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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant, or other professional adviser.

**If you have sold or otherwise transferred** all your shares in Shandong Weigao Group Medical Polymer Company Limited, you should at once hand this circular and the enclosed form of proxy and reply slip to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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# **WEGO 威高**

山東威高集團醫用高分子製品股份有限公司

**Shandong Weigao Group Medical Polymer Company Limited \***

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

(Stock Code: 1066)

- 1) CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF  
FRAMEWORK AGREEMENTS WITH WEIGAO HOLDING,
- 2) PROPOSED AMENDMENT OF ARTICLES OF ASSOCIATION
- 3) PROPOSED INTERIM DIVIDEND PAYMENT
- AND
- 4) NOTICE OF SPECIAL GENERAL MEETING

**Independent Financial Adviser to the Independent Board Committee and  
independent shareholders of  
Shandong Weigao Group Medical Polymer Company Limited\***



**China Galaxy International Securities (Hong Kong) Co., Limited**

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Notice convening the SGM of the Company to be held at the 2nd Floor, 20 Xingshan Road, Weihai Torch Hi-Tech Science Park, Shandong Province, the PRC at 9:00 a.m. on Friday, 15 November 2013 are set out on pages 56 to 60 of this circular. If you intend to attend the said meeting of the Company, please complete and return the accompanying reply slip in accordance with the instructions printed thereon as soon as possible and in any event by no later than 4:30 p.m. on Friday, 25 October 2013.

A letter from the Board is set out on pages 4 to 23 of this circular.

A letter of advice from the independent board committee of the Company is set out on pages 24 to 25 of this circular.

A letter from China Galaxy International Securities (Hong Kong) Co., Limited, the independent financial adviser of the Company, containing its opinion and advice to the independent board committee and independent shareholders of the Company is set out on pages 26 to 48 of this circular.

Whether or not you are able to attend the said meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's registered office (in the case of the proxy form by holders of non-listed shares) at 312, Shichang Road, Weihai, Shandong Province, the PRC or at the Company's H share registrar at Tricor Standard Limited, 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (in the case of proxy form of holders of H shares) as soon as possible and in any event not less than 24 hours before the time appointed for holding the meetings.

Completion and return of the form of proxy will not preclude you from attending and voting in person at the said meeting, or any adjournment thereof, should you so wish.

27 September 2013

\* For identification purpose only

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context requires otherwise:*

“Annual Caps”	the proposed estimated maximum aggregate annual transaction values in respect of Continuing Connected Transactions contemplated under the Framework Purchase Agreement, the Framework Sales Agreement, the Framework Tenancy Agreement and the Framework Services Agreement (as the case may be)
“Board”	the board of directors of the Company
“Company”	Shandong Weigao Group Medical Polymer Company Limited, a company incorporated in the People’s Republic of China, the shares of which are listed on the main board of the Stock Exchange
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the Framework Purchase Agreement, the Framework Sales Agreement, the Framework Tenancy Agreement and the Framework Services Agreement (as the case may be)
“Director(s)”	the director(s) of the Company
“Framework Agreements”	collectively Framework Purchase Agreement, Framework Sales Agreement, Framework Tenancy Agreement and Framework Services Agreement
“Framework Purchase Agreement”	framework purchase agreement entered into between the Group and Weigao Holding Group dated 30 August 2013
“Framework Sales Agreement”	framework sales agreement entered into between the Group and Weigao Holding Group dated 30 August 2013
“Framework Services Agreement”	framework services agreement entered into between the Group and Weigao Holding Group dated 30 August 2013

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## DEFINITIONS

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“Framework Tenancy Agreement”	framework tenancy agreement entered into between the Group and Weigao Holding Group dated 30 August 2013
“Group”	the Company and its subsidiaries from time to time
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors, to consider the transactions contemplated under the Framework Agreements and the relevant Annual Caps
“Independent Financial Adviser” or “China Galaxy International”	China Galaxy International Securities (Hong Kong) Co., Limited, a corporation licensed to carry out business in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the continuing connected transactions contemplated under the Framework Agreements and the relevant Annual Caps
“Independent Shareholders”	the Shareholders, other than Weigao Holding, being the controlling shareholder of the Company, Mr. Zhang Hua Wei, Mr. Chen Lin, Mrs. Zhou Shu Hua, Mr. Wang Yi, Mr. Wang Zhi Fan, Mr. Wu Chuen Ming and Mr. Miao Yan Guo, being connected parties of the Company
“Independent Third Party(ies)”	to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, the person and his associate(s) are third parties independent of the Company and connected persons of the Company as defined under the Listing Rules
“Latest Practicable Date”	23 September 2013
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“PRC”	the People’s Republic of China and for the purpose of this circular excluding Taiwan, Hong Kong and the Macau Special Administrative Region
“SGM” or “Special General Meeting”	Special General Meeting of the Company to be convened on 15 November 2013 for the purpose of considering and, if thought fit, approving the Framework Agreements and the relevant Annual Caps
“Shareholders”	the holders of the Shares
“Shares”	the ordinary shares of RMB0.10 each in the share capital of the Company, comprising both the Non-listed Shares and the H Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Weigao Holding”	Weigao Holding Company Limited, established in the PRC on 4 August 1998 with limited liability and is a controlling shareholder holding 48.25% equity interest in the Company
“Weigao Holding Group”	Weigao Holding Company Limited and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

*Exchange Rate: In this circular, for reference only and unless otherwise specified, the translation of RMB into HK\$ is based on the exchange rate of RMB0.7892 = HK\$1.00.*

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LETTER FROM THE BOARD

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**WEGO 威高**

山東威高集團醫用高分子製品股份有限公司  
**Shandong Weigao Group Medical Polymer Company Limited \***

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

(Stock Code: 1066)

*Executive Directors:*

Mr. Zhang Hua Wei  
Mr. Wang Yi  
Mr. Gong Jian Bo  
Mr. Xia Lie Bo

*Non-executive Directors:*

Mr. Chen Xue Li  
Mrs. Zhou Shu Hua

*Independent non-executive Directors:*

Mr. Lo Wai Hung  
Mr. Li Jia Miao  
Mrs. Fu Ming Zhong  
Mrs. Wang Jin Xia

*Registered office and principal  
place of business in the PRC:*  
312 Shichang Road  
Weihai  
Shandong Province  
the PRC

*Principal place of business  
in Hong Kong:*  
801, Chinachem Century Tower  
178 Gloucester Road  
Wanchai  
Hong Kong

27 September 2013

*To the Shareholders*

Dear Sir or Madam,

- 1) CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF  
FRAMEWORK AGREEMENTS WITH WEIGAO HOLDING,  
2) PROPOSED AMENDMENT OF ARTICLES OF ASSOCIATION  
3) PROPOSED INTERIM DIVIDEND PAYMENT  
AND  
4) NOTICE OF SPECIAL GENERAL MEETING**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 15 November 2010, 1 April 2011, 27 May 2011, 19 August 2011 and 23 August 2013 regarding, among other things, the Continuing Connected Transactions between the Group and Weigao Holding Group for sales and purchase of medical-based materials and consumables, premise leasing and provision of ancillary services in the PRC. The purpose of this circular is to provide you with further information regarding the proposed resolutions to be passed at the SGM. The circular also contains the notice convening the SGM.

\* For identification purpose only

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## LETTER FROM THE BOARD

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### I. CONTINUING CONNECTED TRANSACTIONS WITH WEIGAO HOLDING

#### BACKGROUND

Following a review by the Company of the Group's recent business development and the existing continuing connected transactions between the Group and Weigao Holding Group, the Board envisages that there would be an expected increase in the continuing connected transactions (in term of nature and transaction values) between the Group and Weigao Holding Group. Old production plant of the Group is located at 312, Shi Chang Road at Weihai and covers a gross site area of approximately 370 mu (about 246,000 sq.m.). Due to the limitation of production area and re-zoning of the old production plant from industrial to non-industrial use, the Group commenced relocation to new production plant at Hi-tech Science Park at Weihai commenced in 2011 and it is expected that relocation will be completed in early 2014. The gross site area of the new production plant cover a gross site area of approximately 1,850 mu (about 1,234,000 sq.m.).

The Group recorded CAGR of the sales and net profit of approximately 34% and 47% respectively over the past seven years. With expansion of business scope and scale of the Group, the existing annual caps of the continuing connected transactions are expected to be insufficient for the growth of the business of the Group in future upon plant relocation and expansion of production capacity of the Group. It is expected that there will be an increase in continuing connected transactions regarding the premises leasing between the Group and Weigao Holding Group, as well as the provision of transportation services, canteen and catering services for over 9,000 employees by Weigao Holding Group to the Group. To save the administration effort in renewing and adjusting the annual caps of individual continuing connected transactions between the Group and Weigao Holding Group, the Directors consider that seeking for Annual Caps under the Framework Agreements for the coming three years from 1 January 2014 to 31 December 2016 will be more efficient and effective for the Group.

#### THE FRAMEWORK AGREEMENTS

The Company entered into the Framework Agreements on 30 August 2013 to re-set a maximum aggregate Annual Caps for the Continuing Connected Transactions between the Group and Weigao Holding Group for the three years ending 31 December 2016, details of which are stated as follows.

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## LETTER FROM THE BOARD

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### A. Framework Purchase Agreement

Principal terms of the Framework Purchase Agreement:–

Date	30 August 2013
Parties	(1) the Group (2) Weigao Holding Group
Duration	For three years from 1 January 2014 to 31 December 2016.
Nature of transaction	The Company agrees to purchase or procure its subsidiaries to purchase, and Weigao Holding agrees to sell or procure its subsidiaries to sell, services and medical based products, including and not limited to, medical equipment, medical raw materials, sanitary products, medical packaging materials, pharmaceutical and fitting out services on a non-exclusive basis.
Pricing basis	<p>Prices and terms of purchase with respect to medical equipment, medical raw materials, sanitary products, medical packaging materials, medical consumables pharmaceutical and fitting out services offered by Weigao Holding Group shall be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and at prices and terms no more favourable to the Weigao Holding Group than prices and terms available to or from Independent Third Parties to the Group.</p> <p>The Group obtained price quotation from existing suppliers on products and services needed and took reference on the prevailing market prices to ensure terms (including pricing and payment) contemplated under the Framework Purchase Agreement are on normal commercial terms.</p>
Payment terms	Pursuant to the Framework Purchase Agreement, the credit terms for the purchase of medical equipment, medical raw materials, sanitary products, medical packaging materials, medical consumables pharmaceutical and fitting out services by the Group shall be no less favourable than those given to Independent Third Parties by Weigao Holding Group.
Condition and effective date	The Framework Purchase Agreement will become effective on 1 January 2014, subject to approval by the Independent Shareholders at the SGM.



