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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)

CONTINUING CONNECTED TRANSACTIONS

**(1) RENEWAL OF EXISTING CONTINUING
CONNECTED TRANSACTIONS**

**(2) ENTERING INTO THE SERVICES PROVISION
FRAMEWORK AGREEMENT WITH WEIGAO HOLDING
AND**

**(3) ENTERING INTO THE LOGISTIC SUPPORT SERVICES
FRAMEWORK AGREEMENT WITH LOGISTIC COMPANY**

**RENEWAL OF EXISTING CONTINUING CONNECTED
TRANSACTIONS**

Reference is made to the announcements of the Company dated 5 December 2018, 27 September 2019, 18 December 2019, 20 December 2019, 26 August 2020, 28 October 2020 and 2 November 2020 and the circulars of the Company dated 27 September 2019, 22 September 2020 and 16 November 2020 in relation to, among others, the CCT Agreements.

On 16 November 2021, the Company and/or its subsidiaries entered into the Supplemental Agreements with Weigao Holding and/or its subsidiaries and associates (i) to extend the agreement terms of the CCT Agreements to 31 December 2023; and (ii) to propose new annual caps for the years ending 31 December 2022 and 2023 (wherever applicable). Save for the aforesaid, all other terms as stipulated in the CCT Agreements remain unchanged.

* For identification purpose only

ENTERING INTO THE SERVICES PROVISION FRAMEWORK AGREEMENT WITH WEIGAO HOLDING

On 16 November 2021, the Company entered into the Services Provision Framework Agreement with Weigao Holding for a term of two years from 1 January 2022 to 31 December 2023, pursuant to which the Company agrees to provide, or procure its subsidiaries to provide, and Weigao Holding agrees to subscribe or procure its subsidiaries to subscribe medical related services including but not limited to, sterilization, examination and radiation validation services.

ENTERING INTO THE LOGISTIC SUPPORT SERVICES FRAMEWORK AGREEMENT WITH LOGISTIC COMPANY

On 16 November 2021, the Company entered into the Logistic Support Services Framework Agreement with Logistic Company for a term of two years from 1 January 2022 to 31 December 2023, pursuant to which the Company agrees to subscribe, or procure its subsidiaries to subscribe, and Logistic Company agrees to provide or procure its subsidiaries to provide integrated medical device supply chain logistic services.

LISTING RULES IMPLICATION

As at the date of this announcement, Weigao Holding is the controlling shareholder of the Company and holds approximately 46.43% of the issued share capital of the Company. Accordingly, Weigao Holding and its subsidiaries are connected persons of the Company under Chapter 14A of the Listing Rules. Thus, the transactions contemplated under the Supplemental Agreements, the Services Provision Framework Agreement and the Logistic Support Services Framework Agreement constitute continuing connected transactions of the Company.

As all the applicable percentage ratios (other than the profit ratio) in respect of the Supplemental Agreements (other than the Supplemental Purchase Framework Agreement) and the Services Provision Framework Agreement are less than 5.0%, the above agreements are subject to the reporting, announcement and annual review requirements, but is exempt from the circular and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

As one or more applicable percentage ratios (other than the profit ratio) in respect of the Purchase Framework Agreement (as supplemented by the Supplemental Purchase Framework Agreement) and the Logistic Support Services Framework Agreement are over 5%, the Purchase Framework Agreement (as supplemented by the Supplemental Purchase Framework Agreement) and the Logistic Support Services Framework Agreement are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

EGM

The Independent Board Committee has been formed to consider whether the terms of the Purchase Framework Agreement (as supplemented by the Supplemental Purchase Framework Agreement) and the Logistic Support Services Framework Agreement and the transactions contemplated thereunder, and the corresponding Proposed Annual Caps are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to voting at the EGM. The Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing (i) further details of the transactions contemplated under the Purchase Framework Agreement (as supplemented by the Supplemental Purchase Framework Agreement) and the Logistic Support Services Framework Agreement; (ii) the recommendation of the Independent Board Committee; (iii) the advice of the Independent Financial Adviser; and (iv) a notice convening the EGM will be despatched to the Shareholders on or before 7 December 2021.

THE SUPPLEMENTAL AGREEMENTS

Reference is made to the announcements of the Company dated 5 December 2018, 27 September 2019, 18 December 2019, 20 December 2019, 26 August 2020, 28 October 2020 and 2 November 2020 and the circulars of the Company dated 27 September 2019, 22 September 2020 and 16 November 2020 in relation to, among others, the CCT Agreements.

On 16 November 2021, the Company and/or its subsidiaries entered into the Supplemental Agreements with Weigao Holding and Lanhai Bank to (i) extend the agreement terms of the CCT Agreements to 31 December 2023; and (ii) propose new annual caps for the years ending 31 December 2022 and 2023 (wherever applicable). Save for the aforesaid, all other terms as stipulated in the CCT Agreements remain unchanged. For details of the terms of the CCT Agreements, please refer to the 2018 Announcement and 2019 Announcement.

