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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)**

# ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

## SUMMARY

For the six months ended 30 June 2018 (the "Period"), the unaudited revenue of Shandong Weigao Group Medical Polymer Company Limited (the "Company") and its subsidiaries (the "Group") was approximately RMB4,150,498,000, representing an increase of approximately 39.4% over approximately RMB2,977,930,000 for the same period last year.

The unaudited net profit attributable to the shareholders of the Group for the six months ended 30 June 2018 was approximately RMB650,060,000, representing a decrease of approximately 0.01% over approximately RMB650,143,000 for the same period last year.

Excluding extraordinary items, net profit attributable to owners of the Company was approximately RMB762,090,000 (same period in 2017: approximately RMB650,143,000), representing an increase of approximately 17.2% when compared with the same period last year. During the Period, extraordinary items include increase in cost of good sold of approximately RMB75,707,000 for the current period from inventory appreciation based on valuation resulted from the acquisition of Argon Medical Devices Holdings, Inc. ("Argon") and a one-off transaction expenses of approximately RMB36,323,000 for the acquisition of Argon.

* *For identification purpose only*

During the Period, on 23 January, the Group, through a 90%-owned joint venture, completed the acquisition of Argon. Argon will become one of the core overseas platforms of the Group.

During the Period, the existing business segment of the Group (excluding Argon) recorded a turnover of approximately RMB3,556,310,000, representing an increase of approximately 19.4% from the same period last year; realized profit attributable to the shareholders of the Company of approximately RMB735,931,000, representing an increase of approximately 13.2% from the same period last year. During the Period, Argon achieved a turnover of approximately RMB594,188,000 and profit attributable to the shareholders of the Company of approximately RMB26,159,000, excluding extraordinary items.

The board of directors (the "Board") proposed the distribution of an interim dividend for the six months ended 30 June 2018 of RMB0.049 per share (same period in 2017: RMB0.043 per share). The proposal is subject to the approval of shareholders of the Company ("Shareholders") at the forthcoming extraordinary 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 2018, together with the unaudited comparative figures for the same period in 2017 (restated) as follows:

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | **Unaudited For the six months ended 30 June** | |
|---|---|---|---|
| | | **2018** | 2017 (restated) |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| Revenue | *3* | **4,150,498** | 2,977,930 |
| Cost of sales | | **(1,649,489)** | (1,118,254) |
| Gross profit | | **2,501,009** | 1,859,676 |
| Other income, gain and loss | | **74,656** | 80,447 |
| Distribution costs | | **(1,169,129)** | (883,322) |
| Administration expenses | | **(396,280)** | (184,213) |
| Research and development expenses | | **(141,694)** | (135,482) |
| Finance costs | *5* | **(112,057)** | (17,820) |
| Share of profit of an associate | | **15,690** | 50,211 |
| (Loss) gain on disposal of a subsidiary | | **–** | 1,347 |
| Profit before taxation | *6* | **772,195** | 770,844 |
| Income tax expense | *7* | **(111,127)** | (103,235) |
| Profit for the Period | | **661,068** | 667,609 |

| | | Unaudited For the six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 (restated) |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| Other comprehensive income | | | |
| Exchange difference on translation of foreign operations | | **58,084** | (3,527) |
| Total comprehensive income for the Period | | **719,152** | 664,082 |
| Profit for the Period attributable to: | | | |
| Owners of the Company | *8* | **650,060** | 650,143 |
| Non-controlling interest | | **11,008** | 17,466 |
| | | **661,068** | 667,609 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **702,240** | 646,616 |
| Non-controlling interest | | **16,912** | 17,466 |
| | | **719,152** | 664,082 |
| | | ***RMB*** | *RMB* |
| Earnings per share – Basic | *10* | **0.145** | 0.144 |

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | **As at 30 June 2018 (Unaudited)** *RMB'000* | As at 31 December 2017 (Restated) *RMB'000* |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | *11* | **4,261,051** | 3,912,137 |
| Investment properties | | **141,292** | 186,956 |
| Deposits paid for acquiring property, plant and equipment | | **97,909** | 69,865 |
| Prepaid lease payments | *12* | **399,678** | 405,035 |
| Intangible assets | | **2,434,942** | 41,947 |
| Interests in associates | *13* | **953,190** | 937,500 |
| Available-for-sale investments | | **–** | 81,517 |
| Financial assets at fair value through profit or loss | | **82,267** | – |
| Goodwill | | **3,218,497** | 202,900 |
| Deferred tax assets | | **62,600** | 60,628 |
| Finance lease receivables | | **358,024** | 354,081 |
| Loan receivables | | **1,479,480** | 1,474,260 |
| | | **13,488,930** | 7,726,826 |
| Current assets | | | |
| Inventories | *14* | **1,009,941** | 805,562 |
| Loan receivables | | **497,963** | 497,963 |
| Trade and other receivables | *15* | **4,131,340** | 3,683,676 |
| Finance lease receivables | | **124,060** | 186,259 |
| Financial assets at fair value through other comprehensive income | | **290,277** | – |
| Pledged bank deposits | *16* | **91,316** | 96,178 |
| Bank balances and cash | *17* | **2,964,232** | 3,784,553 |
| | | **9,109,129** | 9,054,191 |