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## LETTER FROM THE BOARD

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Pricing basis and payment terms of Framework Purchase Agreement have been determined by reference to the prevailing market price and supply of such products and services available in the market and no less favorable to those entered into by the Group and Independent Third Parties. Terms including pricing basis and payment terms stated in the contract are subject to periodic review by both parties, reporting to audit committee and independent board committee, annual review by auditor and disclosure requirement under Rule 14A.41 of the Listing Rules.

The nature of products purchased or to be purchased are products including but not limited to medical equipment, medical raw materials, sanitary products, medical packaging materials, medical consumables pharmaceutical and fitting out services by the Group from Weigao Holding Group which are principally used by the Group for the manufacturing of single use consumable products and distribution to customers of the Group.

### *Historical Aggregate Value of Purchase from Weigao Holding*

The total actual value of purchase transactions by the Group from Weigao Holding Group for the past two financial years ended 31 December 2012 and the six months ended 30 June 2013 are set out below.

	<b>Year ended 31 December 2011</b>	<b>Year ended 31 December 2012</b>	<b>Six months ended 30 June 2013</b>
	<i>Approximately RMB</i>	<i>Approximately RMB</i>	<i>Approximately RMB</i>
Actual Aggregate Purchase Transaction	50.6 million (equivalent to about HK\$64.1 million)	84.7 million (equivalent to about HK\$107.3 million)	42.0 million (equivalent to about HK\$53.2 million)

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## LETTER FROM THE BOARD

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### *Proposed Annual Caps for the Purchase from Weigao Holding*

The Annual Caps in respect of the Continuing Connected Transactions contemplated under the Framework Purchase Agreement for each of the three years ending 31 December 2014, 2015 and 2016 are set out below.

	<b>Year ending 31 December 2014</b>	<b>Year ending 31 December 2015</b>	<b>Year ending 31 December 2016</b>
	<i>Less than RMB</i>	<i>Less than RMB</i>	<i>Less than RMB</i>
Proposed Annual Caps for the Purchase Transaction	180.0 million (equivalent to about HK\$228.1 million)	230.0 million (equivalent to about HK\$291.4 million)	302.0 million (equivalent to about HK\$382.7 million)

The proposed Annual Caps for the Framework Purchase Agreement have been determined by reference to:-

- The historical figures of the purchases by the Group from Weigao Holding Group.
- The expansion in the Group's market share over the years which will boost the demand of the Group's products and in turn, the demand of the Group for a greater quantity of medical products and consumables from Weigao Holding Group.
- The estimate future demands of the Group after taking into consideration of the business growth and strategy of the Group.
- The increase in the production capacity of the Group.
- Industry growth of medical device industry in China.
- The inflation factor.

The estimation of Annual Caps of the Framework Purchase Agreement is based on assumptions that there will not be any adverse change or disruption of industry growth in medical device sector, business and operation environments and government regulation which may materially affect the development of the Group and Weigao Holding Group during the three years ending 31 December 2016.

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## LETTER FROM THE BOARD

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### B. Framework Sales Agreement

Principal terms of the Framework Sales Agreement:–

Date	30 August 2013
Parties	<ol style="list-style-type: none"><li>1. the Group</li><li>2. Weigao Holding Group</li></ol>
Duration	For three years from 1 January 2014 to 31 December 2016.
Nature of transaction	The Company agrees to sell or procure its subsidiaries to sell, and Weigao Holding agrees to purchase or procure its subsidiaries to purchase, including and not limited to, disposable medical devices and moulding on a non-exclusive basis.
Pricing basis	<p>Prices and terms of sales with respect to products sold, including but not limited to disposable medical devices and moulding by the Group shall be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and at prices and terms no more favourable to the Weigao Holding Group than prices and terms available to or from Independent Third Parties to the Group.</p> <p>The pricing basis will be shall be determined on an arm's length negotiation with reference to manufacturing costs and manufacturing margin after taking into accounts the purchase quantity, technical requirements and/or other conditions of the product offered.</p>
Payment terms	Pursuant to the Framework Sales Agreement, the credit terms for the sale of disposable medical devices and moulding to Weigao Holding Group shall be no more favourable than those given to Independent Third Parties by the Group.
Condition and effective date	The Framework Sales Agreement will become effective on 1 January 2014, subject to approval by the Independent Shareholders at the SGM.

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## LETTER FROM THE BOARD

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Pricing basis and payment terms of the Framework Sales Agreement have been determined by reference to the prevailing market price and supply of products by the Group to Weigao Holding Group are comparable to and no less favourable to those entered into by the Group and Independent Third Parties. Terms including pricing basis and payment terms stated in the contract are subject to periodic review by both parties, reporting to audit committee and independent board committee, annual review by auditor and disclosure requirement under Rule 14A.41 of the Listing Rules.

The nature of product sold or to be sold, including but not limited to disposable medical devices and moulding by the Group to Weigao Holding Group are principal products produced by the Group in the ordinary course of business.

### *Historical Aggregate Value of Sales to Weigao Holding*

The total actual value of sales by the Group to Weigao Holding Group for the past two financial years ended 31 December 2012 and the six months ended 30 June 2013 and the estimated Annual Caps for the transactions in respect of the Framework Sales Agreement are set out below.

	<b>Year ended 31 December 2011</b>	<b>Year ended 31 December 2012</b>	<b>Six months ended 30 June 2013</b>
	<i>Approximately</i>	<i>Approximately</i>	<i>Approximately</i>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Actual Aggregate Sales Transaction	7.2 million (equivalent to about HK\$9.1 million)	11.3 million (equivalent to about HK\$14.3 million)	6.5 million (equivalent to about HK\$8.2 million)

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## LETTER FROM THE BOARD

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### *Proposed Annual Caps for the Sales*

The Annual Caps in respect of the Continuing Connected Transactions contemplated under the Framework Sales Agreement for each of the three years ending 31 December 2014, 2015 and 2016 are set out below.

	<b>Year ending 31 December 2014</b>	<b>Year ending 31 December 2015</b>	<b>Year ending 31 December 2016</b>
	<i>Less than RMB</i>	<i>Less than RMB</i>	<i>Less than RMB</i>
Proposed Annual Caps for the Sales Transaction	28.0 million (equivalent to about HK\$35.5 million)	35.0 million (equivalent to about HK\$44.3 million)	44.0 million (equivalent to about HK\$55.8 million)

The proposed Annual Caps for the Framework Sales Agreement have been determined by reference to:-

- The historical figures of the sales by the Group to Weigao Holding Group.
- The estimate future demands of Weigao Holding Group after taking into consideration of the business growth and expansion of production capacity of Weigao Holding Group.
- Industry growth of healthcare industry in China.
- The inflation factor.

The estimation of Annual Caps of the Framework Sales Agreement is based on assumptions that there will not be any adverse change or disruption of industry growth in medical device sector, business and operation environments and government regulation which may materially affect the development of the Group and Weigao Holding Group during the three years ending 31 December 2016.

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## LETTER FROM THE BOARD

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### C. Framework Tenancy Agreement

Framework Tenancy Agreement is expected to cover 7 premises leasing (subject to adjustment due to change of business plan), with proposed site area ranges from approximately 1,000 sq.m. to 26,000 sq.m. and the rental charge ranges from about RMB120 to RMB300 per sq.m. depends on intended use of premises and the property structure, such as canteen, warehouse, sanitized production plants and furnished offices. Reference has also been made to the property premise leased by the Group to an Independent Third Parties and prevailing market rental of premises proximity to the production plant in Weihai.

Principal terms of the Framework Tenancy Agreement:-

Date	30 August 2013
Parties	1. the Group 2. Weigao Holding Group
Duration	For three years from 1 January 2014 to 31 December 2016.
Nature of transaction	Lease of premises located at industrial zone at Hi-tech Science Park in Weihai in Shandong Province, the PRC between the Group and Weigao Holding Group
Pricing basis	With reference to the market comparable in Weihai.
Condition and effective date	The Framework Tenancy Agreement will become effective on 1 January 2014, subject to approval by the Independent Shareholders at the SGM.

For Framework Tenancy Agreement, reference to quotation of prevailing market rental rates of premises proximity to the production plants at Hi-tech Science Park in Weihai has been made. Rental rates and payment terms under the Framework Tenancy Agreement are comparable to and no less favourable to those entered into by the Group and Independent Third Parties. Terms including pricing basis and payment terms stated in the contract are subject to periodic review by both parties, reporting to audit committee and independent board committee, annual review by auditor and disclosure requirement under Rule 14A.41 of the Listing Rules.

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## LETTER FROM THE BOARD

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### *Historical Rent Paid to Weigao Holding*

	<b>Year ended 31 December 2011 RMB</b>	<b>Year ended 31 December 2012 RMB</b>	<b>Six months ended 30 June 2013 RMB</b>
Actual annual rent paid	2.1 million (equivalent to about HK\$2.7 million)	2.1 million (equivalent to about HK\$2.7 million)	1.1 million (equivalent to about HK\$1.3 million)

### *Proposed Annual Caps for Rents Payment*

The Annual Caps for rental payment contemplated under the Framework Tenancy Agreement for each of the three years ending 31 December 2016 are set out below.

	<b>Year ending 31 December 2014 Less than RMB</b>	<b>Year ending 31 December 2015 Less than RMB</b>	<b>Year ending 31 December 2016 Less than RMB</b>
Proposed Annual Rental Caps	25.0 million (equivalent to about HK\$31.7 million)	25.0 million (equivalent to about HK\$31.7 million)	25.0 million (equivalent to about HK\$31.7 million)

The proposed Annual Caps for the Framework Tenancy Agreement have been determined by reference to:-

- The pricing of rental rate of property for office or industrial uses at Hi-tech Science Park in Weihai.
- The property market development at Hi-tech Science Park in Weihai.

The estimation of Annual Caps of the Framework Tenancy Agreement is based on assumptions that there will not be any adverse change and disruption of industry growth in medical device sector, business and operation environments and government regulation which may materially affect the development of the Group and Weigao Holding Group during the three years ending 31 December 2016.

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## LETTER FROM THE BOARD

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### D. Framework Services Agreement

Principal terms of the Framework Services Agreement:–

Date	30 August 2013
Parties	1. the Group 2. Weigao Holding Group
Duration	For three years from 1 January 2014 to 31 December 2016
Nature of transaction	Procurement of factory worker transportation services, dormitory, canteen and catering services by Weigao Holding Group to the Group
Pricing basis	With reference to services available in the market and provided by Independent Third Parties  The Group obtained price quotation from existing suppliers on services needed and took reference on the prevailing market prices to ensure terms (including pricing and payment) contemplated under the Framework Services Agreement are on normal commercial terms.
Condition and effective date	The Framework Services Agreement will become effective on 1 January 2014, subject to approval by the Independent Shareholders at the SGM.