A. Supplemental Agreement which is subject to the reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules

(1) The Supplemental Purchase Framework Agreement

Under the Purchase Framework Agreement, the Company agrees to purchase or procure its subsidiaries to purchase, and Weigao Holding agrees to sell or procure its subsidiaries to sell medical based products, including but not limited to, medical equipment, medical raw materials, medical packaging materials, pharmaceutical and medical devices.

On 16 November 2021, the Company entered into the Supplemental Purchase Framework Agreement with Weigao Holding to (i) extend the agreement term for two years to 31 December 2023; and (ii) propose new annual caps of RMB 1,300 million and RMB1,500 million for the years ending 31 December 2022 and 2023, respectively. Except for the extension of the duration of the agreement and the proposition of the new annual caps for the years ending 31 December 2022 and 2023, all other terms of the Purchase Framework Agreement remain unchanged.

Historical Transaction Amounts

The actual transaction amounts for the purchases by the Group from Weigao Holding Group for the year ended 31 December 2020 and the nine months ended 30 September 2021 are set out below.

	Year ended 31 December 2020	Nine months ended 30 September 2021
	<i>Approximately RMB</i>	<i>Approximately RMB</i>
Actual transaction amount	1,041.4 million	733.3 million

Proposed Annual Caps

The Proposed Annual Caps in respect of the transactions contemplated under the Purchase Framework Agreement (as supplemented by the Supplemental Purchase Framework Agreement) for the two years ending 31 December 2023 are set out below.

	Year ending 31 December		
	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing annual cap	1,400 million	N/A	N/A
Proposed Annual Caps	– 1,300 million 1,500 million		

The Proposed Annual Caps for the purchases by the Group from Weigao Holding Group are determined with reference to factors including, (i) the historical transaction amount for the year ended 31 December 2020 and the nine months ended 30 September 2021, respectively; and (ii) the anticipated demand for the products supplied by Weigao Holding Group for the years ending 31 December 2022 and 2023 after taking into account the nature of the products, which mainly consist of clinical care products such as masks, protective clothing, scrubs etc., the market development trend as well as the expected business growth of the Group.

B. Supplemental Agreements which are subject to the reporting, announcement, annual review but exempt from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules

(2) *The Supplemental Deposit Services Agreement*

Under the Deposit Services Agreement, Lanhai Bank agrees to provide deposit services to the Group and the Group agrees to utilize such deposit services.

On 16 November 2021, the Company entered into the Supplemental Deposit Services Agreement with Lanhai Bank to (i) extend the agreement term for one year to 31 December 2023; and (ii) propose new annual cap of RMB300 million for the year ending 31 December 2023. Except for the extension of the duration of the agreement and the proposition of the new annual cap for the year ending 31 December 2023, all other terms of the Deposit Services Agreement remain unchanged.

Historical Transaction Amounts

The actual maximum daily balance of deposits (including the interests accrued thereon) placed with Lanhai Bank by the Group for the year ended 31 December 2020 and the nine months ended 30 September 2021 are set out below.

	Year ended 31 December 2020 <i>Approximately</i> <i>RMB</i>	Nine months ended 30 September 2021 <i>Approximately</i> <i>RMB</i>
Actual maximum daily balance of deposits (including the interests accrued thereon)	284 million	179 million

Proposed Annual Caps

The Proposed Annual Caps in respect of the transactions contemplated under the Deposit Services Agreement (as supplemented by the Supplemental Deposit Services Agreement) for the two years ending 31 December 2023 is set out below.

	Year ending 31 December		
	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing annual cap (maximum daily balance of deposits (including the interests accrued thereon))	300 million	300 million	N/A
Proposed Annual Caps (maximum daily balance of deposits (including the interests accrued thereon))	–	–	300 million

The above proposed annual caps for each of the three years ending 31 December 2023 represented approximately 4.8% of the Group's total deposits placed with all financial institutions as of 30 September 2021. In determining the Proposed Annual Caps, the Company had taken into account the historical deposit amount with Lanhai Bank, the cash flow position of the Group and the treasury policy of the Group.

(3) The Supplemental Finance Leasing and Factoring Framework Agreement

Under the Finance Leasing and Factoring Framework Agreement, the Group agrees to provide finance leasing and recourse and non-recourse factoring and other commercial factoring services to Weigao Holding Group.

On 16 November 2021, 山東威高融資租賃有限公司 (Shandong Weigao Financial Leasing Co., Ltd.) and 上海威高融資租賃有限公司 (Shanghai Weigao Financing Lease Co., Ltd.), both are subsidiaries of the Company, entered into the Supplemental Finance Leasing and Factoring Framework Agreement with Weigao Holding to (i) extend the agreement term for two years to 31 December 2023; and (ii) propose new annual caps of RMB500 million for each of the years ending 31 December 2022 and 2023. Except for the extension of the duration of the agreement and the proposition of the new annual caps for the years ending 31 December 2022 and 2023, all other terms of the Finance Leasing and Factoring Framework Agreement remain unchanged.

