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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)

SUPPLEMENTAL ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTIONS

References are made to (1) the announcement of 麗珠醫藥集團股份有限公司 Livzon Pharmaceutical Group Inc.* (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 29 December 2023 in relation to the continuing connected transactions under the 2024 Water Electricity Framework Agreement, the 2024 Receipt of Labour Services Framework Agreement, the 2024 Provision of Labour Services Framework Agreement, the 2024 Sales Framework Agreement and the 2024 Purchase Framework Agreement entered into between the Company and Joicare (the “**Joicare Continuing Connected Transactions Announcement**”); and (2) the announcement dated 29 December 2023 in relation to the 2024 Water Electricity Framework Agreement, the 2024 Labour Services Framework Agreement, the 2024 Leasing Assets Framework Agreement and the 2024 Purchase Framework Agreement entered into between the Company and Livzon MAB (the “**Livzon MAB Continuing Connected Transactions Announcement**”, together with the Joicare Continuing Connected Transactions Announcement, the “**Announcements**”). Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

The purpose of this announcement is to provide additional information on pricing principles and policies for the continuing connected transactions as set out in the Announcements.

PRICING PRINCIPLES AND POLICIES

The 2024 Water Electricity Framework Agreement entered into with Joincare

The terms for provision of water, electricity, steam, natural gas and sewage treatment to the Group by the Joincare Group shall be determined based on normal commercial terms after arm's length negotiation so as to ensure that the aforesaid transactions will be conducted in the interest of the Group.

As at the date of this announcement, there was no price prescribed by the national price administrative department of the PRC for the provision of water, electricity, steam, natural gas and sewage treatment to the Group by the Joincare Group.

The prices of water, electricity, steam and natural gas will be determined, after arm's length negotiation between the parties, with reference to the prevailing market prices, and will be no less favourable than the comparable quotations provided by independent third party suppliers. The Group will seek and invite quotations from at least two independent third party suppliers which are able to provide comparable (including non-price factors such as supply volume and supply stability) of water, electricity, steam and natural gas in the open market as the basis for determining the prices for receiving water, electricity, steam and natural gas from the Joincare Group by the Group.

For sewage treatment, since Jiaozuo Hecheng and Shanghai Livzon Biotechnology are located inside the production site of Jiaozuo Joincare, a subsidiary of Joincare, and there are neither other large-scale sewage treatment facilities in the vicinity other than Jiaozuo Joincare nor sewage treatment plants that meet the pharmaceutical sewage treatment process of the Group, and if the sewage is transported to a third party supplier outside the production site for sewage treatment, sewage treatment can only be carried out by transporting sewage through pipelines in accordance with environmental protection regulations, which will significantly increase the cost of sewage transportation and treatment. At present, there are no sewage treatment plants in the surrounding area of the production site that meet the requirements, which renders it infeasible from a practical perspective. The prices of sewage treatment will be calculated, after arm's length negotiation between the parties, with reference to the volume of sewage treatment and the cost of materials consumed in the unit of sewage treatment. The cost of materials (mainly including lime, polyaluminum chloride, polyacrylamide, polymeric ferric sulphate, etc.) consumed in the sewage treatment process will be calculated with reference to the fair market price and the Group will seek quotations from at least two independent third party suppliers in the open market for the prices of the major materials to be consumed as reference for material costs.

Such quotations will be comprehensively reviewed and evaluated after taking into account the price (including handling costs) and other non-price factors (such as supply volume and supply stability), 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 is specialised in procurement functions.

The 2024 Receipt of Labour Services Framework Agreement entered into with Joincare

The terms of R&D services in drugs to be received by the Group from the Joincare Group shall be determined based on normal commercial terms after arm's length negotiation, and such terms shall be no less favourable than those available to the Group from independent third party suppliers, so as to ensure that the aforesaid transactions will be conducted in the interest of the Group.

