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)

* For identification purposes only

Interim Report 2017

WEGO威高

SUMMARY

For the six months ended 30 June 2017 (the "Period"), the unaudited turnover of Shandong Weigao Group Medical Polymer Company Limited (the "Company") and its subsidiaries (the "Group") was approximately RMB3,574,127,000, representing an increase of approximately 11.9% over approximately RMB3,195,426,000 for the same period last year.

The unaudited net profit attributable to the shareholders of the Group for the six months ended 30 June 2017 was approximately RMB650,143,000, representing an increase of approximately 68.6% over approximately RMB385,500,000 for the same period last year.

Excluding extraordinary items, net profit attributable to owners of the Company was approximately RMB650,143,000 (same period in 2016 of approximately RMB588,531,000), representing an increase of approximately 10.5 % when compared with the same period last year. The extraordinary items for an amount of approximately RMB203,031,000 due to the implementation of othopaedic award scheme, partly affected the net profit attributable to the owner of the Company for the same period last year.

During the Period, (1) turnover of single-use consumables was approximately RMB2,588,341,000, representing an increase of approximately 10.1% when compared with the same period last year; (2) turnover of orthopaedic products was approximately RMB389,589,000, representing an increase of approximately 14.4% when compared with the same period last year; and (3) turnover of blood purification business was approximately RMB596,197,000, representing an increase of approximately 18.4% over the same period last year.

The Board of Directors (the "Board") recommends the distribution of an interim dividend of RMB0.043 per share for the six months ended 30 June 2017 (same period in 2016: RMB0.041 per share). The proposal is subject to the approval by the shareholders of the Company (the "Shareholders") at the forthcoming special general meeting.

UNAUDITED CONSOLIDATED INTERIM RESULTS

The Board is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2017, together with the unaudited comparative figures for the same period in 2016 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited For the six months ended 30 June	
		2017	2016
	Notes	**RMB'000**	RMB'000
Revenue	*3*	**3,574,127**	3,195,426
Cost of sales		**(1,420,044)**	(1,259,675)
Gross profit		**2,154,083**	1,935,751
Other income, gain and loss		**79,252**	44,874
Distribution costs		**(1,026,998)**	(842,317)
Administration expenses		**(224,942)**	(513,005)
Research and development expenses		**(148,015)**	(143,756)
Finance costs	*5*	**(28,597)**	(26,279)
Share of profit of joint ventures		**642**	1,525
(Loss) gain on disposal of a subsidiary		**1,347**	(389)
Profit before taxation	*6*	**806,772**	456,404
Income tax expense	*7*	**(117,709)**	(89,916)
Profit for the Period		**689,063**	366,488

		Unaudited For the six months ended 30 June	
		2017	2016
	Notes	**RMB'000**	RMB'000
Other comprehensive income			
Exchange difference on translation of foreign operations		**(3,527)**	3,243
Total comprehensive income for the Period		**685,536**	369,731
Profit for the Period attributable to:			
Owners of the Company	*8*	**650,143**	385,500
Non-controlling interest		**38,920**	(19,012)
		689,063	366,488
Total comprehensive income attributable to:			
Owners of the Company		**646,616**	388,743
Non-controlling interest		**38,920**	(19,012)
		685,536	369,731
		RMB	RMB
Earnings per share – Basic	*10*	**0.144**	0.085

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 30 June 2017 (Unaudited) RMB'000**	As at 31 December 2016 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	*11*	**5,863,990**	5,371,152
Investment properties		**80,442**	51,415
Deposits paid for acquiring property, plant and equipment		**72,617**	41,195
Prepaid lease payments	*12*	**504,193**	466,117
Intangible assets		**6,021**	7,360
Sponsorship rights		**35,658**	37,958
Interests in joint ventures	*13*	**113,466**	112,705
Available-for-sale investments		**116,110**	95,411
Goodwill		**202,900**	202,900
Deferred tax assets		**62,638**	59,485
Finance lease receivables		**413,760**	381,741
Loan receivables		**280,600**	246,600
		7,752,395	7,074,039
Current assets			
Inventories	*14*	**966,792**	915,586
Trade and other receivables	*15*	**3,879,998**	3,498,819
Finance lease receivables		**185,124**	158,993
Available-for-sale investments		**140,000**	–
Pledged bank deposits	*16*	**85,990**	36,980
Bank balances and cash	*17*	**3,439,997**	4,071,892
		8,697,901	8,682,270
Current liabilities			
Trade and other payables	*18*	**2,278,775**	2,167,224
Borrowings – repayable within one year		**397,793**	296,400
Taxation payable		**70,909**	106,904
Deferred income-current portion		**7,582**	8,982
Loan from the ultimate holding company		**103,311**	104,411
		2,858,370	2,683,921
Net current assets		**5,839,531**	5,998,349
		13,591,926	13,072,388

	Notes	As at 30 June 2017 (Unaudited) RMB'000	As at 31 December 2016 (Audited) RMB'000
Capital and reserves			
Share capital	*19*	**452,233**	452,233
Reserves	*20*	**11,866,970**	11,414,344
Equity attributable to owners of the Company		**12,319,203**	11,866,577
Non-controlling interest		**394,144**	338,687
Total equity		**12,713,347**	12,205,264
Non-current liability			
Borrowings – repayable after one year		**813,228**	791,800
Deferred income		**65,351**	75,324
		878,579	867,124
		13,591,926	13,072,388

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Unaudited For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Net cash inflow generated from operating activities	**413,832**	234,435
Net cash outflow used in investing activities	**(1,042,337)**	(377,335)
Net cash (outflow) before financing activities	**(628,505)**	(142,900)
Net cash inflow from financing activities	**(6,037)**	244,145
Net increase in cash and cash equivalents	**(634,542)**	101,245
Bank balances and cash as at beginning of Period	**4,071,892**	3,712,153
Effect of foreign exchange rate changes, net	**2,647**	1,512
Bank balances and cash as at end of Period	**3,439,997**	3,814,910

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Balance as at 1 January	**11,866,577**	10,658,177
Net profit for the Period	**650,143**	385,500
Dividends paid	**(205,913)**	(162,804)
Capital injection of minority shareholders	**–**	188,995
Issue of shares	**–**	101,112
Share-based payments	**11,923**	245,393
Exchange gains and losses arising from foreign currency transactions	**(3,527)**	3,243
Balance as at 30 June	**12,319,203**	11,419,616

NOTES:

1. General

The Company was incorporated as a joint stock company with limited liability on 28 December 2000 in Shandong Province, the People's Republic of China (the "PRC") under the Company Law of the PRC. Its ultimate holding company is Weigao Holding Company Limited ("Weigao Holding"), a company registered in the PRC with limited liability.