Historical Transaction Amounts

The actual aggregate value of finance leasing and factoring amount provided by the Group to Weigao Holding Group for the year ended 31 December 2020 and the nine months ended 30 September 2021 are set out below.

	Year ended 31 December 2020 <i>Approximately</i> <i>RMB</i>	Nine months ended 30 September 2021 <i>Approximately</i> <i>RMB</i>
Actual aggregate value of finance leasing and factoring amount	495.7 million	499.3 million

Proposed Annual Caps

The Proposed Annual Caps in respect of the finance leasing and factoring business contemplated under the Finance Leasing and Factoring Framework Agreement (as supplemented by the Supplemental Finance Leasing and Factoring Framework Agreement) for the two years ending 31 December 2023 are set out below.

	Year ending 31 December		
	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing annual cap	500 million	N/A	N/A
Proposed Annual Caps	–	500 million	500 million

The Proposed Annual Caps for the finance leasing and factoring amount provided by the Group to Weigao Holding Group are determined with reference to factors including, (i) the actual aggregate value of finance leasing and factoring amounts for the year ended 31 December 2020 and the nine months ended 30 September 2021; and (ii) the expected demand for finance leasing and factoring services by Weigao Holding Group.

(4) *The Supplemental Sales Framework Agreement*

Under the Sales Framework Agreement, the Company agrees to sell or procure its subsidiaries to sell, and Weigao Holding agrees to purchase or procure its subsidiaries to purchase products including but not limited to, medical devices, carton box and moulding.

On 16 November 2021, the Company entered into the Supplemental Sales Framework Agreement with Weigao Holding to (i) extend the agreement term for two years to 31 December 2023; and (ii) propose new annual caps of RMB500 million for each of the years ending 31 December 2022 and 2023. Except for the extension of the duration of the agreement and the proposition of the new annual caps for the years ending 31 December 2022 and 2023, all other terms of the Sales Framework Agreement remain unchanged.

Historical Transaction Amounts

The actual transaction amounts of sales by the Group to Weigao Holding Group for the year ended 31 December 2020 and the nine months ended 30 September 2021 are set out below.

	Year ended 31 December 2020	Nine months ended 30 September 2021
	<i>Approximately RMB</i>	<i>Approximately RMB</i>
Actual transaction amount	424.6 million	355.7 million

Proposed Annual Caps

The Proposed Annual Caps in respect of the transactions contemplated under the Sales Framework Agreement (as supplemented by the Supplemental Sales Framework Agreement) for the two years ending 31 December 2023 are set out below.

	Year ending 31 December		
	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing annual cap	500 million	N/A	N/A
Proposed Annual Caps	–	500 million	500 million

The Proposed Annual Caps for sales by the Group to Weigao Holding Group are determined with reference to factors including, (i) the actual transaction amounts for the year ended 31 December 2020 and the nine months ended 30 September 2021; (ii) the prospects and overview of the PRC medical device industry; and (iii) the expected business growth and accordingly the increasing product demand from Weigao Holding Group.

(5) The Supplemental Services Framework Agreement

Under the Services Framework Agreement, the Company agrees to subscribe or procure its subsidiaries to subscribe, and Weigao Holding agrees to provide or procure its subsidiaries to provide services including but not limited to, dormitory, catering services and hotel services.

On 16 November 2021, the Company entered into the Supplemental Services Framework Agreement with Weigao Holding to (i) extend the agreement term for two years to 31 December 2023; and (ii) propose new annual caps of RMB40 million and RMB50 million for the years ending 31 December 2022 and 2023, respectively. Except for the extension of the duration of the agreement and the proposition of the new annual caps for the years ending 31 December 2022 and 2023, all other terms of the Services Framework Agreement remain unchanged.

Historical Transaction Amounts

The actual transaction amounts for the services provided by Weigao Holding Group to the Group for the year ended 31 December 2020 and the nine months ended 30 September 2021 are set out below.

	Year ended 31 December 2020 <i>Approximately</i> <i>RMB</i>	Nine months ended 30 September 2021 <i>Approximately</i> <i>RMB</i>
Actual transaction amount	22.9 million	19.9 million

Proposed Annual Caps

The Proposed Annual Caps in respect of the transactions contemplated under the Services Framework Agreement (as supplemented by the Supplemental Services Framework Agreement) for the two years ending 31 December 2023 are set out below.

	Year ending 31 December		
	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing annual cap	90 million	N/A	N/A
Proposed Annual Caps	–	40 million	50 million

The Proposed Annual Caps for the provision of services by Weigao Holding Group to the Group were determined with reference to factors including, (i) the actual transaction amounts for the year ended 31 December 2020 and the nine months ended 30 September 2021; (ii) the number of employees expected to use the catering services; (iii) the number of guests, including investors, customers, business partners expected to use the catering services and hotel services in Weihai, Shandong Province; (iv) the expected number of employees and visitors of the Group for the two years ending 31 December 2023; and (v) the pricing of services to be provided by Weigao Holding Group.