Pricing basis and payment terms of Framework Services Agreement have been determined by reference to the prevailing market price and supply of such services available in the market and no less favorable to those entered into by the Group and Independent Third Parties. Terms including pricing basis and payment terms stated in the contract are subject to periodic review by both parties, reporting to audit committee and independent board committee, annual review by auditor and disclosure requirement under Rule 14A.41 of the Listing Rules.



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## LETTER FROM THE BOARD

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### *Proposed Annual Caps for the Services Provided*

The Annual Caps in respect of the Continuing Connected Transactions contemplated under the Framework Services Agreement for each of the three years ending 31 December 2014, 2015 and 2016 are set out below.

	<b>Year ending 31 December 2014</b>	<b>Year ending 31 December 2015</b>	<b>Year ending 31 December 2016</b>
	<i>Less than RMB</i>	<i>Less than RMB</i>	<i>Less than RMB</i>
Proposed Annual Caps	64.0 million (equivalent to about HK\$81.1 million)	70.0 million (equivalent to about HK\$88.7 million)	78.0 million (equivalent to about HK\$98.8 million)

The proposed Annual Caps for the Framework Services Agreement have been determined by reference to:-

#### *Food and beverage services in canteens and club houses*

- i. The number of employees which are expected to use the catering services, including breakfast, lunch and dinner in available in canteens.
- ii. The number of guests, including investors, customers and business partners which are expected to use the catering services available in club houses.
- iii. The expected growth in number of employees and guests of the Group for the three years ending 31 December 2016.
- iv. The pricing of food and beverage services provided by Weigao Holding Group.
- v. The inflation factor.

#### *Transportation and logistic services in Weihai*

- i. The number of employees which are expected to use factory buses services from new production plant to old dormitory located at old factory zone or other districts in Weihai.

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## LETTER FROM THE BOARD

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- ii. The airport pick up and logistic services available to guests, including investors, customers and business partners.
- iii. The expected growth in number of employees and guests of the Group for the three years ending 31 December 2016.
- iv. The pricing of transportation and logistics services supplied by Weigao Holding Group.
- v. The inflation factor.

### *Dormitory in new industrial zone*

- i. The number of employees which are expected to stay in dormitory of new industrial zone upon completion of plant relocation.
- ii. The expected increase in number of employees to use dormitory services for the three years ending 31 December 2016.

The estimation of Annual Caps of the Framework Services Agreement is based on assumptions that there will not be any adverse change or disruption of industry growth in medical device sector, business and operation environments and government regulation which may materially affect the development of the Group and Weigao Holding Group during the three years ending 31 December 2016.

Given the long term business relationship with Weigao Holding Group which is experienced in providing food and beverage, transportation services and property development in Weihai, the Directors consider that the arrangement under the Framework Services Agreement in providing food and beverages, transportation services and dormitory by Weigao Holding Group to the Group allows the Group to secure a cost effective, timely and stable source of services provided to the Group.

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## LETTER FROM THE BOARD

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### REASONS FOR AND BENEFITS OF ENTERING INTO FRAMEWORK AGREEMENTS

The Company has been conducting business with Weigao Holding Group since the Group became listed on the Stock Exchange in 2004. Weigao Holding Group is a conglomerate corporate and a reliable supplier as a long term and reputable business associate with profound experiences in sectors, including but not limited to the production of medical equipment, sanitary products, medical packaging materials, pharmaceuticals, provision of fitting out services, property development and construction and provision of catering services. Upon recent review of the Group's business development and its anticipation of the increase in the scope and transaction amounts of the products and services to be provided to and by the Group, the Directors proposed to enter into the Framework Agreements which would provide a more comprehensive binding contract for different categories of goods and services between the Group and Weigao Holding Group. The aggregation of all the existing and foreseeable ongoing continuing connected transactions with the Group under the Framework Agreements will provide a single basis on which the Group will seek prior Independent Shareholders' approval and thereby targeting to reduce the administrative burden on the Group to comply with the reporting and Independent Shareholders' approval requirement under the Listing Rules in relation to the execution or renewal of the individual agreements.

#### Highlight of reasons and benefit of entering into the Framework Agreements

- i. The transactions with Weigao Holding Group enhance the Group's revenue bases and generate better economic returns to the Group.
- ii. To save the administration effort in renewing and adjusting the annual caps of individual continuing connected transactions periodically.
- iii. Due to expanded production capacity of Weigao Holding Group, the Framework Agreements offer the Group greater flexibility to adjust its production schedules and to meet unforeseen demand.
- iv. The quality of medical products purchased from Weigao Holding Group was assured since the continuing connected transactions commenced in 2004 when the Group was listed on the GEM of the Stock Exchange of Hong Kong Limited.
- v. Given the close geographical proximity of the operations of the Group and Weigao Holding Group, the continuing connected transactions enhance the convenient, timely and cost-efficient of product delivery and services provision.
- vi. The overall arrangements are mutually beneficial in terms of economies of scale and synergy of the Group.

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## LETTER FROM THE BOARD

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The Group obtained price quotations from existing suppliers on products and services needed and took reference on the prevailing market rental rates of the premises proximity to the production plant to ensure terms (including pricing and payment) contemplated under the Framework Agreements are normal commercial terms. The transactions contemplated under the Framework Agreements are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group and Weigao Holding Group. The products and services contemplated under the Framework Agreements will be negotiated on arm's length basis and comparable with terms available from or to Independent Third Parties.

Terms including pricing basis and payment terms stated in the Framework Agreements are subject to periodic review by relevant contractual parties, reporting to audit committee and independent board committee, annual review by auditor and disclosure requirement under Rule 14A.41 of the Listing Rules.

The Directors (including the independent non-executive directors) are of the view that the Annual Caps for the Framework Agreements are fair and reasonable and in the interest of the Company and Shareholders as a whole. Directors attended the board meeting dated 19 August 2013, namely Mr. Zhang Hua Wei, Mrs. Zhou Shu Hua and Mr. Wang Yi, directors of the Company are also directors of Weigao Holding, being the connected parties were abstained from voting in the relevant resolutions of the board meeting of the Company.

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## LETTER FROM THE BOARD

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### INFORMATION REGARDING THE GROUP AND WEIGAO HOLDING GROUP

#### **The Group**

The Group is principally engaged in the research and development, production and sale of single-use medical devices. The Group has a wide range of products, which includes: 1) consumables (infusion set, syringes, medical needles, blood bags, blood sampling products and other consumables); 2) orthopedic materials; and 3) blood purification consumables and equipment. The Group has a nationwide sales network and an extensive customer base of over 5,000 healthcare organizations, including over 3,000 hospitals and 414 blood stations.

#### **Weigao Holding Group**

Weigao Holding Group is a conglomerate corporate and has investment and engaged in different business sectors, including production and sales of pharmaceutical and medical equipment, logistic services, property development and food and beverage services in China. Weigao Holding is the controlling shareholder holds 48.25% of the total issued share capital of the Company, and therefore is thus a connected person of the Group pursuant to the meaning of the Listing Rules. The transactions contemplated under the Framework Agreements, therefore constitute Continuing Connected Transactions of the Group.

### **LISTING RULES IMPLICATION ON THE FRAMEWORK PURCHASE AGREEMENT, FRAMEWORK SALES AGREEMENT, FRAMEWORK TENANCY AGREEMENT AND FRAMEWORK SERVICES AGREEMENT**

Weigao Holding is the controlling shareholder of the Company and is therefore a connected person of the Company, the transactions contemplated under the Framework Agreements constitute Continuing Connected Transactions of the Group for the purpose of Chapter 14A of the Listing Rules. As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the Framework Agreements is expected to be more than 5% but less than 25% and the aggregated consideration, will be more than HK\$10,000,000, the transactions contemplated under the Framework Agreements constitute Continuing Connected Transactions and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## **LETTER FROM THE BOARD**

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### **INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

An Independent Board Committee (comprising all the independent non-executive Directors) has been appointed to advise and provide recommendation to the Independent Shareholders on the Framework Agreements. China Galaxy International Securities (Hong Kong) Co., Limited, an independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders on the Framework Agreements and the Annual Caps of the Framework Purchase Agreement, the Framework Sales Agreement, the Framework Tenancy Agreement and the Framework Services Agreement for the three years ending 31 December 2016.

### **II. PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION**

The Board proposes to amend the Articles of Association of the Company due to change in number of directors. Details of proposed amendments to Articles of Association of the Company are set out on page 49 to this Circular.

### **III. PROPOSED INTERIM DIVIDEND PAYMENT**

The Board recommended an interim dividend of RMB0.029 per share (inclusive of tax). The total amount of interim dividends to be distributed shall be approximately RMB129,815,000, of which dividends paid to non-resident corporate shareholders will be subject to the corporate tax applicable on the PRC sourced income pursuant to the PRC Corporate Income Tax Law and the Regulations on the Implementation of the PRC Corporate Income Tax Law that became effective on 1st January, 2008 and the applicable tax rate is 10%. The listed issuer will be responsible for withholding the relevant amount of tax from the dividend payment and the dividends to be received by the non-resident corporate shareholders will be net of withholding tax. The proposal to declare and pay the interim dividend will be submitted to the Special General Meeting to be held on Friday, 15 November 2013. Interim dividend for non-listed shares will be distributed and paid in Renminbi whereas dividend for H shares will be declared in Renminbi and paid in Hong Kong dollars. The relevant information has also been disclosed in the interim report of the Company for the six months ended 30 June 2013.

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## LETTER FROM THE BOARD

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### IV. SGM

The SGM will be held at 2nd Floor, 20 Xingshan Road, Weihai Torch Science Hi-tech Science Park, Shandong Province, the PRC at 9:00 a.m. on Friday, 15 November 2013 to consider and, if thought fit, approve the ordinary resolutions and the special resolution to approve the Framework Agreements with Weigao Holding Group and the Annual Caps, the proposed interim dividend for the six months ended 30 June 2013 and the proposed amendment of Articles of Association. The voting at the SGM will be taken by poll, Weigao Holding, being the controlling shareholder of the Company, Mr. Chen Lin, Mr. Zhang Hua Wei, Mr. Wang Yi and Mrs. Zhou Shu Hua, being the connected parties of the Company will abstain from voting at the SGM to approve the relevant resolutions in respect of the Continuing Connected Transactions contemplated under the Framework Purchase Agreement, the Framework Sales Agreement, the Framework Tenancy Agreement and the Framework Services Agreement (including the Annual Caps). The notice of SGM is set out on pages 56 to 60 of this circular. There is a form of proxy for use at the SGM accompanying this circular. Whether or not you will be able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's H Share Registrar, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) or the Company's registered office, 312 Shichang Road, Weihai, Shandong Province, the PRC (for holders of Non-listed Shares) as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

### V. BOOK CLOSURE

In order to qualify for attending the Special General Meeting, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H Share Registrar, Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 15 October 2013. The register of members of the Company will be closed from Wednesday, 16 October 2013 to Friday, 15 November 2013 (both days inclusive), for the purpose of determining shareholders' entitlement to attend the Special General Meeting, during which period no transfer of shares of the Company will be registered.

