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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)**

## **CONNECTED TRANSACTION SUPPLEMENTAL ANNOUNCEMENT**

Reference is made to the Announcement. The Company would like to provide additional information in relation to the Acquisition.

### **A. CONSIDERATION**

As explained in the section headed “**Payment terms**” of the Announcement, the consideration for the Acquisition is payable in five instalments. Each instalment is payable in the following manner:

- (i) The first instalment is payable within 20 working days upon satisfaction or waiver by Weigao Ortho of the following conditions (the “**Conditions**”):
  - (1) the shareholders of Weigao Ortho having approved at a shareholders meeting the transactions contemplated under the Equity Transfer Agreement;
  - (2) the representations and warranties provided by the Vendors remaining true and accurate, complete and not misleading;
  - (3) there being no material adverse change to the Target (including but not limited to its operations, business and financials); and

\* *For identification purpose only*

- (4) the Vendors each having obtained the necessary approvals for the transactions contemplated under the Equity Transfer Agreement and having waived their respective pre-emption rights in connection with the Acquisition.
- (ii) The second instalment is payable after 20 but no later than 40 working days after publication of the 2022 audited results of the Target, which shall be published within 4 months after 31 December 2022. If the Conditions are not satisfied prior to the payment deadline of the second instalment, the payment of the second instalment will be postponed to the date which is 5 working days after payment of the first instalment.
- (iii) The third instalment is payable after 20 but no later than 40 working days after publication of the 2023 audited results of the Target, which shall be published within 4 months after 31 December 2023.
- (iv) The fourth instalment is payable after 20 but no later than 40 working days after publication of the 2024 audited results of the Target, which shall be published within 4 months after 31 December 2024.
- (v) The fifth instalment is payable after 20 but no later than 40 working days after publication of the 2025 audited results of the Target, which shall be published within 4 months after 31 December 2025.

## B. PERFORMANCE TARGETS

The Vendors have provided the following performance targets.

	Individual performance target (RMB)				Cumulative performance target (RMB)
	2022	2023	2024	2025	
Net profit ( <i>Note</i> )	55,900,000	67,200,000	83,300,000	100,000,000	306,400,000

(*Note*: Net profit attributable to shareholders of the Target after tax and deducting non-recurring gains and losses)

The actual net profit will be determined by an independent auditor engaged by Weigao Ortho.

### **Individual performance targets**

If an individual performance target for any given year cannot be met, Weigao Ortho shall postpone payment of the relevant tranche of consideration until a date which is 20 days after but no later than 40 working days after publication of the 2025 audited financial results of the Target.

### **Cumulative performance target**

The cumulative performance target will be satisfied if the actual cumulative net profit (i.e. the sum of the actual net profit from 2022 to 2025) meets the cumulative performance target.

If the cumulative performance target is not satisfied, the Vendors shall pay Weigao Ortho within 20 working days of written notification by Weigao Ortho the following amount, subject to a maximum amount equal to the consideration of the Acquisition.

$A = (B-C)/B*D$ , where

A = the amount to be paid by the Vendors;

B = the cumulative performance target;

C = the actual cumulative net profit; and

D = the total consideration of the Acquisition.

## **C. COMPLETION**

The Company would like to clarify that within five working days of payment of the first instalment of the consideration, the parties to the Equity Transfer Agreement agreed to proceed to the relevant authorities for registration of Weigao Ortho as the registered owner of the Target.

As at the date of this announcement, the conditions for the payment of the first instalment of the consideration have been satisfied and payment of the first instalment of the consideration has been made. The registration of Weigao Ortho as the registered owner of the Target has been completed.

## D. BASIS OF THE CONSIDERATION

The total consideration was determined after arm's length negotiation between the parties to the Equity Transfer Agreement and represents the appraised value of RMB1,030 million of the Target as at 31 October 2022 (the "**Benchmark Date**") based on an income approach. As the discounted cash flow method was applied in the aforesaid valuation, the valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules. Set out below are the details of the principal assumptions upon which the valuation is based:

### General assumptions

1. Transaction assumption: assuming that all assets to be valued are in the course of a transaction and the evaluation assessed by the valuer is based on simulated market including terms of transaction of the appraised assets.
2. Open market assumption: assuming that the purchasers and sellers are of equal standing and have opportunities and time and opportunities to obtain information sufficient to appraise the Target and the terms of the transaction and that the parties to the transaction enter into the transaction on a voluntarily basis.
3. Going-concern assumption: the Target would continue to operate as a going concern. It will continue to be used legally and effectively in accordance with its current purpose, scale, frequency, environment and other conditions, and that there will be no material changes in the foreseeable future.
4. Continuous use assumption: assuming, firstly, that the appraised assets are under use, and secondly, the assets under use will be used continuously.
5. There would be no significant change and force majeure events that will have a material adverse impact in the legal, political and macro-economic conditions of the PRC and regions where the parties to the transaction are located.
6. There would be no material change to the interest rates, the rates of taxation and policy levies in relation to the Target.
7. The information provided in relation to the Target is accurate, legal and complete.
8. There will be no force majeure events that will have a material adverse impact on the Target.