(6) *The Supplemental Tenancy Framework Agreement*

Under the Tenancy Framework Agreement, the Group agrees to lease its premises located at industrial zone at Chucun in Weihai in Shandong Province, the PRC to Weigao Holding Group and receive rentals therefrom.

On 16 November 2021, the Company entered into the Supplemental Tenancy Framework Agreement with Weigao Holding to (i) extend the agreement term for two years to 31 December 2023; and (ii) propose new annual caps of RMB25 million for each of the years ending 31 December 2022 and 2023. Except for the extension of the duration of the agreement and the proposition of the new annual caps for the years ending 31 December 2022 and 2023, all other terms of the Tenancy Framework Agreement remain unchanged.

Historical Transaction Amounts

The actual transaction amounts for the rental received by the Group from Weigao Holding Group for the year ended 31 December 2020 and the nine months ended 30 September 2021 are set out below.

	Year ended 31 December 2020	Nine months ended 30 September 2021
	<i>Approximately RMB</i>	<i>Approximately RMB</i>
Actual transaction amount	12.4 million	8.6 million

Proposed Annual Caps

The Proposed Annual Caps in respect of the transactions contemplated under the Tenancy Framework Agreement (as supplemented by the Supplemental Tenancy Framework Agreement) for the two years ending 31 December 2023 are set out below.

	Year ending 31 December		
	2021	2022	2023
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Existing annual cap	25 million	N/A	N/A
Proposed Annual Caps	–	25 million	25 million

The Proposed Annual Caps for the rental received by the Group from Weigao Holding Group are determined with reference to factors including, (i) the quotation of prevailing market rental rates of premises in proximity to production plant at Chucun in Weihai, Shandong Province; and (ii) the property market development trend at Weihai, Shandong Province.

Reasons for and Benefits of Entering into the Supplemental Agreements

The Company has been conducting business with Weigao Holding and its subsidiaries and associates since the listing of the Company on the Stock Exchange in 2004. Weigao Holding 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 and pharmaceuticals, hotel business, construction, and provision of catering services and logistic services. Upon recent review of the Group's business development and its anticipation of the continuous usage/provision of the products/services by the Group and given that the CCT Agreements (except the Deposit Services Agreement) will expire on 31 December 2021 and the Deposit Services Agreement will expire on 31 December 2022, the Directors proposed to renew all the CCT Agreements to 31 December 2023 by entering into the Supplemental Agreements.

The transactions contemplated under the Supplemental Agreements are expected to be of a recurrent nature and will occur on a regular and a continuing basis in the ordinary and usual course of business of the Group and Weigao Holding Group. The products and services contemplated under the Supplemental Agreements will be negotiated on arm's length basis and comparable with terms available from or to independent third parties.

THE SERVICES PROVISION FRAMEWORK AGREEMENT

Background

On 16 November 2021, the Company entered into the Services Provision Framework Agreement with Weigao Holding, pursuant to which the Company agrees to provide or procure its subsidiaries to provide, and Weigao Holding agrees to subscribe or procure its subsidiaries to subscribe medical related services including but not limited to, sterilization, examination and radiation validation services.

The principal terms of the Services Provision Framework Agreement are set out below:

Date : 16 November 2021

Parties : (i) the Company; and
(ii) Weigao Holding

Duration	:	For a term of two years from 1 January 2022 to 31 December 2023.
Nature of transaction	:	Provision of medical related services by the Group to Weigao Holding Group.
Pricing policy	:	The pricing of the medical related services charged by the Group shall be fair and reasonable and shall not be more favorable than the pricing of similar services provided by the Group to independent third parties during the same period.

Reasons for and Benefits of Entering into the Services Provision Framework Agreement

The Company has been conducting business with Weigao Holding and its subsidiaries and associates since the listing of the Company on the Stock Exchange in 2004. Upon recent review of the Group's transactions with Weigao Holding Group, it is noted that Weigao Holding Group is in need of certain medical related services such as sterilization, examination and radiation validation services, which the Group can provide. As the Group possesses spare capacity to provide the relevant services, the Directors propose to enter into the Services Provision Framework Agreement.

The transactions contemplated under the Services Provision Framework Agreement 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 services contemplated under the Services Provision Framework Agreement will be negotiated on arm's length basis and comparable with terms available from or to independent third parties.

Proposed Annual Caps

The Proposed Annual Caps in respect of the transactions contemplated under the Services Provision Framework Agreement for the two years ending 31 December 2023 are set out below.

	For the year ending	
	31 December	
	2022	2023
	<i>RMB</i>	<i>RMB</i>
Proposed Annual Caps	35 million	40 million

The Proposed Annual Caps for the medical related services provided by the Group to Weigao Holding Group are determined with reference to factors including, (i) the expected demand for the relevant services by Weigao Holding Group; (ii) the pricing of the services to be provided by the Group; and (iii) the expected business growth of Weigao Holding Group.