In order to qualify for attending the Special General Meeting:-

Latest time to lodge in the transfer instrument accompanied by the share certificates	4:30 p.m., Tuesday, 15 October 2013
Closure of register of members of the Company for attendance of the Special General Meeting	Wednesday, 16 October 2013 to Friday, 15 November 2013
Latest time to lodge in the reply slip	4:30 p.m., Friday, 25 October 2013
Date of Special General Meeting	Friday, 15 November 2013

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## LETTER FROM THE BOARD

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In order to qualify for entitlement of interim dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H Share Registrar, Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 20 November 2013. Dividend warrants in respect of the interim dividend of RMB0.029 (inclusion of tax) per share will be despatched at the risk of those entitled thereto to their respective registered addresses on or before Monday, 23 December 2013.

In order to qualify to entitle the interim dividend for the six months ended 30 June 2013:–

Latest time to lodge in the transfer instrument accompanied by the share certificates	4:30 p.m., Wednesday, 20 November 2013
Closure of register of members of the Company for entitlement of interim dividend for the six months ended 30 June 2012	Thursday, 21 November 2013 to Wednesday, 27 November 2013
Record date for entitlement of interim dividend	Wednesday, 27 November 2013
Despatch date of interim dividend	Monday, 23 December 2013

### **VI. PROCEDURE FOR DEMANDING A POLL**

Article 80 of the articles of association of the Company provides that all votes of Shareholders at general meetings must be taken by poll.

### **VII. RECOMMENDATIONS**

The Board (including the independent non-executive Directors) considers that the proposed resolutions regarding the Continuing Connected Transactions contemplated under the Framework Agreements are fair and reasonable, on normal commercial terms and are entered into the usual and ordinary course of business of the Group and the entering of the Framework Agreements is in the interests and the Company and the Shareholders as a whole.

The Independent Board Committee, having taken into account the advice of China Galaxy International, considered that the terms of the Framework Agreements are fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Shareholders and the Company as a whole and accordingly recommend Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Framework Agreements (including Annual Caps) and the Continuing Connected Transactions contemplated thereunder.



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## LETTER FROM THE BOARD

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Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on pages 24 to 25 of this circular and the letter from China Galaxy International to the Independent Board Committee and the Independent Shareholders set out on pages 26 to 48 of this circular.

### **ADDITIONAL INFORMATION**

Your attention is drawn to the general information set out in the appendix in this circular.

By Order of the Board  
**Shandong Weigao Group Medical Polymer Company Limited**  
**Chen Xue Li**  
*Chairman*

27 September 2013  
Shandong, China

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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**WEGO 威高**

**山東威高集團醫用高分子製品股份有限公司**  
**Shandong Weigao Group Medical Polymer Company Limited \***

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

**(Stock Code: 1066)**

27 September 2013

*To the Independent Shareholders*

Dear Sir or Madam

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 27 September 2013 of the Company (“Circular”) of which this letter forms part.

Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the terms of the Continuing Connected Transactions contemplated under the Framework Purchase Agreement, Framework Sales Agreement, the Framework Tenancy Agreement and the Framework Services Agreement (collectively known as the “Framework Agreements”) and the relevant Annual Caps and to advise the Independent Shareholders as to whether, in our opinion, the terms of the Continuing Connected Transactions contemplated under the Framework Purchase Agreement, the Framework Sales Agreement, the Framework Tenancy Agreement and the Framework Services Agreement and the relevant Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

China Galaxy International has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the continuing connected transaction contemplated under the Framework Purchase Agreement, the Framework Sales Agreement, the Framework Tenancy Agreement and the Framework Services Agreement and the relevant Annual Caps.

\* *For identification purpose only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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We wish to draw your attention to the letter from the Board set out on pages 4 to 23 of the Circular which contains, among others, information on the Continuing Connected Transactions contemplated under the Framework Purchase Agreement, the Framework Sales Agreement, the Framework Tenancy Agreement and the Framework Services Agreement and the relevant Annual Caps as well as the letter from China Galaxy International set out on pages 26 to 48 of the Circular which contains its advice in respect of the terms of the Continuing Connected Transactions contemplated under the Framework Purchase Agreement, the Framework Sales Agreement, the Framework Tenancy Agreement and the Framework Services Agreement and the relevant Annual Caps.

Having taken into account the advice of China Galaxy International, we consider that the entering into of the Continuing Connected Transactions contemplated under the Framework Purchase Agreement, the Framework Sales Agreement, the Framework Tenancy Agreement and the Framework Services Agreement are in the ordinary and usual course of business of the Group but are in the interests of the Company and the Independent Shareholders as a whole. We also consider the terms of the Continuing Connected Transactions contemplated under the Framework Purchase Agreement, the Framework Sales Agreement, the Framework Tenancy Agreement and the Framework Services Agreement and the relevant Annual Caps are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM in relation to the Continuing Connected Transactions contemplated under the Framework Purchase Agreement, the Framework Sales Agreement, the Framework Tenancy Agreement and the Framework Services Agreement and the relevant Annual Caps.

Yours faithfully

The Independent Board Committee

**Mr. Lo Wai Hung**

**Mr. Li Jia Miao**

**Mrs. Fu Ming Zhong**

**Mrs. Wang Jin Xia**

*Independent non-executive Directors*

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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*The following is the text from China Galaxy International Securities (Hong Kong) Co., Limited to the Independent Board Committee and the Independent Shareholders, prepared for the purpose of inclusion in this circular.*



**China Galaxy International Securities (Hong Kong) Co., Limited**

Room 3501-3507, 35/F

Cosco Tower

183 Queen's Road Central

Hong Kong

27 September 2013

*To: The Independent Board Committee and the Independent Shareholders of  
Shandong Weigao Group Medical Polymer Company Limited*

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF FRAMEWORK AGREEMENTS WITH WEIGAO HOLDING**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Framework Agreements and the respective annual caps of the Framework Purchase Agreement, the Framework Sales Agreement, the Framework Tenancy Agreement and the Framework Services Agreement set out therein, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular dated 27 September 2013 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter have the same meanings as those defined in the Circular.

As at the Latest Practicable Date, Weigao Holding is the controlling Shareholder holding 48.25% equity interest of the Company, thus a connected person of the Company under the Listing Rules.

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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As stated in the Letter from the Board, in view of the recent business development of the Company and its subsidiaries (collectively the “Group”) and in anticipation of the increase in the scope and transaction amounts of the products and services to be provided to and by Weigao Holding, the Directors proposed to enter into the Framework Agreements which would provide a more comprehensive binding contract for provision of different categories of goods and services between the Company and Weigao Holding or between their respective subsidiaries. The aggregation of all the existing and foreseeable ongoing continuing connected transactions with the Company under the Framework Agreements will provide a single basis on which the Company will seek prior Independent Shareholders’ approval and thereby targeting to reduce the administrative burden on the Company to comply with the reporting and Independent Shareholders’ approval requirements in relation to the execution or renewal of the individual agreements under the Listing Rules.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the annual caps of the Framework Agreements is expected to be more than 5% but less than 25% and the aggregated consideration will be more than HK\$10,000,000, the transactions contemplated under the Framework Agreements constitute continuing connected transactions and are subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

### **THE INDEPENDENT BOARD COMMITTEE**

As at the Latest Practicable Date, the Independent Board Committee, comprising all of the independent non-executive Directors (namely Mr. Lo Wai Hung, Mr. Li Jia Miao, Mrs. Fu Ming Zhong and Mrs. Wang Jin Xia) who have no direct or indirect interest in the continuing connected transactions contemplated under the Framework Agreements, has been established to advise the Independent Shareholders on whether (i) the transactions contemplated under the Framework Agreements are in the ordinary and usual course of business of the Group; (ii) the terms of the Framework Agreements are on normal commercial terms or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, or terms no less favourable to the Group than terms available to or from (as appropriate) Independent Third Parties; (iii) the terms of the Framework Agreements and the proposed annual caps in respect of the transactions contemplated under the Framework Agreements for each of the three years ending 31 December 2014, 2015 and 2016 are fair and reasonable insofar as the Group and the Shareholders as a whole are concerned; and (iv) the entering into of the Framework Agreements is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. In this regard, we, China Galaxy International Securities (Hong Kong) Co., Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on this matter.

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

### **BASIS OF OUR ADVICE**

In arriving at our recommendation, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors and the management of the Company are true and accurate at the time they were made and will continue to be true and accurate as at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs or the prospects of the Company, the Group or any of their respective associates.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources which are the latest information publicly available to the best of our knowledge, the sole responsibility of China Galaxy International Securities (Hong Kong) Co., Limited is to ensure that such information has been correctly extracted from the relevant sources.

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the terms of and proposed annual caps of the continuing connected transactions under the Framework Agreements, we have taken into consideration the following principal factors and reasons:

#### **I. Background of the Group and Weigao Holding**

The Group is principally engaged in the research and development, production and sale of single-use medical devices. The Group has a wide range of products, which includes (i) single-use medical consumables (infusion set, syringes, medical needles, blood bags, blood sampling products and other consumables); (ii) orthopedic materials; and (iii) blood purification consumables and equipment. The Group currently has a nationwide sales network and an extensive customer base of over 5,000 healthcare organizations, including over 3,000 hospitals and 414 blood stations.

Weigao Holding is a conglomerate corporate and has investment and is engaged in different business sectors, including production and sales of pharmaceutical and medical equipment, logistic services, property development and food and beverage services in China. Weigao Holding is the controlling shareholder currently holding 48.25% of the total issued share capital of the Company.

#### **II. Reasons for entering into the Framework Agreements**

As set out in the Letter from the Board, the Company has been conducting business with Weigao Holding since 2004. Weigao Holding is a conglomerate corporation and a reliable supplier as a long term and reputable business associate with profound experiences in sectors, including but not limited to the production of medical equipment, sanitary products, medical packaging materials, pharmaceuticals, provision of fitting out services, property development and construction and provision of catering services. Reference is made to the announcements of the Company dated 15 November 2010, 1 April 2011, 27 May 2011, 19 August 2011 and 23 August 2013 regarding, among other things, the continuing connected transactions between the Group and Weigao Holding for the sales and purchase of medical-based materials and consumables, premise leasing and provision of ancillary services in the PRC.