The Group is principally engaged in the research and development, production and sale of single use medical device, orthopaedic products and blood purification products. The unaudited consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company and its subsidiaries.

2. Basis of preparation and accounting policies

These unaudited condensed consolidated financial statements have been prepared in accordance with No.34 "Interim Financial Reporting" of Hong Kong Accounting Standard ("HKAS") issued by the Hong Kong Institute of Certified Public Accountants, the accounting principles generally accepted in Hong Kong, Hong Kong Financial Reporting Standards and the relevant applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The accounts are prepared under the historical cost convention.

The accounting policies adopted and methods of computation used in the preparation of these consolidated financial information are consistent with those used in the preparation of the financial statements for the year ended 31 December 2016.

The Group has applied various new and amended Hong Kong Financial Reporting Standards and HKAS (collectively referred to as the "new HKFRSs") issued by HKICPA that are effective for accounting periods beginning after 1 January 2008. The adoption of the "new HKFRSs" had no material effect on the presentation of the results for the current accounting period and/or previous accounting years. Therefore, no adjustment has been made for the previous periods.

All significant intra-group transactions balances, income and expenses have been eliminated upon consolidation. The consolidated results for the six months ended 30 June 2017 have not been audited by the Company's auditor but have been reviewed by Audit Committee of the Company.

These financial statements should be read in conjunction with the audited annual financial statements for the year ended 31 December 2016.

3. Revenue

Revenue represents the fair value of the consideration received and receivable for goods sold by the Group to external customers after deducting sales tax and sales returns during the Period.

4. Segment information

The Group is principally engaged in the research and development, production and sale of single-use medical device products, orthopaedic products and blood purification products and its principal place of business is in the PRC.

For management purposes, the Group is currently organised into three operating divisions – single use medical device products, orthopaedic products and blood purification products. These divisions are segmented on the basis of internal reporting of the Group that are regularly reviewed by the chief operating decision maker for allocating resources to the segments and assess their performance.

The principal activities of the Group's operating segments are as follows:

Single-use medical device products	—	production and sale of single-use consumables such as infusion sets, medical needles, syringes, pre-filled syringes, blood bags and wound management products.
Orthopaedic products	—	production and sale of orthopaedic products.
Blood purification products	—	production and sale of blood purification products and related medical equipment.

The segment information and results of those businesses are as follows:

For the six months ended 30 June 2017

	Single-use Medical device products RMB'000	Orthopaedic products RMB'000	Blood purification products RMB'000	Eliminations RMB'000	Total RMB'000
Revenue					
External sales	**2,588,341**	**389,589**	**596,197**	**–**	**3,574,127**
Inter-segment sales	**5,976**	**–**	**44**	**(6,020)**	**–**
Total	**2,594,317**	**389,589**	**596,241**	**(6,020)**	**3,574,127**
Segment profit	**558,818**	**132,272**	**83,928**	**–**	**775,018**
Unallocated expenses					**(9,208)**
Unallocated other income, gain and losses					**(11,343)**
Finance lease income					**29,481**
Bank interest income					**20,835**
Share of profit of joint ventures					**642**
Gain on disposal of a subsidiary					**1,347**
Profit before taxation					**806,772**

For the six months ended 30 June 2016

	Single-use Medical device products RMB'000	Orthopaedic products RMB'000	Blood purification products RMB'000	Eliminations RMB'000	Total RMB'000
Revenue					
External sales	2,351,510	340,512	503,404	–	3,195,426
Inter-segment sales	3,614	10	11,644	(15,268)	–
Total	2,355,124	340,522	515,048	(15,268)	3,195,426
Segment profit	515,646	(153,377)	67,168	–	429,437
Unallocated expenses					(886)
Unallocated other income, gain and losses					26,717
Share of profit of joint ventures					1,525
Share of profit of associates					–
Gain on disposal of a subsidiary					(389)
Profit before taxation					456,404

5. Finance costs

Finance costs for the six months ended 30 June 2017 were approximately RMB28,597,000 (same period in 2016: approximately RMB26,279,000), which mainly included interest expenses on bank and other borrowings.

6. Profit before taxation

	2017 RMB'000	2016 RMB'000
Profit before taxation has been arrived at after charging (crediting) the followings:		
Allowances for bad and doubtful debts	**14,634**	26,397
Amortization of intangible assets (included in administration expenses)	**1,339**	1,557
Depreciation of property, plant and equipment	**171,581**	160,840
Depreciation of investment properties	**953**	886
Prepaid lease payments charged to profit or loss	**5,376**	5,348
Rental payments in respect of premises under operating leases	**13,337**	8,340
Research and development expenditure	**148,015**	143,756
Cost of inventory recognized as expenses	**1,420,044**	1,259,675
Staff costs, including directors' and supervisors' remuneration		
Retirement benefits scheme contribution	**47,297**	45,104
Salaries and other allowances	**665,888**	518,110
Share-based payment expenses	**11,923**	245,393
Total staff costs	**725,108**	808,607
Losses on disposal of property, plant and equipment	**901**	2,952
Interest income	**(20,835)**	(20,150)
Finance lease income	**(29,481)**	(18,108)
Rental income from investment properties	**(3,958)**	(4,784)
Rebate of value-added tax	**(40,082)**	(22,142)

Note: Weihai Jierui Medical Products Company Limited（威海潔瑞醫用製品有限公司）("Jierui Subsidiary") was recognized as a "Social Welfare Entity", and under the "payment then refund" principle, and Weihai Municipal Government had granted Jierui Subsidiary the exemption of paying value-added tax with effect from 1 May 1999. Pursuant to Cai Shui 2016 No. 52 File issued by State Tax Bureau of the Ministry of Finance, with effect from 1 May 2016, the amount of exempted value-added tax granted to Jierui Subsidiary is determined by taking into account the number of employees with disabilities. The value-added tax refund to be granted to Jierui Subsidiary for every employee with disability was based on four times of the minimum wages approved by Weihai Municipal Government.