| | Notes | As at 30 June 2018 (Unaudited) RMB'000 | As at 31 December 2017 (Restated) RMB'000 |
|---|---|---|---|
| Current liabilities | | | |
| Trade and other payables | 18 | **2,636,495** | 2,022,113 |
| Borrowings – repayable within one year | | **225,138** | 97,906 |
| Contractual liabilities | | **48,405** | – |
| Taxation payable | | **131,336** | 75,976 |
| Deferred income-current portion | | **4,158** | 4,158 |
| Loan from the ultimate holding company | | **105,510** | 103,311 |
| | | **3,151,042** | 2,303,464 |
| Net current assets | | **5,958,087** | 6,750,727 |
| | | **19,447,017** | 14,477,553 |
| Capital and reserves | | | |
| Share capital | 19 | **452,233** | 452,233 |
| Reserves | 20 | **13,386,863** | 12,882,272 |
| Equity attributable to owners of the Company | | **13,839,096** | 13,334,505 |
| Non-controlling interest | | **612,378** | 303,945 |
| Total equity | | **14,451,474** | 13,638,450 |
| Non-current liabilities | | | |
| Borrowings – repayable after one year | | **4,636,036** | 804,271 |
| Deferred income | | **32,753** | 34,832 |
| Deferred income tax liabilities | | **326,754** | – |
| | | **4,995,543** | 839,103 |
| | | **19,447,017** | 14,477,553 |

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

| | Unaudited<br>For the six months<br>ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Net cash inflow generated from operating activities | **960,208** | 413,832 |
| Net cash outflow used in investing activities | **(3,266,724)** | (1,042,337) |
| Net cash (outflow) before financing activities | **(2,306,516)** | (628,505) |
| Net cash inflow from financing activities | **1,436,577** | (6,037) |
| Net increase in cash and cash equivalents | **(869,939)** | (634,542) |
| Bank balances and cash as at beginning of Period | **3,784,553** | 4,071,892 |
| Effect of foreign exchange rate changes, net | **49,618** | 2,647 |
| Bank balances and cash as at end of Period | **2,964,232** | 3,439,997 |

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Unaudited For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Balance as at 1 January | **13,334,505** | 11,866,577 |
| Net profit for the Period | **650,060** | 650,143 |
| Dividends paid | **(205,913)** | (205,913) |
| Business combination under common control | **(3,659)** | – |
| Share-based payments | **11,923** | 11,923 |
| Exchange gains and losses arising from foreign currency transactions | **52,180** | (3,527) |
| Balance as at 30 June | **13,839,096** | 12,319,203 |

## 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 and listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in February 2004 and migrated to the main board in the Stock Exchange in July 2010. Its ultimate holding company is 威海威高國際醫療投資控股有限公司 (Weihai Weigao International Medical Investment Holding Company Limited), a company registered in the PRC with limited liability.

The Group is leading in development, manufacturing and marketing of single use medical devices and a total solution provider in the medical devices sector in China. The unaudited consolidated financial statements are presented in Renminbi ("RMB"), as RMB 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 Standards ("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 2017.

During the current Period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations. The Group has initially adopted HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's consolidated financial statements.

***(a) Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers and the related Amendments***

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group generated most of its revenue from the production and sales of medical device.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

*Summary of effects arising from initial application of HKFRS 15*

As at 1 January 2018, advance payments from customers included in other payables of approximately RMB74,206,000 were reclassified to contract liabilities.

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these condensed consolidated financial statements.

***(b) Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments***

In the current Period, the Group has adopted HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and expected credit losses ("ECL") for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

*Summary of effects arising from initial application of HKFRS 9*

*Available-for-sale investments*

On the date of initial application of HKFRS 9, the Group elected to reclassify all investment funds previously classified as available-for-sale investments of approximately RMB81,517,000 to financial assets measured at fair value through profit and loss.

Bills receivable are held within a business model whose objective is achieved by both collecting contractual cash flows and endorsing the bills receivable to suppliers, and the contractual terms give rise to cash flows on specified dates that are solely payments of cash. Accordingly, bills receivable amounting to approximately RMB241,598,000 as at 1 January 2018 were classified to financial assets measured at fair value through other comprehensive income.