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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Upon recent review of the Group's business development and its anticipation of the increase in the scope and transaction amounts of the products and services to be provided to and by the Company, the Directors proposed to enter into the Framework Agreements which would provide a more comprehensive binding contract for different categories of goods and services between the Company and Weigao Holding or between their respective subsidiaries.

Following the completion of the relocation of the new production plant and the expansion of production capacity of the Group, it is expected that there will be a substantial increase in sales and purchase and provision of services transactions and also new continuing continued transactions regarding the premises leasing between the Group and the Weigao Holding or between their respective subsidiaries, as well as the provision of transportation services, canteen and catering services for over 9,000 employees by Weigao Holding to the Group. In addition, the annual caps of the relevant continuing connected transactions with Weigao Holding already announced by the Group are going to be expired as at 31 December 2013. Therefore, the Directors consider that it would be more effective and efficient to apply for maximum aggregate annual caps by entering into the Framework Agreements to streamline and regulate the continuing connected transactions between the Group and Weigao Holding or their subsidiaries for the three years ending 31 December 2016.

### ***A. Framework Purchase Agreement and Framework Sales Agreement***

The Company has been making purchase from and sales to Weigao Holding since 2004. As advised by the management of the Company, as a result of the long-term and solid business relationship between the Group and Weigao Holding, they are both familiar with each other's standards and specifications on medical-based materials and consumables and would be able to respond quickly to any new requirements that they may request. Also, according to the management of the Company, Weigao Holding is one of the leading pharmaceutical and medical equipment conglomerates in Weihai, Shandong province, where the Group's existing and new production plants are situated. By making purchase from and sales to Weigao Holding under Framework Purchase Agreement and Framework Sales Agreement respectively, the Group can take advantage of the close proximity of Weigao Holding to achieve cost savings in transportation and logistics. In addition, by entering into the Framework Purchase Agreement, the Company can secure a continuing and reliable supply of products such as medical equipment, medical raw materials, sanitary products, medical packaging materials, pharmaceutical and fitting out services at the market price with a prescribed standard of quality.



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## LETTER FROM CHINA GALAXY INTERNATIONAL

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Also, Weigao Holding and its subsidiaries have been one of the major customers of the Group over the past years and the sales to Weigao Holding and its subsidiaries amounted to RMB11.3 million for the year ended 31 December 2012. By entering into the Framework Sales Agreement, the Company will be able to secure the demand from Weigao Holding, one of the Group's major customers, for the Group's products, such as disposable medical devices and moulding, to broaden its revenue base, to generate profits of the Group and enhance its market position.

Having considered the above, we concur with the view of the Directors that the transactions contemplated under the Framework Purchase Agreement and Framework Sales Agreement, fall within the ordinary and usual course of business of the Group.

### ***B. Framework Tenancy Agreement***

Reference was made to the Company's announcement dated 1 April 2011, regarding the continuing connected transaction of leasing of a premise located at Weihai from Weigao Holding to the Group as warehouse for an annual rental of RMB2.1 million. Such tenancy agreement ("2011 Tenancy Agreement") is going to expire on 31 December 2013. As advised by the management of the Company, the Group will renew such tenancy and continue to occupy such premise for the three years ending 31 December 2016.

In addition, as advised by the management of the Company, following the completion of the relocation of production plant, the Group intends to more efficiently utilize the areas of the new production plant and lease certain areas of the new production plant to Weigao Holding or its subsidiaries, in order to generate rental income for the Group. The intended uses of the premises by Weigao Holding or its subsidiaries will be expected to be office, dormitory, canteen and production plant.

Having considered the above, we concur with the view of the Directors that the transactions contemplated under the Framework Tenancy Agreement is entered into in the ordinary and usual course of business of the Group.

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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### *C. Framework Services Agreement*

As confirmed by the management of the Company, after the relocation of the production plant, the Group will continue to provide to their factory workers the transportation services, dormitory, canteen and catering services, as a kind of employee benefits. In view of the recent business development, it is expected the aggregated amount of these services will increase significantly and it will be more appropriate to enter into the Framework Services Agreement and engage Weigao Holding to provide the comprehensive services, so that the Company can focus on its core businesses, namely the sale and manufacture of medical consumables, orthopedic materials, and blood purification consumables and equipment.

In view of the aforesaid, we concur with the Directors that the entering into the Framework Services Agreement is in the ordinary and usual course of business of the Group.

### **III. Principal Terms of the Framework Agreements**

#### *A. Framework Purchase Agreement*

Date	30 August 2013
Parties	(1) the Company or its subsidiaries (2) Weigao Holding or its subsidiaries
Duration	For the three years from 1 January 2014 to 31 December 2016.
Nature of transaction	The Company agrees to purchase or procure its subsidiaries to purchase, and Weigao Holding agrees to sell or procure its subsidiaries to sell, services and medical based products, including and not limited to, medical equipment, medical raw materials, sanitary products, medical packaging materials, pharmaceutical and fitting out services on a non-exclusive basis.

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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Pricing basis	Prices and terms of purchase with respect to medical equipment, medical raw materials, sanitary products, medical packaging materials, medical consumables pharmaceutical and fitting out services sold by Weigao Holding or its subsidiaries shall be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and at prices and terms no more favourable to the Weigao Holding or its subsidiaries than prices and terms available to or from Independent Third Parties to the Group.
Payment terms	Pursuant to the Framework Purchase Agreement, the credit terms for the purchase of medical equipment, medical raw materials, sanitary products, medical packaging materials, medical consumables pharmaceutical and fitting out services by the Group shall be no less favourable than those given to Independent Third Parties by Weigao Holding or its subsidiaries.
Condition and effective date	The Framework Purchase Agreement will become effective on 1 January 2014, subject to approval by the Independent Shareholders at the SGM.

The nature of products purchased or to be purchased are products including but not limited to medical equipment, medical raw materials, sanitary products, medical packaging materials, medical consumables pharmaceutical and fitting out services by the Company from Weigao Holding or its subsidiaries which are principally used by the Company for the manufacturing of single use consumable products and distribution to customers of the Company.

As confirmed by the management of the Company, the terms of the Framework Purchase Agreement were arrived at after arm's length negotiations between the Group and Weigao Holding and the Directors consider that the terms of the Framework Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We have reviewed sample invoices and contracts for historical purchase transactions between the Group and Weigao Holding against those of similar transactions between the Group and other independent suppliers. We noted that the terms (including price and payment

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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terms) of individual purchase of the products by the Group from Weigao Holding are comparable to and no less favourable to those entered into by the Group with Independent Third Parties. Going forward, according to the management of the Company, relevant policies and procedures (including but not limited to conduct checks on market prices of the relevant products that are offered by Independent Third Parties from time to time) are already in place to ensure that the terms of the purchase transactions to be entered into by the Group with Weigao Holding pursuant to the Framework Purchase Agreement will be no less favourable to those entered into by the Group with other Independent Third Parties. Given the above, we are of the view that the terms of the Framework Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

### ***B. Framework Sales Agreement***

Date	30 August 2013
Parties	(1) the Company or its subsidiaries (2) Weigao Holding or its subsidiaries
Duration	For the three years from 1 January 2014 to 31 December 2016.
Nature of transaction	The Company agrees to sell or procure its subsidiaries to sell, and Weigao Holding agrees to purchase or procure its subsidiaries to purchase, including and not limited to, disposal medical devices and moulding on a non-exclusive basis.
Pricing basis	Prices and terms of sales with respect to products sold, including but not limited to disposal medical devices and moulding by the Group shall be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and at prices and terms no more favourable to the Weigao Holding or its subsidiaries than prices and terms available to or from Independent Third Parties to the Group.

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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Payment terms	Pursuant to the Framework Sales Agreement, the credit terms for the sale of disposal medical devices and moulding to Weigao Holding or its subsidiaries shall be no more favourable than those given to Independent Third Parties by the Group.
Condition and effective date	The Framework Sales Agreement will become effective on 1 January 2014, subject to approval by the Independent Shareholders at the SGM.

The nature of product sold or to be sold, including but not limited to disposal medical devices and moulding by the Company or its subsidiaries to Weigao Holding or its subsidiaries are principal products produced by the Company in the ordinary course of business.

As confirmed by the management of the Company, the terms of the Framework Sales Agreement were arrived at after arm's length negotiations between the Group and Weigao Holding and the Directors consider that the terms of the Framework Sales Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We have reviewed sample invoices and contracts for historical sales transactions between the Group and Weigao Holding against those of similar transactions between the Group and other independent customers. We noted that the terms (including price and payment terms) under the contracts of individual sales of the products by the Group to Weigao Holding are comparable to and no less favourable to those entered into by the Group with Independent Third Parties. Going forward, according to the management of the Company, relevant policies and procedures (including but not limited to conduct checks on market prices of the relevant products that are offered to Independent Third Parties from time to time) are already in place to ensure that the terms of the sales transactions to be entered into by the Group with Weigao Holding pursuant to the Framework Sales Agreement will be no less favourable to those entered into by the Group with other Independent Third Parties. Given the above, we are of the view that the terms of the Framework Sales Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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### *C. Framework Tenancy Agreement*

Date	30 August 2013
Parties	(1) the Company or its subsidiaries (2) Weigao Holding or its subsidiaries
Duration	For the three years from 1 January 2014 to 31 December 2016.
Nature of transaction	Lease of premises located at industrial zone at Chucun in Weihai in Shandong Province, the PRC between the Company and Weigao Holding or between their subsidiaries.
Pricing basis	With reference to the market comparable in Weihai.
Condition and effective date	The Framework Tenancy Agreement will become effective on 1 January 2014, subject to approval by the Independent Shareholders at the SGM.

As confirmed by the management of the Company, the terms of the Framework Tenancy Agreement were arrived at after arm's length negotiations between the Group and Weigao Holding and the Directors consider that the terms of the Framework Tenancy Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. As noted from the Letter from the Board, under the Framework Tenancy Agreement, the rentals shall be determined with reference to the market comparable in Weihai, Shandong Province. In respect of the premises expected to be leased from the Group to Weigao Holding or its subsidiaries where the Group will generate rental income, we have made reference to the quotation of the prevailing market rental rates of the premises proximity to the production plant in order to review the annual caps under the Framework Tenancy Agreement. We note that the per square metre rental rate of the preliminary quotation from Weigao Holding for the Framework Tenancy Agreement are higher than that of the prevailing market rental rates of the premises proximity to the production plant which will be more favourable to the Group and no less favourable than other Independent Third Parties. Going forward, according to the management of the Company, relevant policies and procedures (including but not limited to conduct checks on market rentals from

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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time to time) are already in place to ensure that the terms of the rental transactions to be entered into by the Group with Weigao Holding pursuant to the Framework Tenancy Agreement will be no less favourable to those entered into by the Group with other Independent Third Parties. Furthermore, we are not aware of any terms of the Framework Tenancy Agreement that are not in line with market practice. Given the above, we are of the view that the terms of the Framework Tenancy Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

### ***D. Framework Services Agreement***

Date	30 August 2013
Parties	(1) the Company or its subsidiaries (2) Weigao Holding or its subsidiaries
Duration	For the three years from 1 January 2014 to 31 December 2016
Nature of transaction	Procurement of factory worker transportation services, dormitory, canteen and catering services by Weigao Holding or its subsidiaries to the Company or its subsidiaries.
Pricing basis	With reference to services available in the market and provided by Independent Third Parties.
Condition and effective date	The Framework Services Agreement will become effective on 1 January 2014, subject to approval by the Independent Shareholders at the SGM.