THE LOGISTIC SUPPORT SERVICES FRAMEWORK AGREEMENT

Background

On 16 November 2021, the Company entered into the Logistic Support Services Framework Agreement with Logistic Company, pursuant to which the Company agrees to subscribe or procure its subsidiaries to subscribe, and Logistic Company agrees to provide or procure its subsidiaries to provide integrated medical device supply chain logistic services.

The principal terms of the Logistic Support Services Framework Agreement are set out below:

Date	:	16 November 2021
Parties	:	(i) the Company; and (ii) Logistic Company
Duration	:	For a term of two years from 1 January 2022 to 31 December 2023.

Nature of transaction : Provision of logistic support services by Logistic Company Group to the Group.

Logistic Company Group delivers the Group's products to its customers (such as hospitals), collect payment from the customers on behalf of the Group and settle the amount paid by the customers (net of the logistic service fees charged by Logistic Company Group) with the Group on a back-to-back basis.

Pricing policy : Logistic Company Group is entitled to 3% of the ultimate pricing paid by customers as logistic service fees. Logistic Company Group should settle the remaining 97% of the ultimate pricing paid by hospital with the Group on a back-to-back basis.

The pricing of the logistic service fee shall be fair and reasonable and shall not be higher than the pricing of similar logistic services provided by independent third parties to the Group prevailing at the time of entering into the Logistic Support Services Framework Agreement. The Group shall compare the rates and terms of the services offered by Logistic Company Group to market rates and terms from time to time to ensure the terms (including pricing and payment) contemplated under the Logistic Support Services Framework Agreement are on normal commercial terms.

The Group negotiates and agrees the pricing of medical consumables and devices products directly with hospitals and nominate logistic operators (including the Weigao Holding Group) to deliver the products. Logistic operators collect the payment from the hospitals on behalf of the Group and the logistic operators settle the payment received from the hospitals with the Group on a back-to-back basis. The settlement amount between the logistic operators and the Group is the net amount after deducting the logistic services fees charged by the logistic operators from the gross amount paid by hospitals. Pursuant to the Logistic Support Services Framework Agreement, the logistic service fee charged by Logistic Company Group represents 3% of the total amount paid by hospitals.

Reasons for Entering into the Logistic Support Services Framework Agreement

In recent years, the PRC medical industry has introduced a number of changes, including but not limited to the centralized volume-based procurement measure (集中帶量採購). Before the implementation of the centralized volume-based procurement measure, hospitals need to invest significant amount of manpower and resources in dealing with different suppliers and managing inventory and warehousing in order to source all the different types of pharmaceutical and consumables/devices products required. Under the centralized volume-based procurement measure, suppliers which are selected for supplying the designated products can only nominate a limited numbers of logistics operators to deliver the medical products to the hospitals. Accordingly, hospitals are then able to streamline the procurement by dealing and settling with limited number of logistics operators instead of numerous number of individual suppliers.

There is an increasing number of hospitals outsourcing their procurement, warehousing and logistics functions to third party Supply, Processing and Distribution (“SPD”) operators to improve management efficiency and reduce operating costs. Third party SPD operators using advanced information systems and bar code identification and other technologies have managed to improve the overall operational efficiency and inventory management of hospitals. The application of QR code technology plays an important role in the traceability of medical consumables as the medical consumables could be tracked throughout the process from purchase to consumption, which can help to improve clinical safety and reduce medical risks and disputes. By outsourcing the procurement and inventory management functions to SPD operators with warehousing facilities located throughout the PRC, advanced information technology and dedicated teams to provide timely delivery of medical products, hospitals have effectively reduced their working capital in respect of procurement and inventory management.

As it becomes more and more popular for hospitals to outsource their procurement and inventory management functions to logistics operators and independent SPD operators, it is important for medical consumables and devices suppliers to establish close relationship and alliance with the logistics and SPD operators to gain access in supplying products to hospitals after being admitted to the approved supplier list of the relevant hospitals.

There are key industry players in the market providing logistics and SPD services to hospitals. Some of these key players are also engaged in the production and/or distribution of pharmaceutical and medical devices. Their integrated services equipped them with competitive advantages in the bidding for the provision of SPD services to hospitals. The operation of logistics and SPD services requires significant amount of financial resources in building up the necessary hardware and software information system, nationwide warehousing facilities and dedicated team in providing quality services to the hospitals. Logistics and SPD operators need to be sizeable enough to maintain sufficient level of inventory to enable timely delivery of products to meet the stringent requirements of hospitals. Logistics and SPD operators are being evaluated on a number of criteria including the size of the warehouses, cold storage area, financial background and the number of past winning bids.

The PRC medical consumables/devices are undergoing consolidation. It is expected that the industry will be dominated by a limited number of medical consumables and devices suppliers which can provide quality products at competitive prices with the support of logistics and SPD operators in the long run. The Logistic Company Group has begun to develop its logistics and SPD services since 2012. It now possesses the necessary information technologies in software and hardware, a nationwide network of warehousing facilities and a dedicated team to provide recognized and quality logistics and SPD services to hospitals.