Except as described above, the application of HKFRS 9 has had no material impact on the amounts reported set out in these condensed consolidated financial statements.

The application of the other new and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

During the Period, as the acquisition of the Group for 山東明德生物醫學工程有限公司 (Shandong Mingde Biomedical Engineering Co., Ltd.*), a subsidiary of Weigao Holding, constituted business combination under common control, figures during corresponding period in relevant statements in this report have been restated.

These financial statements should be read in conjunction with the audited annual financial statements for the year ended 31 December 2017.

## 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 medical device products, orthopaedic products, interventional products, pharma packaging products, blood management products and finance lease and factoring businesses in the PRC.

For management purposes, the Group is currently organised into six operating divisions – medical device products, orthopaedic products, interventional products, pharma packaging, blood management and others. 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:

| | | |
|---|---|---|
| medical device products | – | production and sale of clinical nursing care, wound management, medical testing, anesthesia and surgical related products. |
| orthopaedic products | – | production and sale of orthopaedic products. |
| interventional products | – | production and sale of interventional devices of tumor, vascular and imaging intervention. |
| pharma packaging products | – | production and sale of pre-filled syringes and pre-filled flush syringes. |
| blood management | – | production and sale of blood bag products and blood transfusion equipment. |
| Others | – | finance lease and factoring businesses. |

The operating segment regarding the manufacture and sale of blood purification products was discontinued in 2017. The following segment information does not include any amount from this discontinued operation.

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

For the six months ended 30 June 2018

| | Medical device products *RMB'000* | Orthopaedic products *RMB'000* | Interventional products *RMB'000* | Pharma packaging *RMB'000* | Blood management *RMB'000* | Others *RMB'000* | Eliminations *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | |
| External sales | **2,293,267** | **523,640** | **680,570** | **473,538** | **179,483** | **–** | **–** | **4,150,498** |
| Inter-segment sales | **89** | **3,200** | **1,474** | **–** | **–** | **–** | **(4,763)** | **–** |
| Total | **2,293,356** | **526,840** | **682,044** | **473,538** | **179,483** | **–** | **(4,763)** | **4,150,498** |
| Segment profit | **404,490** | **152,359** | **(29,125)** | **166,231** | **48,249** | **22,518** | **–** | **764,722** |
| Depreciation of investment properties | | | | | | | | **(2,568)** |
| Unallocated other income, gain and losses | | | | | | | | **(40,496)** |
| Bank interest income | | | | | | | | **34,847** |
| Share of profit of an associate | | | | | | | | **15,690** |
| Profit before taxation | | | | | | | | **772,195** |

For the six months ended 30 June 2017

| | Medical device products *RMB'000* | Orthopaedic products *RMB'000* | Interventional products *RMB'000* | Pharma packaging *RMB'000* | Blood management *RMB'000* | Others *RMB'000* | Eliminations *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | |
| External sales | 1,993,711 | 389,589 | 70,267 | 369,928 | 154,435 | – | – | 2,977,930 |
| Inter-segment sales | 83 | – | – | – | – | – | (83) | – |
| Total | 1,993,794 | 389,589 | 70,267 | 369,928 | 154,435 | – | (83) | 2,977,930 |
| Segment profit | 354,311 | 132,272 | 32,337 | 131,415 | 40,755 | 22,525 | – | 713,615 |
| Depreciation of investment properties | | | | | | | | (953) |
| Unallocated other income, gain and losses | | | | | | | | (13,447) |
| Bank interest income | | | | | | | | 20,071 |
| Share of profit of an associate | | | | | | | | 50,211 |
| Gain on disposal of a subsidiary | | | | | | | | 1,347 |
| Profit before taxation | | | | | | | | 770,844 |

## 5. Finance costs

Finance costs for the six months ended 30 June 2018 were approximately RMB112,057,000 (same period in 2017: approximately RMB17,820,000), which were mainly interest expenses on bank borrowings.