7. Income tax expense

Under the Law of the People's Republic of China on Enterprise Income Tax ("EIT Law") and Implementation Regulations of EIT Law, the tax rate of PRC subsidiaries is 25%.

In accordance with the "Notice of the Ministry of Finance and the State Administration of Taxation Regarding Certain Preferential Treatment Policies on Enterprise Income Tax", new and high technology enterprises are subject to income tax at a tax rate of 15%.

The Company, Weihai Jierui Medical Products Company Limited ("Jierui Subsidiary"), Shandong Weigao Orthopaedic Device Company Limited ("Weigao Orthopaedic") and Weihai Weigao Blood Purification Product Company Limited ("Weigao BP") were recognized as Shandong Province New and High Technology Enterprises（山東省高新技術企業）, and Changzhou Jianli Bangde Medical Devices Co Ltd ("Changzhou Jianli Bangde") was recognized as Jiangsu Province New and High Technology Enterprises（江蘇省高新技術企業）. Therefore, they are subject to income tax at a rate of 15%.

Jierui Subsidiary was recognised as a "Social Welfare Entity". Pursuant to Cai Shui 2016 No. 52 File issued by State Tax Bureau of the Ministry of Finance, with effect from 1 May 2016, Jierui Subsidiary is also subject to a statutory tax rate but an amount equivalent to the total salaries paid to staff with physical disability is further deducted from the assessable profit of Jierui Subsidiary and the rebate of value-added tax is deducted from the PRC income tax. Jierui Subsidiary is subject to income tax at a tax rate of 15%. The tax charge provided for the period ended 30 June 2017 was made after taking these tax incentives into account.

Taxation for other PRC subsidiaries is computed at a tax rate of 25% (2016: 25%).

No tax provision been made for all the subsidiaries established overseas and in Hong Kong as they did not have assessable profit during the Period.

8. Profit attributable to owners of the Company

For the six months ended 30 June 2017, net profit attributable to owners of the Group were approximately RMB650,143,000 (same period in 2016: approximately RMB385,500,000).

9. Dividends

The Board recommends the distribution of an interim dividend of RMB0.043 per share for the six months ended 30 June 2017 (same period in 2016: RMB0.041 per share).

10. Earnings per share

For the six months ended 30 June 2017, basic earnings per share were calculated based on the net profits attributable to shareholders of approximately RMB650,143,000 (same period in 2016: approximately RMB385,500,000) and the weighted average total number of shares of 4,522,332,324 shares (same period in 2016: 4,522,332,324 shares).

For the six months ended 30 June 2017, diluted earnings per share were not presented as there were no potential dilutive shares during the periods.

11. Property, plant and equipment

	Construction in progress RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office RMB'000	Total RMB'000
COST						
As at 1 January 2016	1,681,609	1,837,306	1,780,762	70,986	670,370	6,041,033
Additions	579,088	–	123,727	6,320	62,846	771,981
Transfer	(587,676)	471,416	78,496	829	36,935	–
Disposals	–	(5,355)	(39,459)	(4,881)	(38,159)	(87,854)
As at 31 December 2016	1,673,021	2,303,367	1,943,526	73,254	731,992	6,725,160
Additions	638,893	2,683	52,913	5,151	18,247	717,887
Transfer	(88,287)	161	59,896	222	28,008	–
Transfer to investment properties	–	(35,519)	–	–	–	(35,519)
Transfer from investment properties	–	1,360	–	–	–	1,360
Disposals	–	–	(34,167)	(5,598)	(26,758)	(66,523)
As at 30 June 2017	2,223,627	2,272,052	2,022,168	73,029	751,489	7,342,365
Depreciation						
As at 1 January 2016	2,314	144,039	622,499	41,700	264,537	1,075,089
Provision for the year	–	63,875	181,560	3,054	95,792	344,281
Eliminated on disposals	–	(3,821)	(33,002)	(4,781)	(23,758)	(65,362)
As at 31 December 2016	2,314	204,093	771,057	39,973	336,571	1,354,008
Provision for the year	–	36,175	89,122	3,467	42,817	171,581
Transfer to investment properties	–	(4,308)	–	–	–	(4,308)
Transfer from investment properties	–	129	–	–	–	129
Eliminated on disposals	–	–	(19,955)	(4,562)	(18,518)	(43,035)
As at 30 June 2017	2,314	236,089	840,224	38,878	360,870	1,478,375
Carrying values						
As at 30 June 2017	2,221,313	2,035,963	1,181,944	34,151	390,619	5,863,990
As at 31 December 2016	1,670,707	2,099,274	1,172,469	33,281	395,421	5,371,152

12. Prepaid lease payments

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
The Group's prepaid lease payments comprise		
Leasehold land in PRC		
Medium-term lease	**516,062**	478,630
Analysed for reporting purposes as		
Current portion	**11,869**	12,513
Non-current portion	**504,193**	466,117
	516,062	478,630

13. Interests in joint ventures

Name	Form of Business structure	Place of Incorporation or registration/ operation	Proportion of nominal value of registered capital held by the Group		Principal activities
			30 June 2017	31 December 2016	
Weigao Nikkiso (Weihai) Dialysis Equipment Co., Ltd. ("Weigao Nikkiso")	Sino-foreign joint venture	PRC	**51%**	51%	Manufacture, sale and after-sale service of Nikkiso technology based medical products.
Weigao Terumo (Weihai) Medical Products Co., Ltd. ("Weigao Terumo")	Sino-foreign joint venture	PRC	**50%**	50%	Production and sales of medical products.

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Cost of unlisted investment, at cost	117,990	117,990
Share of post-acquisition loss	(4,524)	(5,285)
	113,466	112,705

14. Inventories

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Raw materials	161,327	125,349
Finished goods	805,465	790,237
	966,792	915,586

15. Trade and other receivables

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
0 to 90 days	**1,747,280**	1,609,794
91 to 180 days	**758,024**	726,236
181 to 365 days	**580,212**	426,610
Over 365 days	**173,715**	167,762
Trade receivables	**3,259,231**	2,930,402
Bills receivables	**249,677**	251,373
Other receivables	**191,885**	214,952
Prepayments	**167,336**	89,579
Prepaid lease payments	**11,869**	12,513
	3,879,998	3,498,819

16. Pledged bank deposits

The amounts represented deposits pledged to banks to secure the banking facilities granted to the Group. The amounts had been pledged to secure against the short term bank loans and banking facilities and are therefore classified as current assets. The deposits carry interest rates of 0.35% to 1.95% (same period in 2016: 0.35% to 2.50%) per annum.

17. Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of one year or less, the highest fixed interest rate of which is 0.35% to 2.50% (same period in 2016: 0.35% to 2.25%) per annum. As at 30 June 2017, the fair value of these bank balances approximate their corresponding carrying amount.

18. Trade and other payables

	30/6/2017 (Unaudited) RMB'000	31/12/2016 (Audited) RMB'000
0 to 90 days	**410,763**	391,252
91 to 180 days	**68,902**	65,150
181 to 365 days	**17,301**	10,627
Over 365 days	**23,103**	29,109
Trade payables	**520,069**	496,138
Bills payable	**116,720**	98,010
Advances from customers	**79,824**	90,758
Other tax payables	**101,624**	101,304
Construction cost and retention payable	**215,777**	243,757
Selling expense payables	**549,184**	550,186
Other payables	**500,924**	494,913
Dividend payables	**194,653**	92,158
	2,278,775	2,167,224

19. Share capital

	Nominal value of each share	Number of Non-listed shares	Number of H shares	Total number of shares	Value
	RMB				RMB'000
At 1 January 2016	0.1	2,592,640,000	1,883,732,324	4,476,372,324	447,637
Increase at 31 December 2016	0.1	45,960,000	–	45,960,000	4,596
At 31 December 2016	0.1	2,638,600,000	1,883,732,324	4,522,332,324	452,233
At 30 June 2017	0.1	2,638,600,000	1,883,732,324	4,522,332,324	452,233

20. Movement in reserves

	Share capital	Share premium reserve	Statutory surplus reserve	Translation reserve	Share-based payments reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000 (Note)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	447,637	2,478,544	257,956	5,771	13,066	9,262	7,445,941	10,658,177	128,646	10,786,823
Profit for the year	–	–	–	–	–	–	1,105,933	1,105,933	31,659	1,137,592
Exchange differences arising on translation of foreign operations – subsidiaries	–	–	–	8,749	–	–	–	8,749	–	8,749
Total comprehensive income for the year	–	–	–	8,749	–	–	1,105,933	1,114,682	31,659	1,146,341
Ordinary shares issued under a share award scheme	4,596	96,516	–	–	–	(101,112)	–	–	–	–
Capital contribution by non-controlling interests	–	–	–	–	(238,860)	427,618	–	188,758	122,353	311,111
Share-based payments	–	–	–	–	249,641	–	–	249,641	56,029	305,670
Transfer to statutory surplus reserve	–	–	–	–	–	–	–	–	–	–
Dividends recognised as distribution	–	–	–	–	–	–	(344,681)	(344,681)	–	(344,681)
At 31 December 2016	452,233	2,575,060	257,956	14,520	23,847	335,768	8,207,193	11,866,577	338,687	12,205,264
Profit for the year	–	–	–	–	–	–	650,143	650,143	38,920	689,063
Exchange differences arising on translation of foreign operations – subsidiaries	–	–	–	(3,527)	–	–	–	(3,527)	–	(3,527)
Total comprehensive income for the year	–	–	–	(3,527)	–	–	650,143	646,616	38,920	685,536
Issue of shares	–	–	–	–	–	–	–	–	–	–
Capital contribution by non-controlling interests	–	–	–	–	–	–	–	–	16,537	16,537
Share-based payments	–	–	–	–	11,923	–	–	11,923	–	11,923
Dividend paid	–	–	–	–	–	–	(205,913)	(205,913)	–	(205,913)
At 30 June 2017	452,233	2,575,060	257,956	10,993	35,770	335,768	8,651,423	12,319,203	394,144	12,713,347

Notes:

(a) Bases for appropriation to reserves

Appropriation to statutory surplus reserve and statutory public welfare fund have been calculated based on the net profits in the financial statement prepared under the generally accepted accounting principles in the PRC ("PRC GAAP").

(b) Statutory surplus reserve

The Articles of Association of the companies under the Group (other than overseas companies) requires that 10% of the profit after taxation for each year should be transferred to the statutory surplus reserve in accordance with the PRC GAAP, until it has reached 50% of the registered capital. Pursuant to the Articles of Association of the companies under the Group, under normal circumstances, statutory surplus reserves can only be used to make up for the losses, convert into share capital by way of capitalization, and for the expansion of the Company's production and operation scope. In the event of converting the statutory surplus reserve into share capital by way of capitalization, it should not result that the balance of such reserves will be less than 25% of the registered capital.

(c) Statutory public welfare fund

According to the Company Law of PRC and the amended Articles of Association of the Company, from 1 January 2006 onwards, the companies under the Group ceased to transfer funds from statutory public welfare fund. The statutory public welfare fund as at 31 December 2005 was part of the share capital of the shareholders, which cannot be distributed other than for the purpose of liquidation. Pursuant to the board resolution of the Company, in accordance with the Company Law of the PRC, the Company transferred an amount of RMB17,147,000 from statutory public welfare fund to the statutory surplus reserve on 1 January 2006.

According to the laws and regulations of the PRC, the distributable profit of the Company was determined at the lower of such amount computed based on the accounting principles and regulations of the PRC or the generally accepted accounting principles in Hong Kong. As at 30 June 2017, the retained earnings available for distribution to shareholders was approximately RMB3,058,882,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Optimization adjustments to product mix

During the Period, the gross profit margin of the Group decreased to 60.3% from 60.6% in the same period last year, which was mainly attributable to the increase in raw materials costs, the Group is adopting positive countermeasures, making efforts to technological enhancement, striving to improve operational and management efficiency to offset the adverse impact from the increase in raw materials.

During the Period, the percentage of turnover from high value-added products (products with gross profit margins of over 60%) of the Group to the total turnover was 57.3% (same period last year: 57.5%). The performance of the Group in three business segments was as follows:

1. Single-use consumables: During the Period, the principal products segment of the Group achieved a turnover of approximately RMB2,588,341,000, representing an increase of 10.1% over the same period last year.