As confirmed by the management of the Company, the terms of the Framework Services Agreement were arrived at after arm's length negotiations between the Group and Weigao Holding and the Directors consider that the terms of the Framework Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. As noted from the Letter from the Board, under the Framework Services Agreement, the services fees shall be determined with reference to the services available in the market and provided by Independent Third Parties. There are no historical services transactions between the Group and Weigao Holding or its subsidiaries similar to those under the Framework

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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Services Agreement. We have reviewed the price quotation from other independent services providers for the services for the Framework Services Agreement. We note that the unit price of the quotation from Weigao Holding for the Framework Services Agreement are comparable to those from the independent quotation. Going forward, according to the management of the Company, relevant policies and procedures (including but not limited to conduct checks on market prices of the relevant services that are offered to Independent Third Parties from time to time) are already in place to ensure that the terms of the sales transactions to be entered into by the Group with Weigao Holding pursuant to the Framework Services Agreement will be no less favourable to those entered into by the Group with other Independent Third Parties. Given the above, we are of the view that the terms of the Framework Tenancy Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

#### IV. Proposed Annual Caps under the Framework Agreements

##### A. Framework Purchase Agreement and Framework Sales Agreement

The historical transactions were carried out under various agreements entered into between the Group and Weigao Holding and its subsidiaries in relation to the sales and purchase of medical products. The total actual value of sales and purchase transactions between the Company or its subsidiaries to and from Weigao Holding or its subsidiaries for the past two financial years ended 31 December 2012 and the six months ended 30 June 2013 are set out below.

##### *Historical Aggregate Value of Purchase from Weigao Holding*

The total actual value of purchase transactions by the Company or its subsidiaries from Weigao Holding or its subsidiaries for the past two financial years ended 31 December 2012 and the six months ended 30 June 2013 are set out below.

	Year ended 31 December 2011	Year ended 31 December 2012	Six months ended 30 June 2013
	<i>Approximately</i> RMB	<i>Approximately</i> RMB	<i>Approximately</i> RMB
Actual Aggregate Purchase Transaction	50.6 million (equivalent to about HK\$64.1 million)	84.7 million (equivalent to about HK\$107.3 million)	42.0 million (equivalent to about HK\$53.2 million)



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## LETTER FROM CHINA GALAXY INTERNATIONAL

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According to the Letter from the Board, the proposed purchase annual caps in respect of the transactions contemplated under the Framework Purchase Agreement for each of the three years ending 31 December 2014, 2015 and 2016 are set out below.

*Proposed Annual Caps for the Purchase from Weigao Holding*

The proposed purchase annual caps in respect of the transactions contemplated under the Framework Purchase Agreement for each of the three years ending 31 December 2014, 2015 and 2016 are set out below.

	<b>Year ending 31 December 2014</b>	<b>Year ending 31 December 2015</b>	<b>Year ending 31 December 2016</b>
	<i>Less than RMB</i>	<i>Less than RMB</i>	<i>Less than RMB</i>
Proposed Aggregate Annual Caps for the Purchase Transaction	180.0 million (equivalent to about HK\$228.1 million)	230.0 million (equivalent to about HK\$291.4 million)	302.0 million (equivalent to about HK\$382.7 million)

As confirmed by the management of the Company, the proposed annual caps for the transactions have been determined with reference to the estimated future demand for medical equipment, medical raw materials, sanitary products, medical packaging materials, medical consumables pharmaceutical and fitting out services by the Company or its subsidiaries from Weigao Holding or its subsidiaries after taking into consideration of the future business growth and development and the increase in demand for products and increase in overall production capacity of the Company.

Based on the previous announcements regarding the continuing connected transaction of the Group with Weigao Holding or its subsidiaries, the aggregate annual caps for the purchase transactions with Weigao Holding or its subsidiaries for the year ending 31 December 2013 amounted to RMB137,000,000 (the “2013 Purchase Annual Caps”). We noted that the proposed annual caps under the Framework Purchase Agreement for the year ending 31 December 2014 represented about an increase of 31.4% from the 2013 Purchase Annual Caps. Also, the proposed annual caps of RMB230.0 million and RMB302.0 million for the years ending 31 December 2015 and 2016 represented a further increase of 27.8% and 31.3%, respectively.

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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### *Historical Aggregate Value of Sales to Weigao Holding*

The total actual value of sales by the Company or its subsidiaries to Weigao Holding or its subsidiaries for the past two financial years ended 31 December 2012 and the six months ended 30 June 2013 and the estimated annual caps for the transactions in respect of the Framework Sales Agreement are set out below.

	<b>Year ended 31 December 2011</b>	<b>Year ended 31 December 2012</b>	<b>Six months ended 30 June 2013</b>
	<i>Approximately RMB</i>	<i>Approximately RMB</i>	<i>Approximately RMB</i>
Actual Aggregate Sales	7.2 million	11.3 million	6.5 million
Transaction	(equivalent to about HK\$9.1 million)	(equivalent to about HK\$14.3 million)	(equivalent to about HK\$8.2 million)

### *Proposed Annual Caps for the Sales*

The proposed annual caps in respect of the transactions contemplated under the Framework Sales Agreement for each of the three years ending 31 December 2014, 2015 and 2016 are set out below.

	<b>Year ending 31 December 2014</b>	<b>Year ending 31 December 2015</b>	<b>Year ending 31 December 2016</b>
	<i>Less than RMB</i>	<i>Less than RMB</i>	<i>Less than RMB</i>
Proposed Aggregate	28.0 million	35.0 million	44.0 million
Annual Caps For The Sales Transaction	(equivalent to about HK\$35.5 million)	(equivalent to about HK\$44.3 million)	(equivalent to about HK\$55.8 million)

The proposed annual caps for the sales by the Company or its subsidiaries to Weigao Holding or its subsidiaries have been determined with reference to the estimated future growth in business and demand for products by Weigao Holding or its subsidiaries from the Company after taking into consideration of the historical trend and expected industry growth of the healthcare industry.

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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Based on the previous announcements regarding the continuing connected transaction of the Group with Weigao Holding, the aggregate annual caps for the sales transactions to Weigao Holding or its subsidiaries for the year ending 31 December 2013 amounted to RMB28,700,000 (the “2013 Sales Annual Caps”). We noted that the proposed annual caps under the Framework Purchase Agreement for the year ending 31 December 2014 was just similar to the 2013 Sales Annual Caps. Also, the proposed annual caps of RMB35.0 million and RMB44.0 million for the years ending 31 December 2015 and 2016 represented an increase of 25.0% and 25.6%, respectively.

In analysing such increases in both the purchase and sales between the Group and Weigao Holding, we have considered the following:

1. High growth potential of PRC healthcare and medical device industry

As advised by the management of the Company, the market of the medical device product is directly linked to the overall economy performance. According to the National Bureau of Statistics of China (<http://www.stats.gov.cn/>), the GDP of the PRC increased from RMB31,405 billion to RMB51,894 billion from 2008 to 2012, representing a compound annual growth rate of approximately 13.4%. Strong growth in the PRC economy and per capita GDP has resulted in an increase in disposable income in China and improvement in living standards. Looking ahead, the International Monetary Fund expects that the GDP growth of China will be approximately 7.75% in both 2013 and 2014 (<http://www.imf.org/>). It is expected that as the disposable income increases and living standards improve, the demand for medical device products shall increase.

Population is another principal factor which influences the demand for medical device products. According to the National Bureau of Statistics of China (<http://www.stats.gov.cn/>), the population of the PRC stood at 1.33 billion at the end of 2008, which was about 2.5 times the number in 1949 when the PRC was founded and it is projected in the 國家人口發展“十二五”規劃 (the “Twelfth Five-Year National Scheme of Population Development”) by the State Council of China (<http://www.moh.gov.cn/>) that the population will grow to 1.39 billion by the end of 2015, implying a potential demand growth for the medical device products.

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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The State Council of China announced the country's healthcare reforms in 2009, aiming to expand the sponsored medical insurance network to cover 90% of the population, with each person covered by the system receiving an annual subsidy of RMB240 in 2012, RMB200 in 2011, each representing a 20% increase compared with the former year (<http://www.mof.gov.cn/>).

Further, according to National Bureau of Statistics of China, revenue of "medical device industry enterprises above a designated size" in 2012 amounted to RMB156.5 billion, representing a 10-year compound annual growth rate of 21.3%. Based on the report "Healthcare & life sciences in China – Towards growing collaboration" issued by KPMG in May 2013 (the "KPMG Report", <http://www.kpmg.com/>), the medical device market sales increased from USD7.6 billion in 2008 to USD18.2 billion in 2011, and is expected to reach USD43.0 billion in 2016, representing a CAGR of 15.7% from 2012 to 2016 as health infrastructure continues to boom.

Also according to the KPMG Report, healthcare expenditure (including spending in medical device) presently accounts for less than 6% of China's GDP, while the ratio is expected to increase to nearly 10% before 2017. There's still high growth potential since the figure is relatively lower than nearly 18% in United States and nearly 12% in Western Europe.

Based on the above, we believe that the PRC medical device market has been and is expected to continue to grow in the coming years, thus the future potential growth of the Group's business, and hence its purchase from and sales to Weigao Holding, is immense.

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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### 2. Future business development of the Group

#### Relocation of the production plant

As advised by the management of the Company, the relocation of the industrial zone of the Group's medical consumables production plant is undergoing by stages since 2011. As mentioned in the interim results announcement of the Group for the six months ended 30 June 2013 (the "Interim Results Announcement"), the Group made an investment of RMB466,516,000 on plant relocation, construction and equipment during the six months ended 30 June 2013 and according to the management of the Company, numerous new production facilities have been added to the new plant during the six months ended 30 June 2013. The Company expected that the relocation will be completed in the first quarter of 2014. Following completion of the relocation, the gross site areas of the Group's production plant will be increased from 370 Mu (equivalent to about 246,668 square meters) to 1,850 Mu (equivalent to about 1,233,340 square meters), representing approximately 400% increase, and thus accordingly the Group's production capacity will be increased significantly. Moreover, following the relocation of the production plant, the Group would require more fitting-out works and decoration services in the new production plant. Therefore, the demand for the medical raw materials and fitting-out works and decoration services will be increased significantly as well, resulting in the expected increase in purchase transactions from Weigao Holding. Furthermore, following the relocation and the increase in production capacity, it is expected that the Group will sell more products to Weigao Holding, which is one of their major customers.