## 6. Profit before taxation

| | Unaudited For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 (restated) |
| | ***RMB'000*** | *RMB'000* |
| Profit before taxation has been arrived at after charging (crediting) the followings: | | |
| Allowances for bad and doubtful debts | **19,085** | 14,727 |
| Amortization of intangible assets (included in administration expenses) | **100,889** | 1,339 |
| Depreciation of property, plant and equipment | **152,977** | 120,892 |
| Depreciation of investment properties | **2,568** | 953 |
| Prepaid lease payments charged to profit or loss | **4,487** | 4,151 |
| Rental payments in respect of premises under operating leases | **15,219** | 13,337 |
| Research and development expenditure | **141,694** | 135,482 |
| Cost of inventory recognized as expenses | **1,649,489** | 1,118,254 |
| Staff costs, including directors' and supervisors' remuneration | | |
| Retirement benefits scheme contribution | **46,985** | 36,603 |
| Salaries and other allowances | **678,923** | 532,385 |
| Share-based payment expenses | **11,923** | 11,923 |
| Total staff costs | **737,831** | 580,911 |
| Losses on disposal of property, plant and equipment | **540** | 10 |
| Interest income | **(40,067)** | (28,558) |
| Finance lease income | **(31,490)** | (29,481) |
| Rental income from investment properties | **(7,979)** | (3,958) |
| Rebate of value-added tax | **(40,189)** | (40,082) |

*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, Jierui Subsidiary and Shandong Weigao Orthopaedic Device Company Limited ("Weigao Orthopaedic") 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 an income tax at a tax rate of 15% and an amount equivalent to the total salaries paid to staff with physical disability is further deducted from the assessable profit of Jierui Subsidiary. The tax charge provided for the period ended 30 June 2018 was made after taking these tax incentives into account.

Taxation for other PRC subsidiaries is computed at a tax rate of 25% (2017: 25%).

In the US, the Group is subject to the Federal corporate income tax at a tax rate of 21% plus tax rate of state governments.

## 8. Profit attributable to owners of the Company

For the six months ended 30 June 2018, net profit attributable to owners of the Group were approximately RMB650,060,000 (same period in 2017: approximately RMB650,143,000).

## 9. Dividends

The Board recommends the distribution of an interim dividend of RMB0.049 per share for the six months ended 30 June 2018 (same period in 2017: RMB0.043 per share).

## 10. Earnings per share

For the six months ended 30 June 2018, basic earnings per share were calculated based on the net profits attributable to shareholders of approximately RMB650,060,000 (same period in 2017: approximately RMB650,143,000) and the weighted average total number of shares of 4,476,372,324 shares (same period in 2017: 4,476,372,324 shares).

For the six months ended 30 June 2018, 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<br>*RMB'000* | Freehold land<br>*RMB'000* | Buildings<br>*RMB'000* | Plant and machinery<br>*RMB'000* | Motor vehicles<br>*RMB'000* | Furniture, fixtures equipment and tools<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|---|---|
| COST | | | | | | | |
| As at 1 January 2017 | 1,673,021 | – | 2,303,367 | 1,943,526 | 73,254 | 731,992 | 6,725,160 |
| Additions | 864,938 | – | 117,827 | 130,177 | 12,478 | 69,832 | 1,195,252 |
| Transfer | (770,472) | – | 600,924 | 112,953 | 220 | 56,375 | – |
| Acquisition of a subsidiary (not under common control) | – | – | 5,825 | 426 | – | 1,882 | 8,133 |
| Acquisition of a subsidiary (under common control) | – | – | – | 31 | – | 58 | 89 |
| Transfer to investment properties | – | – | (149,557) | – | – | – | (149,557) |
| Transfer from investment properties | – | – | 1,360 | – | – | – | 1,360 |
| Disposals | – | – | – | (23,940) | (5,780) | (33,149) | (62,869) |
| Disposals of subsidiaries | (1,047,555) | – | (598,742) | (755,490) | (13,347) | (113,377) | (2,528,511) |
| As at 31 December 2017 | 719,932 | – | 2,281,004 | 1,407,683 | 66,825 | 713,613 | 5,189,057 |
| Additions | 288,980 | – | – | 32,578 | 4,469 | 21,358 | 347,385 |
| Transfer | (43,591) | – | 511 | 13,368 | 23 | 29,689 | – |
| Acquisition of a subsidiary | 20,563 | 10,801 | 46,613 | 24,229 | 35 | 10,329 | 112,570 |
| Transfer to investment properties | – | – | – | – | – | – | – |
| Transfer from investment properties | – | – | 45,227 | – | – | – | 45,227 |
| Disposals | – | – | (16) | (9,198) | (2,061) | (5,563) | (16,838) |
| As at 30 June 2018 | 985,884 | 10,801 | 2,373,339 | 1,468,660 | 69,291 | 769,426 | 5,677,401 |