   During the Period, the infusion sets for special use and the infusion sets made of proprietary non-PVC based material continued to grow. The turnover of infusion sets of the Group amounted to approximately RMB806,464,000, representing an increase of 6.4% over the same period last year. The specialized infusion sets with precision filter, infusion sets for clinical special use and non-PVC based infusion sets have development potential in the PRC. The Group will continue to focus on the research and development of such kind of products.

During the Period, the needle products of the Group recorded a turnover of approximately RMB471,676,000, representing an increase of 10.5% when compared with the same period last year. In view of the intensive competition from needle markets, the Company made active adjustments to product mix and continued to increase marketing investments and intensified the efforts in new products research and development, whereby leading to an increase in overall revenue of such kind of products through sales of safety intravenous catheter and intravenous catheter ancillary consumables, to enable such business to become one of the important segments for the development of the Company.

During the Period, the syringes of the Group recorded a turnover of approximately RMB401,935,000, representing an increase of 9.0% when compared with the same period last year.

During the Period, turnover of pre-filled syringes and pre-filled flush syringe products amounted to approximately RMB368,972,000, representing an increase of 26.5% when compared with the same period last year. The pre-filled syringes and pre-filled flush syringes achieved a sound utilization of production capacity. With market penetration of pre-filled syringes in multiple series and industries, it continues to maintain a rapid growth. Pre-filled flush syringes continued to maintain a relatively high growth momentum, whereby driving the overall growth of consumables. The Group continued to establish a favourable position in such market.

2. The blood purification business of Weigao BP had achieved a growth momentum. During the Period, it recorded a turnover of approximately RMB596,197,000, representing an increase of 18.4% when compared with the same period last year. Haemodialysis consumable products recorded a turnover of approximately RMB472,564,000, representing an increase of 16.6% when compared with the same period last year. Haemodialysis machine recorded a turnover of approximately RMB123,633,000, representing an increase of 25.8% when compared with the same period last year.

3. During the Period, the orthopaedic business recorded a turnover of approximately RMB389,589,000, representing an increase of 14.4% as compared with the same period last year.

The orthopaedic segment generated better sales growth through downstream channel distribution, logistics platform establishment and expanded direct sales business. The new types of spine and joint products, continued to launch to the market which, provided strong supports for sales growth.

RESEARCH AND DEVELOPMENT

For the six months ended 30 June 2017, the Group obtained 4 new patents and 75 new patents are under application. Product registration certificates for 5 new products were obtained. The research and development for 45 products were completed for which application for product registration certificates are underway.

The strategy of placing strong emphasis on research and development has enhanced the Company's core competitiveness and laid a solid foundation for the Company to fully leverage on its customer resources and provided the Group with continuous new profit growth drivers.

As at 30 June 2017, the Group had over 380 product registration certificates and over 470 patents, of which 61 were patents on invention.

In view of the need for the strategic adjustments to product mix, the Group continued to invest in the research and development in existing products series and new medical devices, so as to further improve its product series and expand product range. For the six months ended 30 June 2017, total research and development expenses amounted to approximately RMB148,015,000 (same period in 2016: approximately RMB143,756,000), representing 4.1% (same period in 2016: 4.5%) of the turnover of the Group.

PRODUCTION

During the Period, the Group continued to implement strategy on product mix adjustment by increasing the proportion of high value-added products while decreasing the production of low value-added products sales with low return rate, and enhanced the contribution rate for each product type. At the same time, the Group proactively improved in production process to reduce production costs, thereby improving the overall profitability of the Company.

SALES AND MARKETING

The Group persisted to implement the strategy in integrating its sales channels and adjusting its product mix. For the six months ended 30 June 2017, the Group newly added 3 hospitals, 1 other medical institution and 16 distributors to its customer base. As at the date of this report, the Group has a customer base of 5,428 (including 3,149 hospitals, 414 blood stations, 679 other medical units and 1,186 distributors).

Sales comparison by geographical regions for the Period when compared with the same period last year is set out as follows:

TURNOVER BY GEOGRAPHICAL SEGMENTS

Regions	2017		2016		Growth
	RMB'000	**%**	RMB'000	%	%
Eastern and Central	**1,514,442**	**42.4**	1,400,889	43.8	8.1
Northern	**801,186**	**22.4**	651,927	20.4	22.9
Northeast	**394,613**	**11.0**	332,058	10.4	18.8
Southern	**300,736**	**8.4**	276,102	8.6	8.9
Southwest	**290,320**	**8.1**	293,833	9.2	(1.2)
Northwest	**119,573**	**3.3**	104,985	3.3	13.9
Overseas	**153,257**	**4.4**	135,632	4.3	13.0
Total	**3,574,127**	**100.0**	3,195,426	100.0	11.9

The integration of sales channels has strengthened the Group's market penetration and influence over the direct sales to high-end customers. It enhanced sales contribution per customer and average sales per customer increased by approximately 9.6% when compared with same period last year. It continued to drive up the product penetration to high-end customers and is an important way to generate revenue growth of the Group.

Adjustment in product mix was another important factor in enhancing the results for the Period. During the Period, the Group focused on sales and marketing of high value-added products such as needle products and infusion sets for special use. Comparison of sales revenue of principal products with that in last year is as follows:

	For the six months ended 30 June		
Product category	**2017**	2016	Over corresponding period
	RMB'000	RMB'000	%
Single-use consumables			
Infusion sets	**806,464**	757,905	6.4
Needles	**471,676**	426,823	10.5
Syringes	**401,935**	368,622	9.0
Pre-filled syringes	**368,972**	291,732	26.5
Blood bags	**140,671**	132,650	6.0
Wound management	**90,845**	83,956	8.2
Blood sampling products	**49,649**	43,357	14.5
PVC granules	**29,310**	27,064	8.3
Other consumables	**228,819**	219,401	4.3
Subtotal for single-use consumables	**2,588,341**	2,351,510	10.1
Orthopaedic products	**389,589**	340,512	14.4
Blood purification consumables	**472,564**	405,161	16.6
Blood purification equipments	**123,633**	98,243	25.8
Total	**3,574,127**	3,195,426	11.9

HUMAN RESOURCES

As at 30 June 2017, the Group employed a total of 10,693 employees. The breakdown by departments when compared with last year is as follows:

Department	**As at 30 June 2017**	As at 31 December 2016
Production	**5,897**	5,882
Sales and marketing	**2,693**	2,642
Research and development	**1,116**	1,099
Finance and administration	**511**	495
Quality control	**230**	218
Management	**178**	172
Purchasing	**68**	67
Total	**10,693**	10,575

Save for the 4 employees (including company secretary) who are resided in Hong Kong and Europe, other employees of the Group are resided in Mainland China. During the Period, total cost of salaries, welfare and social benefits of the Group amounted to approximately RMB725,108,000 (same period in 2016: approximately RMB808,607,000).