The price of R&D services in drugs will be determined after arm's length negotiations with reference to the Group's expected R&D investment and taking into account the market conditions. The Group will take into account the budget of the R&D projects of drugs and the service costs of other similar R&D projects in the past, including the materials and equipment consumed for the R&D services, labour costs and time costs, etc. The Group will also search for at least two independent third party suppliers with similar R&D capabilities in the open market and invite them to provide quotations as reference for the then market price of R&D services in drugs received from the Joincare Group.

Such quotations will be comprehensively reviewed and evaluated after taking into account the price and other non-price factors such as R&D experience, delivery efficiency, technical capabilities and quality of services, by designated personnel of the Group, comprising the officer and the general manager of the relevant business departments, and the senior officer of the finance department who is specialised in procurement functions.

The 2024 Provision of Labour Services Framework Agreement entered into with Joincare

The terms for provision of commissioned production of drugs to the Joincare Group by the Group shall be determined based on normal commercial terms after arm's length negotiations, and such terms shall be no less favourable than those of the comparable transactions of the same type between the Group and independent third parties, so as to ensure that the aforesaid transactions will be conducted in the interest of the Group.

The prices for commissioned production of drugs will be determined after arm's length negotiations with reference to factors such as operating costs and comparable current market

prices of the commissioned production of drugs. The Group will conduct cost estimates for the commissioned production of drugs, which will take into account the costs of relevant materials, energy consumption, labour, etc., as well as factors such as relevant technical support, production models and allocation of production capacity, and add a reasonable profit margin to the costs. The profit margin will be determined with reference to the profit margin in the provision of commissioned production of drugs of the same type at a comparable quantity by the Group to at least two (subject to availability of sufficient number of comparable transactions at the time) independent third parties. As the drugs commissioned by the Joicare Group to be manufactured by the Group are proposed to be selected as national centralised procurement products in 2024, the market selling price after winning the bid will be subject to government-prescribed price. Therefore, when determining a reasonable profit margin, the Group will also take into account the estimated market allocation volume, market sales volume and market selling price of national centralised procurement products. The aforesaid measures will ensure that the prices for the provision of commissioned production of drugs to the Joicare Group by the Group are no less favourable than prices for provision of commissioned production of the same type of drugs to independent third parties by the Group.

The 2024 Sales Framework Agreement entered into with Joicare

The terms of the products sold to the Joicare Group by the Group shall be determined based on normal commercial terms after arm's length negotiation, and such terms shall be no less favourable than those of the comparable transactions of the same type between the Group and independent third parties, so as to ensure that the aforesaid transactions will be conducted in the interest of the Group.

The sales department of the Group regularly determines the guidance price of the products based on the market sales of the products, which will be determined based on factors such as cost (including costs of production, raw materials, operation and labour), gross profit, market demand, market competition and brand. The prices of the products sold to the Joicare Group by the Group will be determined in the following two ways: (1) if the quality requirements of the products purchased by the Joicare Group are within the standard range of the products on sale, the price will be quoted based on the guidance price of the products; (2) if the quality requirements of the products purchased by the Joicare Group are higher than the standard range of the products on sale, additional fees (including labour costs, materials and inspection costs, maintenance costs for the production workshops, depreciation for equipment, energy consumption costs, etc.) incurred due to the increase in standards will be added to the guidance price of the products, plus a profit margin which is not lower than that of the original standard products. In addition, the Group will compare the prices of the products sold to the Joicare Group to the prices of the same products offered to at least two independent third parties. The aforesaid measures will ensure that the prices of the products sold to the Joicare Group by the Group are no less favourable than comparable prices provided to independent third parties.

The 2024 Purchase Framework Agreement entered into with Joicare

The terms of the products and raw materials to be purchased from the Joicare Group by the Group shall be determined based on normal commercial terms after arm's length negotiation, and such terms shall be no less favourable than those available to the Group from independent third party suppliers, so as to ensure that the aforesaid transactions will be conducted in the interest of the Group.