| | Construction in progress RMB'000 | Freehold land RMB'000 | Buildings RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Furniture, fixtures equipment and tools RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| Depreciation | | | | | | | |
| As at 1 January 2017 | 2,314 | – | 204,093 | 771,057 | 39,973 | 336,571 | 1,354,008 |
| Provision for the year | – | – | 72,220 | 185,571 | 7,928 | 91,373 | 357,092 |
| Transfer to investment properties | – | – | (8,556) | – | – | – | (8,556) |
| Transfer from investment properties | – | – | 129 | – | – | – | 129 |
| Eliminated on disposals | – | – | – | (18,036) | (4,590) | (18,637) | (41,263) |
| Disposals of subsidiaries | – | – | (41,401) | (292,838) | (5,169) | (45,082) | (384,490) |
| As at 31 December 2017 | 2,314 | – | 226,485 | 645,754 | 38,142 | 364,225 | 1,276,920 |
| Provision for the year | – | 127 | 42,662 | 63,104 | 3,204 | 43,880 | 152,977 |
| Transfer to investment properties | – | – | – | – | – | – | – |
| Transfer from investment properties | – | – | 2,131 | – | – | – | 2,131 |
| Eliminated on disposals | – | – | (2,575) | (8,607) | (1,487) | (3,009) | (15,678) |
| As at 30 June 2018 | 2,314 | 127 | 268,703 | 700,251 | 39,859 | 405,096 | 1,416,350 |
| Carrying values | | | | | | | |
| As at 30 June 2018 | 983,570 | 10,674 | 2,104,636 | 768,409 | 29,432 | 364,330 | 4,261,051 |
| As at 31 December 2017 | 717,618 | – | 2,054,519 | 761,929 | 28,683 | 349,388 | 3,912,137 |

## 12. Prepaid lease payments

| | **30 June 2018 (Unaudited)** ***RMB'000*** | 31 December 2017 (Audited) *RMB'000* |
|---|---|---|
| The Group's prepaid lease payments comprise | | |
| Leasehold land in PRC | | |
| Medium-term lease | **409,608** | 414,014 |
| Analysed for reporting purposes as | | |
| Current portion | **9,930** | 8,979 |
| Non-current portion | **399,678** | 405,035 |
| | **409,608** | 414,014 |

## 13. INTERESTS IN AN ASSOCIATE

| Name | Form of Business structure | Place of incorporation or registration /operation | Proportion of nominal value of registered capital held by the Group 30 June 2018 | 31 December 2017 | Principal activities |
|---|---|---|---|---|---|
| Weihai Weigao Blood Purification Products Company Limited ("Weigao Blood Purification") | Incorporation | PRC | **46.875%** | 46.875% | Manufacturing of hemo-dialysis products and provision of related services. |

| | **30 June 2018 (Unaudited)** *RMB'000* | 31 December 2017 (Audited) *RMB'000* |
|---|---|---|
| Cost of unlisted investment, at cost | **937,500** | 937,500 |
| Share of post-acquisition earnings | **15,690** | – |
| | **953,190** | 937,500 |

## 14. Inventories

| | **30 June 2018 (Unaudited)** *RMB'000* | 31 December 2017 (Restated) *RMB'000* |
|---|---|---|
| Raw materials | **251,051** | 118,238 |
| Finished goods | **758,890** | 687,324 |
| | **1,009,941** | 805,562 |

## 15. Trade and other receivables

| | 30 June 2018 (Unaudited) *RMB'000* | 31 December 2017 (Restated) *RMB'000* |
|---|---|---|
| 0 to 90 days | **1,771,022** | 1,163,561 |
| 91 to 180 days | **802,228** | 1,009,557 |
| 181 to 365 days | **516,689** | 423,621 |
| Over 365 days | **309,334** | 254,729 |
| Trade receivables | **3,399,273** | 2,851,468 |
| Receivables from factoring business | **287,279** | 281,525 |
| Bills receivable | **–** | 241,598 |
| Other receivables | **272,675** | 176,411 |
| Prepayments | **162,183** | 123,695 |
| Prepaid lease payments | **9,930** | 8,979 |
| | **4,131,340** | 3,683,676 |

## 16. Pledged bank deposits

The amounts represented deposits pledged to banks to secure bank credit facilities granted to the Group. The amounts had been pledged to secure against the short-term bank loans and bank credit facilities and are therefore classified as current assets. The bank deposits carry interest rates of 0.35% to 1.75% (same period in 2017: 0.35% to 1.95%) 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 1.10% to 4.50% (same period in 2017: 0.35% to 2.50%) per annum. As at 30 June 2018, the fair value of these bank deposits approximate to their corresponding carrying amount.