Remuneration System

The Group's remuneration policy has been determined based on its performance, changes in the local consumption power and competition in human resources market. The remuneration policy so determined has become the basis of determining the salary level of employees recruited for different positions. The salary of each employee is determined according to the employee's performance, ability, employment conditions and the salary standards set by the Company. Remuneration of directors is proposed by the Remuneration Committee with reference to the operating results of the Company, personal performance of the directors and market competition. The proposed remuneration of directors is proposed by the Board subject to approval by shareholders at forthcoming annual general meeting.

FINANCIAL REVIEW

For the six months ended 30 June 2017, the Group recorded a turnover of approximately RMB3,574,127,000, representing an increase of 11.9% over the same period last year. Net profit attributable to shareholders was approximately RMB650,143,000, representing an increase of approximately 68.6% as compared to the same period of last year. Net profit attributable to owners of the Company excluding extraordinary items was approximately RMB650,143,000 (same period in 2016: approximately RMB588,531,000), representing an increase of approximately 10.5% over the same period of the previous year. The extraordinary items for an amount of approximately RMB203,031,000 due to the implementation of othopaedic award scheme, partly affected the net profit attributable to the owner of the Company for the same period last year.

Liquidity and Financial Resources

The Group has maintained a sound financial position. As at 30 June 2017, the Group's cash and bank balance amounted to approximately RMB3,439,997,000. For the six months ended 30 June 2017, net cash flow from operating activities of the Group amounted to approximately RMB413,832,000. The Group has maintained a sound cash flow position.

Total interest expenses of the Group for the six months ended 30 June 2017 were approximately RMB28,597,000 (same period in 2016: approximately RMB26,279,000).

Gearing Ratio

As at 30 June 2017, the Group had an unaudited net cash of approximately RMB2,125,665,000 (same period last year: RMB2,716,010,000) and the gearing ratio of the Group was 10.7%, compared to 9.4% as of the same period last year. The gearing ratio which represents total debt as a percentage of total capital. Total debt is calculated as total borrowings. Total capital is calculated as the Group's shareholders' fund.

Foreign Exchange Risks

The Group's purchases and sales are mainly conducted in the PRC. All of its assets, liabilities and transactions are denominated in RMB. For the six months ended 30 June 2017, the Group had not encountered any material difficulty due to currency fluctuation nor had it affected its funds for operation purpose. For the six months ended 30 June 2017, the Group had no significant exposure to foreign exchange fluctuation nor hedging for such risk.

Due to the fluctuation in exchange rates, foreign exchange gain equivalent to RMB2,647,000 (same period in 2016: foreign exchange gain equivalent to RMB1,512,000) for the six months ended 30 June 2017 was recognized by the Company.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2017.

Material Investments in Subsidiaries/Future Material Investment Plans

1. During the Period, the Group continued to invest approximately RMB452,309,000 on purchase of land, production facilities and plant construction for the purpose of enhancing the overall construction of the industrial zone for the Group's medical consumables.

2. Plan to invest RMB290,000,000 for constructing the fifth and the sixth production lines for blood purification and dialyzer respectively, the fifth production line of which is expected to conduct trial production by the end of 2017, and all of which to be in full production by 2018.

3. Plan to invest RMB80,000,000 for expanding the production capacity of pre-filled syringes, which is expected to commence production by the end of 2019.

4. Invested RMB40,000,000 for expanding the production capacity of flush syringes, which was already put into production.

Save for the above material investments and investment plans, the Group had no material capital commitments or any future plans involving significant investments or capital assets acquisition as at 30 June 2017, and there was no material acquisition and disposal of any other subsidiaries and associates since the beginning of this year.

Capital Commitment

As at 30 June 2017, the capital commitment that the Group and the Company had contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment amounted to approximately RMB772,087,000 (same period in 2016: approximately RMB341,464,000).

Review and Outlook

During the Period, the single use consumable products including safety intravenous catheters, functional infusion sets, pre-filled flush and radiation-resistant infusion sets continued to maintain a relatively high growth momentum. The market position of orthopedic spine products continued to consolidate, and market expansion for high-end joints products achieved a breakthrough. The reduction in manufacturing cost resulted from the supply chain management enhancement carried out by the Company partially offset the increase in raw materials and labour costs. The Company faced the complicated influences of domestic lowering tender prices, control on medical expenditure of medical insurance, restriction on outpatient infusion service, and reform of "two-invoices system" that gradually implemented in the distribution sector of medical devices in each province, which brought adverse impact on the sales of the Company to a certain extent.

Looking forward into the second half of 2017, the Company believes that, in view of the slowdown in growth of medical device market and the changes in medical device industry policies and intensifying competition in the industry, the Group will place emphasis on the followings:

1. Use the existing product lines as a base, adopt safe, high-efficiency, convenient, environmentally friendly clinical direction to reduce patients' pain to further the specification of product functions, improve and enrich product series through constantly satisfying specific requirements. Add stability and strength to market leading products including functional infusion sets, safety intravenous catheters, spines products and dialyzers, increase efforts to promote the sales of new product series represented by pre-filled flush, radiation-resistant infusion sets, high-end joints, orthopedic biomedical products and high flux blood dialyzer.

2. Optimize the marketing organization system and continue to select customer resources to expand the size of key accounts management and increase the coverage rate and penetration rate of product line through enhancing the sales and service qualities of key accounts management. Strengthen the clinical academic promotion standard of high-tech products and new products. In order to adapt to the domestic "two-invoices system" policy in distribution fields of medical devices, the orthopaedic team target to establish a sales management model in accordance with the requirements of "two-invoices system", so as to realize the extension and downstream channel distribution.

3. By establishing regional distribution centers, adjusting the inventory management model to further market penetration to improve the coverage of orthopedic business.