Besides Logistic Company, the Group also engages other independent third party logistic operators. The logistic service fee charged by independent logistic operators is usually higher than 3% of the total amount paid by hospitals pursuant to the Logistic Support Services Framework Agreement. Therefore, the logistic service fee charged by Logistic Company Group is in general lower than those charged by independent logistic operators.

Based on the above, the Directors proposed to enter into the Logistic Support Services Framework Agreement with Logistic Company so that the Group can enjoy logistic services at a competitive price and establish a long term business relationship with a recognized logistics and SPD operator to further secure a competitive market position in supplying medical consumables and devices to hospitals.

The transactions contemplated under the Logistic Support Services Framework Agreement are expected to be of a recurrent nature and will occur on a regular and a continuing basis in the ordinary and usual course of business of the Group and Weigao Holding Group. The services contemplated under the Logistic Support Services Framework Agreement will be negotiated on arm's length basis and comparable with terms available from or to independent third parties.

Historical Transaction Amounts

(i) The actual amounts settled by Logistic Company Group for sales to hospitals through Logistic Company Group (i.e. the net amount after deducting 3% logistic service fee from the gross amount paid by hospitals); and (ii) the corresponding logistic service fee charged by Logistic Company Group for the year ended 31 December 2020 and the nine months ended 30 September 2021 are set out below.

	Year ended 31 December 2020	Nine months ended 30 September 2021
	<i>Approximately RMB</i>	<i>Approximately RMB</i>
Actual amount settled by Logistic Company Group for sales to hospitals through Logistic Company Group	1,128.2 million	1,396.8 million
Logistic service fee	34.9 million	43.2 million

Proposed Annual Caps

The Proposed Annual Caps in respect of the transactions contemplated under the Logistic Support Services Framework Agreement for the two years ending 31 December 2023 are set out below.

	For the year ending 31 December	
	2022	2023
	<i>RMB</i>	<i>RMB</i>
Proposed Annual Caps		
Total amount settled by Logistic Company Group for sales to hospitals through Logistic Company Group	5,000 million	6,000 million
Logistic service fee	155 million	186 million

The Proposed Annual Caps in respect of the logistic service fee charged by Logistic Company Group are RMB155 million and RMB186 million for the year ending 31 December 2022 and 2023, representing approximately 1.4% and 1.6% of the total revenue of the Group for the year ended 31 December 2020, respectively.

The Proposed Annual Caps for the transactions contemplated under the Logistics Support Services Framework Agreement are determined with reference to factors including, (i) the actual amounts settled by Logistic Company Group for sales to hospitals through Logistic Company Group for the year ended 31 December 2020 and the nine months ended 30 September 2021; (ii) the historical significant growth in the sales of products to hospitals using the logistic services provided by Logistic Company Group during the past few years; (iii) the prospects and overview of the PRC medical device industry; (iv) the historical business and financial growth of the Group and the expected business expansion of the Group; and (v) the increasing number of PRC customers which the Group has sold the products to using the logistic support services provided by Logistic Company Group.

DIRECTORS' VIEW ON ENTERING INTO THE SUPPLEMENTAL AGREEMENTS, THE SERVICES PROVISION FRAMEWORK AGREEMENT AND THE LOGISTICS SUPPORT SERVICES FRAMEWORK AGREEMENT

Mr. Long Jing, Mr. Cong Rinan, Mr. Tang Zhengpeng, Mr. Chen Lin and Mr. Lian Xiaoming, who are also directors of Weigao Holding, have abstained from voting in the relevant resolutions of the board meeting of the Company in respect of the Supplemental Agreements, the Services Provision Framework Agreement and the Logistic Support Services Framework Agreement dated 16 November 2021.

The independent non-executive Directors consider that the Supplemental Agreements (except for the Supplemental Purchase Framework Agreement) and the Services Provision Framework Agreement were entered into in the usual and ordinary course of business of the Group, are conducted on an arm's length basis and on normal commercial terms (including the Proposed Annual Caps), and are fair and reasonable and in the interests of the Company and Shareholders as a whole.

The independent non-executive Directors will give their view on whether the Supplemental Purchase Framework Agreement and the Logistic Support Services Framework Agreement were entered into in the usual and ordinary course of business of the Group, are conducted on an arm's length basis and on normal commercial terms (including the Proposed Annual Caps), and are fair and reasonable and in the interests of the Company and Shareholders as a whole after taking the advice from the Independent Financial Adviser.

INFORMATION REGARDING THE GROUP, WEIGAO HOLDING, LOGISTIC COMPANY AND LANHAI BANK

The Group

The Group is principally engaged in the research and development, production and sale of single-use medical devices and operates finance lease and factoring business in the PRC. The Group has a wide range of products, which cover eight principal business lines of clinical care, wound management, blood management, pharma packaging, medical testing, anesthesia and surgery, orthopaedic products and interventional products. The Group's products are sold under its own brand names, including "Jierui", "Wego Ortho", "Yahua", "Bangde" and "Hai Xing". The products are sold throughout the PRC and exported to overseas.