#### Increased sales to hospitals with dialysis centres to sustain growth momentum for blood purification products segment

As advised by the Company, the Group has established its third independent dialysis centres in Shandong Province during the six months ended 30 June 2013. More importantly, the Group is also focusing on the sales to the hospitals with dialysis centers which is expected to boost the sales of the Group's blood purification consumables in the near future. We noted from the Interim Results Announcement that the Group achieved rapid growth in the sale of blood purification consumables which recorded a revenue growth of 54.7% during the six months ended 30 June 2013, when compared with the same period in 2012.

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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As advised by the management of the Company, in view of the expected growth in the segment of the blood purification as mentioned above, the Group entered into the contracts to purchase equipment to build the third and fourth dialyser production lines, which are expected to come into commercial production in 2014 and 2015 with a total planned annual production capacity of 8,000,000 pieces of dialysers. It is expected that the production capacity of the Group will increase to 14,000,000 pieces after the completion of the third and fourth dialyser production lines. Therefore, the purchase of medical materials on blood purification segment is expected to increase accordingly.

### Expanding market coverage

As stated in the Interim Results Announcement, the Group will continue to enhance the efforts in training marketing personnel, integrate the resources of direct selling customers, facilitate the optimization management on distributors, increase the investment in the middle-end market channels to improve the sales network coverage of the Group and market share of its product lines, and thereby consolidate and expand its market share.

The Company intends to expand its product and customer coverage to gain more market share from some newly emerging large hospitals. As discussed with the management of the Company, the Group targeted to develop synergies by realigning hospital coverage according to departments and functions, instead of product lines. The Company will now designate sales managers to those large hospitals to coordinate the sales efforts and try to maximize sales from them, which accordingly the purchase of medical raw materials will increase to meet with the expected increase in sales from the expanding market coverage.

Based on the above, we concur with the Company's view that the annual caps under the Framework Purchase Agreement and the Framework Sales Agreement for the three years ending 31 December 2016 are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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### ***B. Framework Tenancy Agreement***

Under the existing rental agreement, the Company or its subsidiaries currently rent certain premise with a total gross floor area of approximately 17,000 square meters. The total actual value of rentals paid by the Company or its subsidiaries to Weigao Holding or its subsidiaries for the past two financial years ended 31 December 2012 and the six months ended 30 June 2013 are set out below.

#### *Historical Rent Paid to Weigao Holding*

	<b>Year ended 31 December 2011 RMB</b>	<b>Year ended 31 December 2012 RMB</b>	<b>six months ended 30 June 2013 RMB</b>
Actual annual rent paid	2.1 million (equivalent to about HK\$2.7 million)	2.1 million (equivalent to about HK\$2.7 million)	1.1 million (equivalent to about HK\$1.3 million)

#### *Proposed Annual Caps for Rents to be Paid between Weigao Holding and the Group*

The proposed annual caps for rental payment contemplated under the Framework Tenancy Agreement for each of the three years ending 31 December 2014, 2015 and 2016 are set out below.

	<b>Year ending 31 December 2014 Less than RMB</b>	<b>Year ending 31 December 2015 Less than RMB</b>	<b>Year ending 31 December 2016 Less than RMB</b>
Proposed Aggregate Annual Rental Caps	25.0 million (equivalent to about HK\$31.7 million)	25.0 million (equivalent to about HK\$31.7 million)	25.0 million (equivalent to about HK\$31.7 million)

Reference was made to the Company's announcement dated 1 April 2011, regarding the continuing connected transaction of leasing of a premise located at Weihai from Weigao Holding to the Group as warehouse for an annual rental of RMB2.1 million. Such tenancy agreement ("2011 Tenancy Agreement") is going to expire on 31 December 2013. As advised by the management, the Group will renew such tenancy and continue to occupy such premise for the three years ending 31 December 2016.

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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In addition, as advised by the management of the Company, following the completion of the relocation of production plant, the Group intends to utilize the areas of the new production plant and lease certain areas of the new production plant to Weigao Holding or its subsidiaries, in order to earn certain rental income. The intended uses of the premises by Weigao Holding or its subsidiaries will be expected to be office, dormitory, canteen and production plant.

We have discussed with the management of the Company regarding the annual caps under the Framework Tenancy Agreement, which are determined with reference to:

- (i) the historical rental rates as stipulated in the 2011 Tenancy Agreement;
- (ii) the quotation of the prevailing market rental rates of the premises proximity to the production plant;
- (iii) the estimated gross floor area to be occupied by the Weigao Holding or its subsidiaries in the new production plant, which is approximately 65,000 square meters; and
- (iv) the assumption that the rentals will be fixed and at nil increment throughout the years ending 31 December 2016.

We have reviewed the 2011 Tenancy Agreement and noted that the proposed rental rates of the same premise for the years ending 31 December 2014, 2015 and 2016 under the Framework Tenancy Agreement is the same as those in the 2011 Tenancy Agreement for the three years ending 31 December 2011, 2012 and 2013, which is considered favourable to the Group as there are no increment of the rental rates. We have also reviewed the price quotation of the prevailing market rental rates of the premises proximity to the production plant, and noted that the preliminary rental rates from Weigao Holding under the Framework Tenancy Agreement is higher than that of the prevailing market rental rates nearby. We have also checked the calculation of the expected gross floor area of the new production plant and the rental rates in the quotation from Weigao Holding. Based on the above, we concur with the Company's view that the annual caps under the Framework Tenancy Agreement for the three years ending 31 December 2016 are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.



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## LETTER FROM CHINA GALAXY INTERNATIONAL

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### *C. Framework Services Agreement*

#### *Proposed Annual Caps for the Services*

The proposed annual caps in respect of the transactions contemplated under the Framework Services Agreement for each of the three years ending 31 December 2014, 2015 and 2016 are set out below.

	Year ending 31 December 2014 <i>Less than RMB</i>	Year ending 31 December 2015 <i>Less than RMB</i>	Year ending 31 December 2016 <i>Less than RMB</i>
Proposed Aggregate Annual Caps	64.0 million (equivalent to about HK\$81.1 million)	70.0 million (equivalent to about HK\$88.7 million)	78.0 million (equivalent to about HK\$98.8 million)

As advised by the management of the Company, following the relocation of the production plant, the Group will procure catering, transportation and other services for its employees from Weigao Holding or its subsidiaries.

As part of our workdone, we have reviewed (i) the floor plan of the proposed club house and canteen on the capacity; (ii) quotations of the catering and transportation services fee from Independent Third Parties; and (iii) the number of employees of the Group working in the production plant and the expected number to enjoy the services. We noted that the unit price of the quotation from Weigao Holding for the Framework Services Agreement are comparable to the range of the service fee quotes from independent services providers. We have also considered the floor plan of the proposed club house and canteen as well as the number of employees and the calculations of the annual caps of the Framework Services Agreement. Based on the above, we concur with the Board's view that the proposed annual caps of the Framework Services Agreement for the three years ending 31 December 2014, 2015 and 2016 is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

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## LETTER FROM CHINA GALAXY INTERNATIONAL

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### RECOMMENDATIONS

Having considered the principal factors and reasons above, we are of the opinion that the entering into the Framework Agreements is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Independent Shareholders as a whole, and that the terms of the Framework Agreements (including the Annual Caps) are of normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders, and we recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the SGM for approving the Framework Agreements (including the Annual Caps).

Yours faithfully,

For and on behalf of

**China Galaxy International Securities (Hong Kong) Co., Limited**

**Steven Chiu**

*Managing Director*

*Investment Banking*

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## APPENDIX I      PROPOSED AMENDMENT OF ARTICLES OF ASSOCIATION

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The following amendments are proposed to be made to the existing Articles of Association in relation to change in number of directors:

### **Original Article 100**

“Article 100: The Company shall have a board of directors which comprises twelve directors including one chairman, one vice chairman and four independent directors (who do not have any relationship with the shareholders of the Company and who are not employees of the Company).

At the re-election of the board of directors, external directors (who are not employees of the Company) shall constitute more than half of the members of the board of directors.”

### **Original Article 100 is proposed to be amended as:**

“Article 100: The Company shall have a board of directors which comprises ten directors including one chairman, one vice chairman and four independent directors (who do not have any relationship with the shareholders of the Company and who are not employees of the Company).

At the re-election of the board of directors, external directors (who are not employees of the Company) shall constitute more than half of the members of the board of directors.”

The proposed amendment to the Articles of Association is subject to approval of the shareholders by way of a special resolution at the Special General Meeting and the approval of and registration or filing with the relevant PRC government authorities.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### Directors' Interests and Long Positions in Shares

As at the Latest Practicable Date, the interests of Directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register required to be kept by the Company pursuant to section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

- (1) Long positions in non-listed shares of RMB0.10 each of the Company:

Name of Director	Types of interests	Capacity	Total number of non-listed shares	Approximate percentage of the issued share capital of the Company
Mr. Zhang Hua Wei	Personal	Beneficial owner	32,400,000	0.72%
Mr. Wang Yi	Personal	Beneficial owner	23,400,000	0.52%
Mrs. Zhou Shu Hua	Personal	Beneficial owner	15,300,000	0.34%

In addition, Mr. Chen Lin, son of Mr. Chen Xue Li, the Chairman, is the holder of the Company's 200,000 non-listed shares, representing 0.004% of the issued share capital of the Company.

- (2) Long positions in the registered capital of the ultimate holding company, Weigao Holding, an associated corporation of the Company:

Name of Director	Capacity	Total amount of capital contributed	Approximate percentage of the registered capital of Weigao Holding
Mr. Chen Xue Li	Beneficial owner	45,079,000	36.95%
Mr. Zhang Hua Wei	Beneficial owner	24,400,000	20.00%
Mrs. Zhou Shu Hua	Beneficial owner	12,200,000	10.00%
Mr. Wang Yi	Beneficial owner	7,320,000	6.00%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the Supervisors, chief executives or members of senior management of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be: (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest and short position which he/she was taken or deemed to have under such provisions of the SFO); or (ii) entered in the register of interests required to be kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (which for this purpose shall be deemed to apply to the Supervisors to the same extent as it applies to the Directors).

