	1.00%
Hou Xuemei ^{Note}	Chief Scientist of a subsidiary of the Company	71.0379	1.00%
Others	Directors, supervisors and/or presidents of subsidiaries of the Company	1,260.9227	17.75%
Total		3,249.9841	45.75%

Note: Ms. Hou Xuemei is the spouse of Mr. Tao Desheng, the Vice Chairman of Company, and therefore is a connected person of the Company.

The maximum share of subscription (the “**Maximum Share of Subscription**”) held by Connected Holders are 32,499,841 units, and the corresponding maximum subscription amount is RMB32,499,841. After taking into account the closing price of RMB36.10/A Shares at the Shenzhen Stock Exchange on the date of this announcement, the total number of A Shares of the Company that can be purchased by the maximum subscription amount held by the Connected Holders is 900,272 shares, accounting for approximately 0.10% of the total issued share capital of the Company and approximately 0.14% of the issued A Shares as at the date of this announcement.

INFORMATION OF THE COMPANY AND CONNECTED HOLDERS

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

Connected Holders include the Directors, the President, the Vice Presidents and the Supervisor of the Company, and director(s), supervisor(s) and/or president(s) etc. of the subsidiaries of the Company, all of whom are key personnel playing an important role in the overall performance and medium and long-term development of the Company.

Except for the Connected Holders, none of the Holders is a director, supervisor, chief executive or substantial shareholder of the Company and its subsidiaries, or an associate (as defined in the Hong Kong Listing Rules) of any of them.

OPERATION PERFORMANCE OF THE GROUP

The Board is of the view that the Third Phase Ownership Scheme can reward and motivate the Connected Holders according to their contribution to the previous operation performance of the Group. Under the leadership of the Directors and other key management personnel of the Company (including the Connected Holders), the operation performance of the Group increased steadily over the last three years.

BENEFITS TO THE FUTURE PERFORMANCE OF THE GROUP

The Third Phase Ownership Scheme will help to optimise the compensation structure and, based on the progress in achieving the Company's performance, setting aside the Special Fund, purchasing the Company's shares, and locking them up in the medium and long term are conducive to long-term incentives and constraints of the core management team of the Company, hence ensuring the realisation of the Company's long-term business goals.

CONFIRMATION OF DIRECTORS

The Directors (including independent non-executive Directors) considered that the terms of the Third Phase Ownership Scheme was entered into on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REASONS AND BENEFITS OF ADOPTING THE THIRD PHASE OWNERSHIP SCHEME

In light of long-term future-oriented development and governance, establishing an innovative long-term incentive stock ownership mechanism for senior management and core technical teams is effective in motivating the hardworking entrepreneurial spirit of senior management and core technical personnel. By attaching rights and obligations to the Holders and establishing the business partnership mechanism of "enjoying the benefits and assuming the risk together", it is expected that it can effectively advance and promote the change from "managers" to "partners" in the Company, promoting the long-term stable development of the Company, and realising the alignment of interests among Shareholders.

HONG KONG LISTING RULES IMPLICATIONS

The Third Phase Ownership Scheme does not constitute a share scheme pursuant to Chapter 17 of the Hong Kong Listing Rules and is a discretionary scheme of the Company.

The grant of subscription to the Connected Holders by the Company constitutes connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratio (as defined under the Hong Kong Listing Rules) of the relevant Maximum Share of Subscription is higher than 0.1% but lower than 5%, such grant of subscription to the Connected Holders by the Company is 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. The grant of subscription to the Connected Holders by the Company have been approved by the Board (including independent non-executive Directors), except Mr. Tang Yanggang, Mr. Xu Guoxiang and Mr. Tao Desheng have abstained from voting on the relevant resolutions in the Board meeting to approve the grant of subscription to themselves or their spouse(s). Save as disclosed above, no other Directors have material interests in the Third Phase Ownership Scheme.

DEFINITIONS

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

“A Share(s)”	the domestic shares in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Shenzhen Stock Exchange (stock code: 000513)
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Administrative Measures”	the administrative measures under the Third Phase Ownership Scheme
“Board”	the board of Directors of the Company
“Company”	麗珠醫藥集團股份有限公司 Livzon Pharmaceutical Group Inc.*, a joint stock company incorporated in the PRC in accordance with the Company Law on 26 January 1985 with limited liability, whose H Shares and A Shares are listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange, respectively
“Company Law”	Company Law of the PRC (中華人民共和國公司法), as adopted at the Fifth Session of the Standing Committee of the Eighth National People's Congress of the PRC on 29 December 1993, effective from 1 July 1994, as amended, supplemented or otherwise modified from time to time

“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	the 2023 second extraordinary general meeting of the Company to be held at the Conference Room on the 6th Floor of Headquarters Building, 38 Chuangye North Road, Jinwan District, Zhuhai, Guangdong Province, China at 2:00 p.m. on Tuesday, 7 November 2023
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas-listed foreign shares in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange (stock code: 01513)
“H Shareholder(s)”	holder(s) of the H Share(s)
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Holder(s)”	employee(s) of the Company participating in the Third Phase Ownership Scheme
“Ownership Scheme”	the Medium to Long-term Business Partner Share Ownership Scheme of the Company, which was approved by the 2020 first extraordinary general meeting of the Company convened on 11 February 2020, the revised draft of which was approved by the 2020 fifth extraordinary general meeting of the Company convened on 11 December 2020
“PRC” or “China”	the People’s Republic of China, which, for the purpose of this circular, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Third Phase Ownership Scheme”	the third phase ownership scheme under the Ownership Scheme
“Shareholder(s)”	the shareholder(s) of the Company
“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange (深圳證券交易所)
“Supervisor(s)”	supervisor(s) of the Company

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
13 October 2023

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*