## **Special assumptions**

9. The management of the Target is responsible and competent in carrying out their duties.
10. The Target will comply with all the relevant laws and regulations.
11. The accounting principles to be adopted by the Target will be materially consistent with the accounting principles adopted by the Target at the time of the valuation.
12. The Target will maintain the same scope of business and operation methodology under the current level and method of management.
13. The acquisition of the assets involved in the valuation complies with the relevant laws and regulations of the PRC.
14. No material defects, liabilities and restrictions in the assets held by the Target.
15. No significant adverse factors affecting the value of the appraised assets.
16. The leases in connection with the operations of the Target are renewable upon expiry.
17. After the Benchmark Date, the cash inflow of Target is the average inflow, and the cash outflow is the average outflow.
18. Any premium or discount as a result of controlling interest or minority interest was not considered. Any impact of liquidity on the Target was not considered.
19. Taxes or levies arising from the Acquisition was not considered.
20. Taxes or levies (if any) arising from an increase or decrease in the assessed value of the Target was not considered.

Weigao Ortho was informed that the original acquisition cost of the Target for the Vendors was approximately RMB61,380,000.

## DEFINITIONS

In this announcement, in addition to the definitions in the announcement of the Company dated 3 January 2023, the following expressions have the meanings set out below.

“Acquisition”	the acquisition of the 100% equity interest of the Target
“Announcement”	the announcement of the Company dated 3 January 2023 in relation to the Acquisition
“Vendors”	Weigao Biotechnology, Weigao Fusen, Weigao Imaging and Weigao Qiquan

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

15 February 2023  
Weihai, Shandong, the PRC

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

*Executive Director*

Mr. Long Jing  
Mr. Cong Rinan  
Mr. Lu Junqiang  
Mr. Ni Shili

*Non-Executive Director*

Mr. Tang Zhengpeng  
Mr. Chen Lin

*Independent non-executive Director*

Mr. Li Guohui  
Mrs. Meng Hong  
Mr. Li Qiang

*The following is the text extracted from a report received from Moore Stephens CPA Limited.*

30 January 2023

The Board of Directors  
Shandong Weigao Group Medical Polymer Company Limited  
Torch Hi-Tech Science Park  
1 Weigao Road  
Weihai  
Shandong Province  
People's Republic of China

Dear Sirs,

**REPORT ON DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE EQUITY INTEREST IN WEIGAO NEW LIFE MEDICAL EQUIPMENT CO., LTD.**

*To the Board of Directors of Shandong Weigao Group Medical Polymer Company Limited (the "Company")*

We have been engaged to review the accounting policies used and to examine the arithmetical accuracy of the calculations of the discounted future estimated cash flows (the "Underlying Discounted Cash Flows") on which the valuation dated 9 December 2022 prepared by Shandong Zhengyuan Hexin Assets Appraisal Co., Ltd. in respect of the entire equity interest of Weigao New Life Medical Equipment Co., Ltd. (the "Target Company") as at 31 October 2022 (the "Valuation") is based. The Valuation which is based on the Underlying Discounted Cash Flows is regarded as profit forecasts under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

**Directors' Responsibilities**

The directors of the Target Company (the "Directors") are solely responsible for the preparation of the Underlying Discounted Cash Flows using accounting policies adopted in the preparation of the audited financial statements for the period ended 31 October 2022. The Underlying Discounted Cash Flows have been prepared using a set of bases and assumptions (the "Assumptions") determined by the Directors, the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in Section D of the Supplemental Announcement to be dated on or about 15 February 2023. The responsibilities include carrying out appropriate procedures relevant to the preparation of The Underlying Discounted Cash Flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

## **Reporting Accountant's Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management 1 “Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements” issued by the HKICPA which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## **Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion on whether the arithmetical accuracy of the calculations of the Underlying Discounted Cash Flows have been properly compiled, in all material respects, in accordance with the Assumptions on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. The Underlying Discounted Cash Flows does not involve the adoption of accounting policies.