Weigao Holding

Weigao Holding is a conglomerate corporate and is engaged in different business sectors, including production and sales of pharmaceutical and medical equipment, logistic services, property development, hotel business, and food and beverage services and logistic business in the PRC.

Logistic Company

Logistic Company is a company incorporated under the laws of the PRC with limited liability and is a subsidiary of Weigao Holding. Logistic Company is principally engaged in medical device logistic support services in the PRC.

Lanhai Bank

Lanhai Bank is a registered privately owned bank in the PRC and is principally engaged in provision of deposit services, settlement services, credit services and other financial services.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Weigao Holding is the controlling shareholder of the Company and holds approximately 46.43% of the issued share capital of the Company and Logistic Company is a subsidiary of Weigao Holding. Accordingly, Weigao Holding and Logistic Company are connected persons of the Company under Chapter 14A of the Listing Rules. As Lanhai Bank is a 30% controlled company of Weigao Holding, it is also a connected person of the Company under Chapter 14A of the Listing Rules. Thus, the transactions contemplated under the Supplemental Agreements, the Services Provision Framework Agreement and the Logistic Support Services Framework Agreement constitute continuing connected transactions of the Company.

As all the applicable percentage ratios (other than the profit ratio) in respect of the Supplemental Agreements (other than the Supplemental Purchase Framework Agreement) and the Services Provision Framework Agreement are less than 5.0%, the above agreements are subject to the reporting, announcement and annual review requirements, but is exempt from the circular and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

As one or more applicable percentage ratios (other than the profit ratio) in respect of the Purchase Framework Agreement (as supplemented by the Supplemental Purchase Framework Agreement) and the Logistic Support Services Framework Agreement are over 5%, the Purchase Framework Agreement (as supplemented by the Supplemental Purchase Framework Agreement) and the Logistic Support Services Framework Agreement are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

EGM

The Independent Board Committee has been formed to consider whether the terms of the Purchase Framework Agreement (as supplemented by the Supplemental Purchase Framework Agreement) and the Logistic Support Services Framework Agreement and the transactions contemplated thereunder, and the corresponding Proposed Annual Caps are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to voting at the EGM. The Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing (i) further details of the transactions contemplated under the Purchase Framework Agreement (as supplemented by the Supplemental Purchase Framework Agreement) and the Logistic Support Services Framework Agreement; (ii) the recommendation of the Independent Board Committee; (iii) the advice of the Independent Financial Adviser; and (iv) a notice convening the EGM will be despatched to the Shareholders on or before 7 December 2021.

DEFINITIONS

“2018 Announcement”	the announcement of the Company dated 5 December 2018 in relation to, among others, the CCT Agreements other than the Deposit Services Agreement
“2019 Announcement”	the announcement of the Company dated 20 December 2019 in relation to, among others, the Deposit Services Agreement
“Board”	the board of Directors
“CCT Agreements”	the Deposit Services Agreement, the Finance Leasing and Factoring Framework Agreement, the Purchase Framework Agreement, the Sales Framework Agreement, the Services Framework Agreement and the Tenancy Framework Agreement
“Company”	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), a joint stock limited company incorporated in the PRC with limited liability and the Shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Deposit Services Agreement”	the agreement dated 23 August 2017 entered into between the Company and Lanhai Bank (as amended by the supplemental agreement dated 20 December 2019)
“Director(s)”	the director(s) of the Company

“EGM”	the extraordinary general meeting of the Company to be convened and to consider and, if thought fit, approve, the Purchase Framework Agreement (as amended by the Supplemental Purchase Framework Agreement), the Logistic Support Services Framework Agreement and the transactions contemplated thereunder (including the corresponding Proposed Annual Caps)
“Finance Leasing and Factoring Framework Agreement”	the agreement dated 5 December 2018 entered into between the Group and Weigao Holding (as amended by the supplemental agreement dated 27 September 2019 and 2 November 2020) in relation to the provision of finance leasing and factoring services to Weigao Holding Group
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors
“Independent Financial Adviser”	China Galaxy International Securities (Hong Kong) Co., Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities
“Independent Shareholders”	the Shareholders, other than Weigao Holding, Mr. Chen Lin, Mr. Long Jing and Mr. Cong Rinan and their respective associates (as defined in the Listing Rules)
“Lanhai Bank”	威海藍海銀行股份有限公司 (Weihai Lanhai Banking Corporation*), a registered privately-owned bank incorporated in May 2017 in the PRC, which is a connected person of the Company as it is an associate of Weigao Holding