## 18. Trade and other payables

| | **30 June 2018 (Unaudited) *RMB'000*** | 31 December 2017 (Restated) *RMB'000* |
|---|---|---|
| 0 to 90 days | **498,092** | 382,298 |
| 91 to 180 days | **90,054** | 77,192 |
| 181 to 365 days | **50,449** | 10,617 |
| Over 365 days | **34,958** | 27,312 |
| Trade payables | **673,553** | 497,419 |
| Bills payable | **180,000** | 154,660 |
| Advances from customers | **–** | 74,206 |
| Other tax payables | **136,301** | 109,476 |
| Construction cost and retention payables | **82,851** | 61,930 |
| Selling expense payables | **802,011** | 644,154 |
| Other payables | **567,413** | 480,268 |
| Dividend payables | **194,366** | – |
| | **2,636,495** | 2,022,113 |

## 19. Share Capital

| | **Nominal value of each share** *RMB* | **Number of unlisted shares** | **Number of H shares** | **Total number of shares** | **Value** *RMB'000* |
|---|---|---|---|---|---|
| As at 1 January 2017 | 0.1 | 2,638,600,000 | 1,883,732,324 | 4,522,332,324 | 452,233 |
| As at 31 December 2017 | 0.1 | 2,638,600,000 | 1,883,732,324 | 4,522,332,324 | 452,233 |
| As at 30 June 2018 | 0.1 | – | 4,522,332,324 | 4,522,332,324 | 452,233 |

*Note:* 2,638,600,000 unlisted or domestic shares were converted into H shares with effect from 8 August 2018.

## 20. Movement in reserves

| | Share capital RMB'000 | Share premium reserve RMB'000 | Statutory surplus reserve RMB'000 Notes | Translation reserve RMB'000 | Share-based payments reserve RMB'000 | Other reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| As at 1 January 2017 | 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 | – | – | – | – | – | – | 1,729,924 | 1,729,924 | 97,359 | 1,827,283 |
| Exchange differences arising on translation of foreign operations – subsidiaries | – | – | – | (7,769) | – | – | – | (7,769) | – | (7,769) |
| Total comprehensive income for the year | – | – | – | (7,769) | – | – | 1,729,924 | 1,722,155 | 97,359 | 1,819,514 |
| Business combination under common control | – | (3,666) | – | – | – | 1,264 | (1,264) | (3,666) | (1,992) | (5,658) |
| Capital contribution by non-controlling interests | – | – | – | – | – | 185,153 | – | 185,153 | 385,098 | 570,251 |
| Disposal of a subsidiary | – | – | – | – | – | (62,729) | – | (62,729) | (515,207) | (577,936) |
| Share-based payments | – | – | – | – | 25,412 | – | – | 25,412 | – | 25,412 |
| Dividends recognised as distribution | – | – | – | – | – | – | (398,397) | (398,397) | – | (398,397) |
| As at 31 December 2017 | 452,233 | 2,571,394 | 257,956 | 6,751 | 49,259 | 459,456 | 9,537,456 | 13,334,505 | 303,945 | 13,638,450 |
| Profit for the year | – | – | – | – | – | – | 650,060 | 650,060 | 11,008 | 661,068 |
| Exchange differences arising on translation of foreign operations – subsidiaries | – | – | – | 52,180 | – | – | – | 52,180 | 5,904 | 58,084 |
| Total comprehensive income for the year | – | – | – | 52,180 | – | – | 650,060 | 702,240 | 16,912 | 719,152 |
| Capital contribution by non-controlling interests | – | – | – | – | – | – | – | – | 292,379 | 292,379 |
| Business combination under common control | – | 3,666 | – | – | – | (7,325) | – | (3,659) | (858) | (4,517) |
| Share-based payments | – | – | – | – | 11,923 | – | – | 11,923 | – | 11,923 |
| Dividend paid | – | – | – | – | – | – | (205,913) | (205,913) | – | (205,913) |
| As at 30 June 2018 | 452,233 | 2,575,060 | 257,956 | 58,931 | 61,182 | 452,131 | 9,981,603 | 13,839,096 | 612,378 | 14,451,474 |

*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 of 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 of 30 June 2018, the retained earnings available for distribution to shareholders was approximately RMB3,669,343,000.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Optimization and Upgrade of Business Segments

During the Period, the gross profit margin of the Group slightly decreased to 62.3% (before deducting extraordinary items: 60.3%) from 62.4% for the same period last year, mainly attributable to the effect from change of product structure.

During the Period, turnover of high value-added products (with a gross profit margin of over 60%) of the Group accounted for 61.7% (same period last year: 57.9%) of the total turnover.

At the beginning of the year, the Group optimized its product strategies, reclassified from former single-use consumables, hemodialysis business and orthopedic business into eight business segments, comprising clinical nursing care, wound management, blood management, pharma packaging, medical testing, anesthesia and surgical related products, orthopedics and interventional products. These segments cover an enormous size of market. The directors of the Company ("Directors") consider the upgrade from the multi-product strategy to the strategy of providing total solution with comprehensive services, in various specialized segments, will facilitate steady development of the Company in the long run.