We conducted our engagement in accordance with the terms of our engagement letter and Hong Kong Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Underlying Discounted Cash Flows in accordance with the Assumptions adopted by the Directors. Our work consisted checking the arithmetical accuracy of the calculations of the Underlying Discounted Cash Flows prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Underlying Discounted Cash Flows are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target Company. The Assumptions used in the preparation of the Underlying Discounted Cash Flows include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Discounted Cash Flows and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of, or in connection with our work.

### **Opinion**

Based on the foregoing, in our opinion, the arithmetical accuracy of the calculations of the Underlying Discounted Cash Flows are concerned, have been properly compiled in all material respects, in accordance with the Assumptions adopted by the Directors.

Yours faithfully,

**Moore Stephens CPA Limited**

*Certified Public Accountants*

**Chu Mei Yue, Michelle**

Practising Certificate Number: P05826

*The following is the full text of the letter from Huatai Financial Holdings (Hong Kong) Limited.*

The Board of Directors  
Shandong Weigao Group Medical Polymer Company Limited  
Torch Hi-Tech Science Park  
1 Weigao Road  
Weihai  
Shandong Province  
People's Republic of China

30 January 2023

We refer to the valuation report (the "Valuation") dated 9 December 2022 prepared by, Shandong Zhengyuan Hexin Assets Appraisal Limited (山東正源和信資產評估有限公司)(the "Independent Valuer") in respect of the appraisal of the value of Shandong Weigao New Life Medical Equipment Co., Ltd. (山東威高新生醫療器械有限公司)(the "Target Company") as at 31 October 2022. We noted that the Valuation has been developed based on the discounted cash flow approach which is regarded as a profit forecast (the "Forecast") under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and this letter is issued in compliance with the requirement under Rule 14.62(3) of the Listing Rules.

The principal assumptions upon which the Valuation is based are included in the supplemental announcement of the Company to be dated on or about 15 February 2023 (the "Supplemental Announcement"), of which this letter forms part.

We have reviewed the underlying Forecast of the Valuation, for which you as the directors of the Company are solely responsible. We have attended the discussions involving the management of the Company and the Independent Valuer in respect of the bases and assumptions upon which the Forecast have been made.

We have also considered the letter addressed solely to and for the sole benefit of the directors of the Company from Moore Stephens CPA Limited (the "Auditor") as of 30 January 2023 regarding the calculations upon which the Forecast have been made.

The Forecast has been prepared using a set of assumptions that include hypothetical assumptions about future events and other assumptions that may or may not necessarily be expected to occur and, as such, the Forecast may not be appropriate for purposes other than for deriving the Valuation. Even if the events anticipated under the hypothetical assumptions occur, actual results are still likely to differ from the Forecast since such anticipated events frequently may or may not occur as expected and the variation may be material.

We have not independently verified the computations leading to the Independent Valuer's determination of the value of the Target Company. We have had no role or involvement and have not provided and will not provide any assessment of the value of the Target Company and, accordingly, we take no responsibility and express no views therefor. The assessment, review and discussions carried out by us as described in this letter are based on financial, economic, market and other conditions in effect, and the information made available to us, as of the date of this letter and we have, in arriving at our views, relied on information and materials supplied to us by the Company, the Independent Valuer and the Auditor and opinions expressed by, and representations of, the employees and/or management of the Company, the Independent Valuer and the Auditor. We have assumed, without independent verification, that all information, materials and representations so supplied, including all information, materials and representations referred to or contained in the Supplemental Announcement, for which you as directors of the Company are wholly responsible, were true, accurate, complete and not misleading at the time they were supplied or made and that no material fact or information has been omitted from the information and materials supplied. No representation or warranty, expressed or implied, is made by us on the accuracy, truth or completeness of such information, materials, opinions and/or representations referred to or contained in the Supplemental Announcement, and we have not assumed any responsibility or liability therefor. Circumstances could have developed or could develop in the future that, if known to us at the time of this letter, would have altered our assessment and review.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions selected by the Independent Valuer, for which the Independent Valuer and the Company are responsible, we are satisfied that the Forecast, for which you as the directors of the Company are solely responsible, have been made by you after due and careful enquiry.

The work undertaken by us in giving the above opinion has been undertaken for the purpose of reporting solely to you under Rule 14.62(3) of the Listing Rules and for no other purpose. This letter may not be used or disclosed, referred or communicated (in whole or in part) to any party for any other purpose whatsoever, except with our prior written approval. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Yours faithfully,

For and on behalf of

**Huatai Financial Holdings (Hong Kong) Limited**

**Andy Wai**

*Managing Director,*

*Co-head of Corporate Finance Division,*

*Head of M&A Division*