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Logistic Company”	山東威高醫藥有限公司(Shandong Weigao Medical Company Limited*), a company incorporated under the laws of the PRC with limited liability and a subsidiary of Weigao Holding
“Logistic Company Group”	Logistic Company and its subsidiaries, the subsidiaries of Weigao Holding
“Logistic Support Services Framework Agreement”	the agreement dated 16 November 2021 entered into between the Company and Logistic Company in relation to the provision of Logistic Support Services by Logistic Company
“PRC”	the People’s Republic of China and for the purpose of this announcement excluding Taiwan, Hong Kong and the Macau Special Administrative Region
“Proposed Annual Caps”	the proposed annual caps for the financial years ending 31 December 2022 and 2023 for the transactions contemplated under the Supplemental Agreements (except for the Supplemental Deposit Services Agreement), the proposed annual cap for the financial year ending 31 December 2023 for the transactions contemplated under the Supplemental Deposit Services Agreement and the proposed annual caps for the financial years ending 31 December 2022 and 2023 for the transactions contemplated under the Services Provision Framework Agreement and the Logistic Support Services Framework Agreement
“Purchase Framework Agreement”	the agreement dated 5 December 2018 entered into between the Company and Weigao Holding (as amended by the supplemental agreements dated 27 September 2019, 18 December 2019, 26 August 2020 and 28 October 2020) in relation to the purchase of medical based products from Weigao Holding Group

“RMB”	Renminbi, the lawful currency of the PRC
“Sales Framework Agreement”	the agreement dated 5 December 2018 entered into between the Company and Weigao Holding (as amended by the supplemental agreements dated 18 December 2019 and 2 November 2020) in relation to the sale of products to Weigao Holding Group
“Services Framework Agreement”	the agreement dated 5 December 2018 entered into between the Company and Weigao Holding (as amended by the supplemental agreement dated 2 November 2020) in relation to the provision of services by Weigao Holding Group to the Group
“Services Provision Framework Agreement”	the agreement dated 16 November 2021 entered into between the Company and Weigao Holding in relation to the provision of medical related services by the Group to Weigao Holding Group
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share(s)”	H share(s) of RMB0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreements”	the Supplemental Deposit Services Agreement, the Supplemental Finance Leasing and Factoring Framework Agreement, the Supplemental Purchase Framework Agreement, the Supplemental Sales Framework Agreement, the Supplemental Services Framework Agreement and the Supplemental Tenancy Framework Agreement

“Supplemental Deposit Services Agreement”	the agreement dated 16 November 2021 entered into between parties to the Deposit Services Agreement to extend the duration of the Deposit Services Agreement and propose annual caps for the year ending 31 December 2023
“Supplemental Finance Leasing and Factoring Framework Agreement”	the agreement dated 16 November 2021 entered into between parties to the Finance Leasing and Factoring Framework Agreement to extend the duration of the Finance Leasing and Factoring Framework Agreement and propose annual caps for the years ending 31 December 2022 and 2023
“Supplemental Purchase Framework Agreement”	the agreement dated 16 November 2021 entered into between parties to the Purchase Framework Agreement to extend the duration of the Purchase Framework Agreement and propose annual caps for the years ending 31 December 2022 and 2023
“Supplemental Sales Framework Agreement”	the agreement dated 16 November 2021 entered into between parties to the Sales Framework Agreement to extend the duration of the Sales Framework Agreement and propose annual caps for the years ending 31 December 2022 and 2023
“Supplemental Services Framework Agreement”	the agreement dated 16 November 2021 entered into between parties to the Services Framework Agreement to extend the duration of the Services Framework Agreement and propose annual caps for the years ending 31 December 2022 and 2023
“Supplemental Tenancy Framework Agreement”	the agreement dated 16 November 2021 entered into between parties to the Tenancy Framework Agreement to extend the duration of the Tenancy Framework Agreement and propose annual caps for the years ending 31 December 2022 and 2023

“Tenancy Framework Agreement”	the agreement dated 5 December 2018 entered into between the Company and Weigao Holding (as amended by the supplemental agreement dated 2 November 2020) in relation to the leasing of premises to Weigao Holding Group
“Weigao Holding”	Weigao Holding Company Limited* (威高集團有限公司), a company established under the laws of the PRC with limited liability and a controlling shareholder of the Company, holding approximately 46.43% of the issued share capital of the Company as at the date of this announcement
“Weigao Holding Group”	Weigao Holding and its subsidiaries (other than the Group) and Lanhai Bank
“%”	per cent

By Order of the Board
Shandong Weigao Group Medical Polymer Company Limited
Long Jing
Chairman

Hong Kong, 16 November 2021

As at the date of this announcement, the Board comprises:

Executive Directors

Mr. Long Jing (*Chairman*)

Mr. Cong Rinan (*Chief Executive Officer*)

Non-executive Directors

Mr. Tang Zhengpeng (*Vice Chairman*)

Mr. Chen Lin

Mr. Lian Xiaoming

Independent non-executive Directors

Mr. Lo Wai Hung

Mrs. Fu Mingzhong

Mrs. Wang Jinxia