The prices at which the products and raw materials are to be sold to the Group by the Joicare Group shall be (i) the indicative prices (if any) prescribed by the national price administration department of the PRC; and (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 at least two independent third party suppliers.

As at the date of this announcement, there was no indicative price prescribed by the national price administrative department of the PRC for products and raw materials purchased by the Group from the Joicare Group. Accordingly, prices of all products and raw materials to be purchased from the Joicare 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. The Company expects that prices of 7-ACA and D7-ACA and voriconazole (伏立康唑) will be determined principally with reference to the lowest price among the comparable quotations offered by two independent third party suppliers, respectively.

Such quotations will be comprehensively reviewed and evaluated after taking into account the price and other non-price factors (such as 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 is specialised in procurement functions, to ensure that the prices of the products and raw materials to be purchased from the Joicare Group will be no less favourable to the prices and other terms and conditions offered by independent third party suppliers for such products and raw materials.

The 2024 Water Electricity Framework Agreement entered into with Livzon MAB

The terms for the provision of water, electricity, steam and sewage treatment to Livzon MAB by the Group shall be determined based on normal commercial terms after arm's length negotiation, so as to ensure that the aforesaid transactions will be conducted in the interest of the Group.

As at the date of this announcement, there was no price prescribed by the national price administrative department of the PRC for the provision of water, electricity, steam and sewage treatment to Livzon MAB by the Group.

The prices of water, electricity and steam will be determined, after arm's length negotiations between the parties, with reference to the prevailing market prices, i.e. the prices of water, electricity and steam obtained by the Group (the prices of electricity and steam are determined with reference to the prices offered by electricity and steam suppliers of the Group; the price of water is determined with reference to the price determined by the water authority) and such terms shall be no less favourable than those for comparable transactions of the same type between the Group and independent third parties.

For sewage treatment, as Livzon MAB is located in the headquarters park of the Company and there are no other suitable large-scale sewage treatment facilities in the vicinity other than that in the headquarters park of the Company. Therefore, the sewage of Livzon MAB is centrally treated by the sewage treatment facility in the headquarters park of the Company, and the prices of sewage treatment will be calculated, after arm's length negotiation between the parties, with reference to the volume of sewage treatment by the Group and the cost of materials consumed in the unit of sewage treatment. The cost of materials (mainly including industrial grade sodium hydroxide, polyaluminum chloride, etc.) consumed in the sewage treatment process will be calculated with reference to the fair market price and the Group will seek quotations from at least two independent third party suppliers in the open market for the prices of the major materials to be consumed as reference for material costs.

The 2024 Labour Services Framework Agreement entered into with Livzon MAB

The terms for provision of commissioned production of drugs to Livzon MAB by the Group shall be determined based on normal commercial terms after arm's length negotiations, and such terms shall be no less favourable than those of the comparable transactions of the same type between the Group and independent third parties, so as to ensure that the aforesaid transactions will be conducted in the interest of the Group.

The prices for commissioned production of drugs will be determined after arm's length negotiations with reference to factors such as the operation costs of the Group and the comparable prevailing market prices of the commissioned production of drugs. The Group will conduct cost estimates for the commissioned production of drugs, which will take into account the costs of relevant materials, energy consumption, labour, etc., as well as factors such as relevant technical support, production models and allocation of production capacity, and add a reasonable profit margin to the costs. The profit margin will be determined with reference to the profit margin in the provision of commissioned production of drugs of the same type at a comparable quantity by the Group to independent third parties, so as to ensure that the prices for the provision of commissioned production of drugs to Livzon MAB by the Group are no less favourable than the prices for provision of commissioned production of the same type of drugs to independent third party parties by the Group.