The existing major products under each optimized business segments are as follows:

(i) Clinical nursing care: vascular and non-vascular access infusion devices include infusion sets, syringes, puncture needles, specialized single-use clinical collection kits.

(ii) Wound management: wound healing dressings, wound suture, wound cleaning and non-vascular catheter supporting extracorporeal devices.

(iii) Blood management: blood collection, storage, separation and sterilization.

(iv) Pharma packaging: prefilled syringes and pre-filled flush syringes.

(v) Medical testing: blood collection devices and blood glucose testing.

(vi) Anesthesia and surgical related products: general anesthesia consumables, local anesthesia consumables, anesthesia auxiliary consumables, ICU equipment, open and minimally invasive surgical equipment.

(vii) Orthopedics: osteosynthesis implant, spinal implant, joint replacement implant, sports injury soft tissue repair, reconstruction and replacement implant, orthopedic filling and repair materials.

(viii) Interventional products: devices for tumor intervention, vascular intervention and interventional imaging.

1. During the Period, the clinical nursing care business recorded a turnover of approximately RMB1,879,758,000, an overall increase of 10.7% in revenue over the corresponding period attributable to rich product mix; the Group continued to maintain a dominant position in the market segment.

2. During the Period, the pharma packaging business recorded a turnover of approximately RMB473,538,000, representing an increase of 28.0% over the same period last year and maintaining strong growth momentum. Prefilled syringes have further expanded its market influence in the segment of pre-pack bio-pharmaceuticals and built a broad customer base. Pre-filled flush syringes maintained rapid growth.

3. During the Period, the orthopedics business recorded a turnover of approximately RMB523,640,000, representing an increase of 34.4% over the same period last year. Measures such as further consolidating its market position in the spine segment, increased marketing of joint products, further penetration of distribution channels and establishment of a logistic platform have driven sales growth.

4. During the Period, as a result of consolidating products of Argon from the US, the interventional business recorded a turnover of approximately RMB680,570,000, representing an increase of 868.5% over the same period last year. The Group will expand sales of Argon products in the PRC market through internal resources sharing.

## RESEARCH AND DEVELOPMENT

For the six months ended 30 June 2018, the Group obtained 18 new patents and 144 new patents are under application in the PRC. Product registration certificates for 61 new products were obtained. The research and development for 21 products were completed for which application for product registration certificates are underway. Overseas, 32 new patents are under application and the research and development for 94 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 to fully leverage on its customer resources and provided the Group with continuous new profit growth drivers.

As at 30 June 2018, the Group had over 380 product registration certificates and 440 patents, of which 60 were patents on invention, in the PRC. For overseas market, the Group had over 790 product registration certificates and 240 patents.

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 mix under sub-classification of medical devices product types. For the six months ended 30 June 2018, total research and development expenses amounted to approximately RMB141,694,000 (same period in 2017: approximately RMB135,482,000), representing 3.4% (same period in 2017: 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 with low rate of return, and enhanced the rate of contribution from sales of high-gross-profit products to the Company's profit. At the same time, the Group actively facilitated automated equipment upgrade and improved in production process to enhance product quality, 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 2018, the Group newly added 16 hospitals, 1 other medical institution and 49 distributors to its PRC customer base. For overseas customer base, the Group newly added 5 hospitals and 42 other medical institutions. As at the date of this announcement, the Group has a PRC customer base of 5,183 in aggregate (including 2,446 hospitals, 414 blood stations, 588 other medical units and 1,735 distributors) and an overseas customer base of 3,827 in aggregate (including 1,913 hospitals, 1,852 other medical units and 62 distributors).

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

### Turnover By Geographical Segments

| Regions | For the six months ended 30 June 2018 *RMB'000* | *%* | 2017 *RMB'000* | *%* | Over corresponding period *%* |
|---|---|---|---|---|---|
| The PRC | | | | | |
| – Eastern and Central | **1,570,401** | **37.8** | 1,251,946 | 42.0 | 25.4 |
| – Northern | **771,561** | **18.6** | 693,220 | 23.3 | 11.3 |
| – Northeast | **374,321** | **9.0** | 341,445 | 11.5 | 9.6 |
| – Southern | **270,397** | **6.5** | 202,543 | 6.8 | 33.5 |
| – Southwest | **287,626** | **6.9** | 232,491 | 7.8 | 23.7 |
| – Northwest | **103,657** | **2.5** | 103,028 | 3.5 | 0.6 |
| PRC sub-total | **3,377,963** | **81.3** | 2,824,673 | 94.9 | 19.6 |
| Overseas | | | | | |
| – The US | **426,863** | **10.3** | 11,638 | 0.4 | 3,567.8 |
| – Europe, Middle East and Africa | **179,246** | **4.3** | 85,897 | 2.9 | 108.7 |
| – Asia | **90,853** | **2.2** | 28,286 | 0.9 | 221.2 |
| – Others | **75,573** | **1.9** | 27,436 | 0.9 | 175.5 |
| Overseas sub-total | **772,535** | **18.7** | 153,257 | 5.1 | 404.1 |
| Total | **4,150,498** | **100.0** | 2,977,930 | 100.0 | 39.4 |