### 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance had recorded that other than the interests disclosed above in respect of certain Directors, the following shareholders had notified the Company of their relevant interest in the non-listed shares of the issued share capital of the Company.

Name of Shareholder	Capacity	Number of non-listed shares	Number of H shares	Approximate percentage of the Company's non-listed shares	Approximate percentage of the Company's total issued share capital
Weigao Holding Company Limited	Beneficial owner	2,159,755,676	–	83.3%	48.25%

**APPENDIX II****GENERAL INFORMATION**

Other than disclosed above, the following shareholders have disclosed their relevant interests or short positions in the issued share capital of the Company:

<b>Names of Substantial Shareholders</b>	<b>Number of H shares interested</b>	<b>Percentage of issued H share capital</b>
JP Morgan Chase & Co.	261,771,167 (L)	13.90 (L)
	9,664,000 (S)	0.51 (S)
	243,085,587 (P)	12.90 (P)
OppenheimerFunds, Inc.	196,632,000 (L)	10.44 (L)
Oppenheimer Developing Markets Fund	175,850,000 (L)	9.34 (L)
Baillie Gifford & Co	151,636,000 (L)	8.05 (L)
McCombie Iain	151,636,000 (L)	8.05 (L)
Morrison Elaine	151,636,000 (L)	8.05 (L)
Plowden Charles	151,636,000 (L)	8.05 (L)
Tait Anthony	151,636,000 (L)	8.05 (L)
Telfer Andrew	151,636,000 (L)	8.05 (L)
Warden Alison	151,636,000 (L)	8.05 (L)
Tait Anthony	132,076,000 (L)	7.01 (L)
Telfer Andrew	132,076,000 (L)	7.01 (L)
Atlantis Capital Holdings Limited	132,004,000 (L)	7.01 (L)
Liu Yang	132,004,000 (L)	7.01 (L)
Norges Bank	131,728,000 (L)	7.00 (L)
Plowden Charles	118,388,000 (L)	6.28 (L)
Capital Research and Management Company	114,662,000 (L)	6.09 (L)
Schroders Plc	109,677,481 (L)	5.82 (L)
Joho Partners L.P.	95,327,776 (L)	5.06 (L)
Karr Robert A.	94,327,038 (L)	5.01 (L)
RAK Capital, LLC	94,327,038 (L)	5.01 (L)

*Note: (L) – Long Position, (P) – Lending Pool*

**4. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors nor any of their respective associates had interests in businesses, other than being a director of the Group and their respective associates, which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

**5. NO MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, being the date to which the latest published audited accounts of the Group were made up.

**6. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or terminable by the Company or any member of the Group within one year without payment of compensation (other than statutory compensation)).

**7. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2012 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, subsisting at the date of this circular, which is significant in relation to the business of the Group.

**8. ADDITIONAL DISCLOSURE OF INTERESTS**

As at the Latest Practicable Date:

- (a) none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the businesses of the Group;

- (b) none of the Directors had any direct or indirect interest in any asset which, since 31 December 2012 (the date to which the latest published audited financial statements of the Group were made up), had been or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

## **9. QUALIFICATION AND CONSENT OF EXPERT**

The following sets out the qualification of the experts who have given opinions, letter or advice included in this circular:

<b>Name</b>	<b>Qualification</b>
China Galaxy International	a licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, China Galaxy International had no interest, direct or indirect, in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, China Galaxy International had no interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2012, the date to which the latest published audited accounts of the Company were made up.

China Galaxy International has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

## **10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at 801 Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) the Framework Purchase Agreement
- (b) the Framework Sales Agreement
- (c) the Framework Tenancy Agreement



- (d) the Framework Services Agreement
- (e) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (f) the letter from China Galaxy International, the text of which is set out in this circular;
- (g) the written consents referred to in paragraph headed “Qualification and Consent of Expert” of this appendix; and
- (h) this circular.

**11. MISCELLANEOUS**

The English text of this circular shall prevail over the Chinese text in case of inconsistency.



山東威高集團醫用高分子製品股份有限公司  
**Shandong Weigao Group Medical Polymer Company Limited \***

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

(Stock Code: 1066)

**NOTICE OF THE SPECIAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that a special general meeting (the “SGM”) of the shareholders of Shandong Weigao Group Medical Polymer Company Limited\* (山東威高集團醫用高分子製品股份有限公司) (the “Company”) will be held at conference room on 2<sup>nd</sup> Floor, 20 Xingshan Road, Weihai Torch Hi-tech Science Park, Shandong Province, the PRC on Friday, 15<sup>th</sup> November 2013 at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following ordinary resolutions and special resolution:

**ORDINARY RESOLUTIONS**

1. To consider and approve the distribution of interim dividend of RMB0.029 per share (inclusive of tax) for the six months ended 30 June 2013 to be distributed to all shareholders whose names appear on the register of members of the Company at the close of business on 27 November 2013.
2.
  - i) To consider and approve the Continuing Connected Transactions contemplated under the Framework Purchase Agreement entered into between the Group and Weigao Holding Group as set out in the “Letter from the Board” as contained in the circular of the Company dated 27 September 2013; and
  - ii) with the Annual Caps amounts of RMB180 million, RMB230 million and RMB302 million for the respective three years ending 31 December 2014, 2015 and 2016.

\* For identification purpose only

3.
  - i) To consider and approve the Continuing Connected Transactions contemplated under the Framework Sales Agreement entered into between the Group and Weigao Holding Group as set out in the “Letter from the Board” as contained in the circular of the Company dated 27 September 2013; and
  - ii) with the Annual Caps amounts of RMB28 million, RMB35 million and RMB44 million for the respective three years ending 31 December 2014, 2015 and 2016.
4.
  - i) To consider and approve the Continuing Connected Transactions contemplated under the Framework Tenancy Agreement entered into between the Group and Weigao Holding Group as set out in the “Letter from the Board” as contained in the circular of the Company dated 27 September 2013; and
  - ii) with the Annual Caps amounts of RMB25 million, RMB25 million and RMB25 million for the respective three years ending 31 December 2014, 2015 and 2016.
5.
  - i) To consider and approve the Continuing Connected Transactions contemplated under the Framework Services Agreement entered into between the Group and Weigao Holding Group as set out in the “Letter from the Board” as contained in the circular of the Company dated 27 September 2013; and
  - ii) with the Annual Caps amounts of RMB64 million, RMB70 million and RMB78 million for the respective three years ending 31 December 2014, 2015 and 2016.

**SPECIAL RESOLUTION**

6. To consider and approve, subject to fulfillment of all relevant conditions and/or all necessary approvals and/or consents from the relevant PRC authorities and bodies being obtained and/or the procedures as required under the laws and regulations of the PRC being completed, the Amendments to the Articles of Associations of the Company (as described in the Appendix I of this circular) as a result of the change in number of directors.

Yours faithfully,

By order of the Board

**Shandong Weigao Group Medical Polymer Company Limited\***

**Chen Xue Li**

*Chairman*

Weihai, Shandong  
27 September 2013

*Registered Office:*  
312, Shichang Road  
Weihai  
Shandong Province  
The PRC

*Principal Place of Business in Hong Kong:*  
801, Chinachem Century Tower  
178 Gloucester Road  
Wanchai  
Hong Kong

*Notes:*

- (i) A Shareholder who has the right to attend and vote at the SGM is entitled to appoint one proxy (or more) in writing to attend the SGM and vote on his behalf in accordance with the Company's Articles of Association. The proxy need not be a shareholder of the Company. Enclosed herewith a form of proxy for use in the general meeting. Any Shareholder who wishes to appoint a proxy should first review the form of proxy for use in the SGM. For any Shareholder who has appointed more than one proxy, such proxy shall only vote on poll. In the case of joint registered holders, the proxy form may be signed by any joint registered holder. In the case that more than one of such joint registered holders are present at any meeting personally or by proxy, then one such joint registered holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- (ii) All Shareholders shall appoint its proxy in writing. To be valid, a form of proxy together with a power of attorney or other authority, if any, under which it is signed or certified by a notary or an official copy of that power of attorney or authority, must be delivered at the Company's H Share registrar in Hong Kong, Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong (in respect of the holder of H Shares) and the Company's principal place of business at 312, Shichang Road, Weihai, Shandong Province, the PRC (in respect of the holder of the Non-listed Shares) not less than 24 hours before the time appointed for holding the SGM or 24 hours before the time designated for voting.
- (iii) Shareholders and their proxies attending the SGM shall produce their proof of identification.
- (iv) For the purpose of determining the identity of shareholders who are entitled to attend at the meeting, the register of members will be closed from Wednesday, 16 October 2013 to Friday, 15 November 2013, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's H Share Registrars at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 15 October 2013.
- (v) For the purpose of determining the identity of shareholders who are entitled to receive interim dividend for the six months ended 30 June 2013, the register of members will be closed from Thursday, 21 November 2013 to Wednesday, 27 November 2013, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for entitlement of interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's H Share Registrars at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 20 November 2013.
- (vi) The holders of the H Shares who intend to attend the SGM, whether in person or by proxy, should complete and return the reply slip to the Company's H Share registrars in Hong Kong, Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 25 October 2013 by hand, by post, by telegraph or by fax to (852) 2528 3158.
- (vii) The holders of the Non-listed Shares who intend to attend the SGM, whether in person or by proxy, should complete and return the reply slip to the Company's registered address at 312 Shichang Road, Weihai, Shandong Province, PRC no later than 4:30 p.m. on Friday, 25 October 2013 by hand, by post, by telegraph or by fax to (86) 631 5622419.

- (viii) The SGM is expected not to exceed half a day, and all shareholders and proxies shall be responsible for their own traveling and accommodation expenses.
- (ix) Pursuant to Article 80 of the Company's Articles of Association all votes of the Shareholders at the general meetings must be taken by poll.
- (x) Any enquiries about this notice and the SGM shall be sent for the attention to Ms. Xing Jingran at No. 312 Shichang Road, Weihai, Shandong Province, PRC (Tel. (86) 631 5622418) or Ms. Phillis Wong at 801, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong (Tel: (852) 28381490).

*As at the date of this notice, the Board comprises:*

Mr. Zhang Hua Wei (*Executive Director*)  
Mr. Wang Yi (*Executive Director*)  
Mr. Gong Jian Bo (*Executive Director*)  
Mr. Xia Lie Bo (*Executive Director*)  
Mr. Chen Xue Li (*Non-executive Director*)  
Mrs. Zhou Shu Hua (*Non-executive Director*)  
Mr. Lo Wai Hung (*Independent non-executive Director*)  
Mr. Li Jia Miao (*Independent non-executive Director*)  
Mrs. Fu Ming Zhong (*Independent non-executive Director*)  
Mrs. Wang Jin Xia (*Independent non-executive Director*)