The 2024 Leasing Assets Framework Agreement entered into with Livzon MAB

The terms for leasing factories and equipment to Livzon MAB by the Group shall be determined based on normal commercial terms after arm's length negotiations, and such terms shall be no less favourable than those of the comparable transactions of the same type between the Group and independent third parties, so as to ensure that the aforesaid transactions will be conducted in the interest of the Group.

The prices for leasing factories and equipment to Livzon MAB by the Group will be determined on arm's length negotiations with reference to factors such as the costs of operation and the prevailing rentals of comparable factories and equipment (taking into account the location, area and status of the factories as well as the number and conditions of equipment, etc.), and the terms of the transactions will be similar to those of the same type of transactions conducted with independent third parties, details of which are as follows:

(1) The prices for leasing factories to Livzon MAB by the Group are calculated based on the maintenance costs for operating the factories, the area of the factories and the unit price of lease per square metre, which will be determined with reference to the prevailing market price of similar type of factories in the region where the factories are located, and shall be no less favourable than the rentals charged by the Group to independent third parties.

(2) The prices for leasing equipment to Livzon MAB by the Group will be determined with reference to factors such as the acquisition cost of the equipment, the period of acquisition, the depreciation and impairment provision made, its importance in the production process, and whether it is substitutable, and with reference to comparable rentals of similar equipment provided by independent third parties, and shall be no less favourable than the rentals charged by the Group to independent third parties.

The Group will compare the prices for leasing factories and equipment to Livzon MAB with the prevailing rentals of at least two comparable factories and/or equipment.

The 2024 Purchase Framework Agreement entered into with Livzon MAB

The terms of drugs to be purchased from Livzon MAB by the Group shall be determined based on normal commercial terms after arm's length negotiation, and such terms shall be no less favourable than those available to the Group from independent third party suppliers, so as to ensure that the aforesaid transactions will be conducted in the interest of the Group.

The prices for drugs to be purchased from Livzon MAB by the Group will be determined after arm's length negotiations with reference to factors such as the drugs' market selling price in various provinces and estimated sales costs. As the Group will sell the drugs purchased from Livzon MAB to external parties, therefore the prices for drugs purchased from Livzon MAB will be determined with reference to the Group's estimated sales cost, and a reasonable profit margin will be retained for the Group for selling such drugs to external parties. The estimated sales cost will be determined with reference to factors such as the estimated sales volume, the sales staff expenses and the operation costs, while the reasonable profit margin will be determined with reference to the average profit margin enjoyed by the Group in comparable transactions for the sales of the same type of drugs.

Meanwhile, the Group will obtain quotations for the same type of drugs from at least two independent third party suppliers, and such quotations will be comprehensively reviewed and assessed by the designated personnel of the Group, including the officers and managers of the purchasing department and the sales department, and the senior officer of the finance department who is specialised in procurement functions, after taking into account price and other non-price factors (such as the market competitiveness of the products, product quality and credit terms) to ensure that the prices of the drugs purchased from Livzon MAB are no less favourable than the prices and other terms and conditions offered by independent third parties for such drugs.

Having considered the terms of the 2024 Water Electricity Framework Agreement, the 2024 Receipt of Labour Services Framework Agreement, the 2024 Provision of Labour Services Framework Agreement, the 2024 Sales Framework Agreement and the 2024 Purchase Framework Agreement entered into with Joincare, and the 2024 Water Electricity Framework Agreement, the 2024 Labour Services Framework Agreement, the 2024 Leasing Assets Framework Agreement and the 2024 Purchase Framework Agreement entered into with Livzon MAB as well as the pricing principles and policies and internal control measures for each of the continuing connected transactions as disclosed in the Announcements and this announcement, the Directors (including independent non-executive Directors) considered that the pricing principles and policies and internal control measures adopted are sufficient to ensure that the transactions contemplated under the above agreements will be conducted on normal

commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Save as disclosed above, all other information in the Announcements remains unchanged. This announcement is supplemental to and should be read in conjunction with the Announcements.

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
15 January 2024

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*