4. By keeping pace with international advanced manufacturing technology, integrating product characteristics and years of experience in processing and manufacturing to enhance the process and automation, further improve product quality and increase production efficiency. By leveraging on the advanced manufacturing to improve costs, relieving the pressure brought by the adverse factors such as tender pricing decline and increasing costs of production.

5. Proactively engage in overseas market layout, assess overseas marketing capacity of products, carry out local registration procedures of overseas sales products in a systematic manner, establish overseas local sales institution, build a sales team to adapt to the sales in overseas markets, and develop localized sales network resources.

   Seek globally the medical device technologies and enterprises with synergy, commence to cooperate or operate by various means to improve the overall strength of the Group through integrating global high-quality resources.

   By relying on its enriched product lines and solid research and development advantages, continue to launch new products and improve product upgrades, insist on adapting to market and future-oriented operating strategy, and motivate employee creativity, the management believes that the Company will maintain its leading position in the PRC market and achieve a stable growth in operating results.

SHARE AWARD SCHEME REGARDING NON-LISTED SHARES

On 17 November 2014 (the "**Adoption Date**"), the Company's share award scheme ("**Incentive Share Scheme**") was adopted by the extraordinary general meeting, the class meeting of holders of H shares and the class meeting of holders of non-listed shares of the Company. The maximum number of non-listed Shares which may be issued under the share award scheme would be 223,818,616, which represent 5% of the issued share capital of the Company or approximately 4.76% of the issued share capital of the Company as enlarged by the issue of the 223,818,616 non-listed shares as of the date of the Adoption Date, respectively, as incentive shares to key personnel of the Group, and other persons as approved by the Remuneration Committee (the "**Selected Employee**"), in batches in subsequent years. On 11 December 2015, the first batch of the Incentive Share Scheme granted 45,960,000 shares. The life of the Incentive Share Scheme is for 10 years. None of the Selected Employee is a connected person of the Company, the Company will comply with the requirements of the Listing Rules and seek separate approval of the independent shareholders before the grant of any incentive shares to the connected person. Details of the Incentive Share Scheme are set out in the Company's announcement and circular dated 15 August 2014 and 30 September 2014, respectively.

According to the Incentive Share Scheme, the incentive shares will be granted to the Selected Employee, subject to vesting conditions. The remuneration committee may, from time to time and at its absolute discretion, select any eligible participant to participate in the Share Award Scheme, and determine the number of non-listed shares that the Selected Employee is entitled to subscribe, the length of the vesting period to be fulfilled prior to the exercise of the subscription rights, and vesting conditions and other conditions, including any lock-up period and/or performance target, that must be satisfied for the exercise of the subscription right. The vesting period for such 45,960,000 shares is ranged from one year to five years.

On 11 December 2015, the Company granted first 45,960,000 incentive shares to 111 Selected Employees and the Company has increased authorised non-listed shares at year end of 2015. The Trustees paid the initial grant price of RMB2.20 per share.

There were no award shares granted by the Company during the Period.

			As at 30/6/2016			As at 30/6/2017				
Grant Date	**Grantees**	**Grant Price**	**Granted**	**Vested**	**Unvested**	**Granted**	**Vested**	**Unvested**	**Vesting Date**	**Lock Up Period**
11/12/2015	111 Employees	RMB2.2 per share	45,960,000	14,380,000	31,580,000	**45,960,000**	**14,380,000**	**31,580,000**	To be vested in five tranches with the vesting date on 31 December of each year from 2015 to 2019	2 years following vested

* Award Shares that are not vested and/or are forfeited in accordance with the terms of the Share Award Scheme are hold by the Trustee to be applied towards future awards in accordance with the provisions of the Share Award Scheme.

PROPOSED INTERIM DIVIDEND

The Board of Directors (the "**Board**") recommended the distribution of an interim dividend of the RMB0.043 per share (same period in 2016: RMB0.041 per share) for the six months ended 30 June 2017. Such proposal is subject to the approval of the shareholders of the Company (the "**Shareholders**") at the forthcoming special general meeting ("**Special General Meeting**") to be held on 23 October 2017.

SPECIAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

Attending and Voting in the Special General Meeting

In order to determine the shareholders who are entitled to attend and vote at the Special General Meeting, the register of members of the Company for both H Shares and Non-listed Shares will be closed from Saturday, 23 September 2017 to Monday, 23 October 2017 (both days inclusive), during which period no transfer of H Shares or Non-listed Shares will be effected. In order to qualify for attending and voting in 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 22 September 2017.

In order to qualify for attending and voting in the Special General Meeting:–

Latest time to lodge in transfer instrument accompanied by the share certificates for H Shares	4:30 p.m., Friday, 22 September 2017
Closure of register of members of the Company for attending and voting in the Special General Meeting	Saturday, 23 September 2017 to Monday, 23 October 2017 (both days inclusive)
Latest time to lodge in the reply slip	Friday, 29 September 2017
Date of the Special General Meeting	Monday, 23 October 2017

Entitlement of Interim dividend

In order to determine entitlement to the interim dividend payment, the register of members of the Company for both H Shares and Non-listed Shares will be closed from Saturday, 28 October 2017 to Thursday, 2 November 2017 (both days inclusive), during which period no transfer of H Shares or Non-listed Shares will be effected. In order to qualify for entitlement of the interim dividend, holders of H Shares 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 22/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 27 October 2017.

In order to qualify to entitle the interim dividend for the six months ended 30 June 2017:–

Latest time to lodge in transfer instrument accompanied by the share certificates for H Shares	4:30 p.m., Friday, 27 October 2017
Closure of register of members of the Company for entitlement of the interim dividend for the six months ended 30 June 2017	Saturday, 28 October 2017 to Thursday, 2 November 2017 (both day inclusive)
Record date for the entitlement of the interim dividend	Thursday, 2 November 2017
Expected despatch date of the interim dividend	Friday, 8 December 2017

The interim dividend will be despatched at the risk of those entitled thereto to their respective registered addresses on or before Friday, 8 December 2017. The applicable exchange rate for converting RMB into Hong Kong dollar for the purpose of the interim dividend payment will be based on the average middle exchange rate of Renminbi as quoted by the People's Bank of China for the calendar week proceeding 23 October 2017, the date on which the interim dividend to be declared.

DISCLOSURE OF INTERESTS

Directors' Interests and Long Position in Shares

As at 30 June 2017, the interests of the directors in the share capital of the Company and their associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("**SFO**")), (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities transactions by Directors of Listed Companies (the "**Model Code**") contained in the Listing Rules:

(i) Long positions of 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	0.716%
Mr. Wang Yi	Personal	Beneficial owner	23,400,000	0.517%
Mrs. Zhou Shu Hua	Personal	Beneficial owner	15,300,000	0.338%

In addition, Mr. Chen Lin, son of Mr. Chen Xue Li, a director of Weigao Holding Company Limited is holder of the Company's 200,000 non-listed Shares, representing 0.004% of the issue share capital of the Company.

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

Name of director	Capacity	Amount of registered capital	Approximate percentage of the registered capital of Weigao Holding
Weihai Weigao International Medical Investment Holding Company Limited* *(Note)*	Registered owner	1,078,000,000	89.83%
Mr. Chen Xue Li	Beneficial owner	69,540,000	5.79%
Mr. Zhang Hua Wei	Beneficial owner	21,960,000	1.83%
Mrs. Zhou Shu Hua	Beneficial owner	12,200,000	1.02%
Mr. Wang Yi	Beneficial owner	4,880,000	0.41%

Note: 威海威高國際醫療投資控股有限公司 (Weihai Weigao International Medical Investment Holding Company Limited*) is owned as to 61.87% by Mr. Chen Xue Li, 15.96% by Mr. Zhang Hua Wei, 8.87% by Mrs. Zhou Shu Hua, 3.55% by Mr. Wang Yi and 7.09% by Mr. Chen Lin.

Other than as disclosed above, none of the Directors nor their associates had any interests or short positions in any shares of the Company or any of its associated corporations as at the date of this report.

Name of substantial shareholder	Number of H shares interested		% of issued H share capital	
JP Morgan Chase & Co.	220,992,357	(L)	11.73	(L)
	3,260,000	(S)	0.17	(S)
	210,307,638	(P)	11.16	(P)
Joho Partners L.P.	189,747,038	(L)	10.07	(L)
Karr Robert A.	189,747,038	(L)	10.07	(L)
RAK Capital, LLC	189,747,038	(L)	10.07	(L)
Capital Research and Management Company	114,662,000	(L)	6.09	(L)
BlackRock, Inc.	110,368,917	(L)	5.86	(L)
	4,240,000	(S)	0.23	(S)

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

MAJOR CUSTOMERS AND SUPPLIERS

For the six months ended 30 June 2017, the largest supplier of the Group and the other four largest suppliers accounted for 4.8% and 12.1% respectively of the Group's total purchases.

For the six months ended 30 June 2017, the largest customer of the Group and the other four largest customers accounted for 0.8% and 3.5% respectively of the Group's total sales.

At no time during the Period, none of a director, an associate of a director or shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) have an interest in any of the five largest customers or suppliers.

CORPORATE GOVERNANCE

The Board of Directors of the Company recognizes the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability and is committed to the maintenance of good corporate governance practices and procedures.

During the Period, the Company has also applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices and Corporate Governance Code ("**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"), except for the deviation that Code Provision A4.1 which stipulates that non-executive directors should be appointed for a specific term. Independent non-executive directors do not have a specific term of appointment, but subject to retirement by rotation and re-election at the general meeting.

Board of Directors

The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of overall business strategies, internal control and risk management systems, and monitoring the performance of the senior management. The management is responsible for the daily operations of the Group under the leadership of the chief executive officer. The Directors have the responsibility to act objectively in the interests of the Company.

Currently, the Board comprises 8 Directors, including four executive Directors, one non-executive Directors and three independent non-executive Directors.

To comply with Rule 3.10(1) of the Listing Rules, the Board currently comprises three independent non-executive Directors who are independent under the independence criteria and are capable to effectively exercise independent judgment. Amongst the three independent non-executive Directors, Mr. Lo Wai Hung has the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2) of the Listing Rules.

Disclosure of Information on Director and Supervisor

Pursuant to Rule 13.51B of the Listing Rules, no changes of information on director and supervisor has been recorded during the Period.

Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the standard for securities transactions by Directors. The Company has made enquiries of all the Directors and all the Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions.

Internal Control

Directors are responsible for reviewing the internal control and risk management system of the Company periodically to ensure its effectiveness and efficiency. With the support of the internal audit department, they will review the practices, procedures, expenditure and internal control of the Company and its subsidiaries on a regular basis. The management will regularly monitor the concerns as reported by the internal audit department to ensure appropriate remedial measures have been implemented. The Board or senior management can also request the internal audit group to review the specific scope of concerns and report the significant findings of such review to the Board and the audit committee.

The Board has conducted a review of the effectiveness of the system of internal control of the Group.

Audit Committee

The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Company. The Audit Committee comprises Mr. Lo Wai Hung, Mrs. Fu Ming Zhong and Mrs. Wang Jin Xia, being independent non-executive Directors and Mrs. Zhou Shu Hua, a non-executive Director. Mr. Lo Wai Hung is the chairman of the Committee.

The Company's financial statements for the six months ended 30 June 2017 have been reviewed by the Audit Committee. The Audit Committee considered that the relevant financial statements have been prepared in compliance with the applicable accounting principles and requirements of the Stock Exchange and other laws, and adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the reporting Period.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the Period was the Company, its ultimate holding company or any subsidiaries of its ultimate holding company, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

COMPETING INTERESTS

So far as the Directors are aware, for the six months ended 30 June 2017, none of the Directors or management shareholders of the Company (as defined in the Listing Rules) or their respective associates have an interest in a business which competes or may compete with the business of the Group, or have any other conflict of interest with the Group.

REVIEW OF INTERIM RESULTS

The unaudited interim results for the six months ended 30 June 2017 have been reviewed by the Audit Committee.

By Order of the Board
Shandong Weigao Group Medical Polymer Company Limited
Zhang Hua Wei
Chairman

23 August 2017

Weihai, Shandong, the PRC

As at the date of this report, the Board comprises Executive Directors, namely Mr. Zhang Hua Wei, Mr. Wang Yi, Mr. Gong Jian Bo and Mr. Xia Lie Bo, and Non-executive Director, namely Mrs. Zhou Shu Hua, and Independent Non-executive Directors, namely Mr. Lo Wai Hung, Mrs. Fu Ming Zhong and Mrs. Wang Jin Xia.