The integration of sales channels has strengthened the Group's market penetration and influence over the direct sales to high-end customers and increased the rate of contribution of single customers. 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 of high value-added products under the category of clinical nursing care. Comparison of sales revenue of principal products with that in last year is as follows:

| Product category | For the six months ended 30 June<br>**2018**<br>***RMB'000*** | <br>2017<br>*RMB'000* | **Over corresponding period**<br>*%* |
|---|---|---|---|
| Clinical nursing care | **1,879,758** | 1,698,169 | 10.7 |
| Wound management | **120,206** | 109,001 | 10.3 |
| Blood management | **179,483** | 154,435 | 16.2 |
| Pharma packaging products | **473,538** | 369,928 | 28.0 |
| Medical testing | **70,265** | 52,605 | 33.6 |
| Anesthesia and surgical related products | **29,993** | 14,894 | 101.4 |
| Orthopedic products | **523,640** | 389,589 | 34.4 |
| Interventional products | **680,570** | 70,267 | 868.5 |
| Other consumables | **193,045** | 119,042 | 62.2 |
| Total | **4,150,498** | 2,977,930 | 39.4 |

## HUMAN RESOURCES

As at 30 June 2018, the Group employed a total of 8,694 employees. The breakdown by departments when compared with last year is as follows:

| Department | **As at 30 June 2018** | As at 31 December 2017 |
|---|---|---|
| Production | **4,221** | 3,842 |
| Sales and marketing | **2,488** | 2,287 |
| Research and development | **1,097** | 1,037 |
| Finance and administration | **425** | 320 |
| Quality control | **188** | 163 |
| Management | **168** | 154 |
| Purchasing | **107** | 63 |
| Total | **8,694** | 7,866 |

A total 753 overseas employees are resided in Hong Kong, the US 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 RMB737,831,000 (same period in 2017: approximately RMB580,911,000).

### Remuneration System

The Group's remuneration policy has been determined based on its performance, 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 the annual general meeting.

## FINANCIAL REVIEW

For the six months ended 30 June 2018, the turnover reached approximately RMB4,150,498,000, representing an increase of 39.4% over the same period last year. Net profit attributable to shareholders was approximately RMB650,060,000, representing a decrease of approximately 0.01% as compared to the same period of last year. Net profit attributable to owners of the Company excluding extraordinary items was approximately RMB762,090,000 (same period in 2017: approximately RMB650,143,000), representing an increase of approximately 17.2% over the same period of the previous year. During the Period, extraordinary items include increase in cost of good sold of approximately RMB75,707,000 for the current period from inventory appreciation based on valuation resulted from the acquisition of Argon and a one-off transaction expenses of approximately RMB36,323,000 for the acquisition of Argon.

### Liquidity and Financial Resources

The Group has maintained a sound financial position. As at 30 June 2018, the Group's cash and bank balance amounted to approximately RMB2,964,232,000. For the six months ended 30 June 2018, net cash flow from operating activities of the Group amounted to approximately RMB960,208,000, representing a sound cash flow position.

Total interest expenses of the Group for the six months ended 30 June 2018 were approximately RMB112,057,000 (same period in 2017: approximately RMB17,820,000).

### Gearing Ratio

As at 30 June 2018, the gearing ratio of the Group was 35.9% (same period in 2017: 10.7%). 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. Assets, liabilities and transactions in the PRC are denominated in RMB, while overseas assets and transactions are mainly denominated in US dollars. For the six months ended 30 June 2018, the Group had not encountered any material difficulty due to currency fluctuation nor had it affected its funds for operation purpose. Foreign Exchange Risks are mainly derived from outstanding borrowings in US dollars. However, due to the relatively long repayment cycle with steady revenue in US dollars from overseas subsidiaries, currently the Group has no foreign currency hedging policy for foreign currency risks. Notwithstanding, the management will closely monitor risks of US dollars and consider hedging significant currency risks when necessary.

Due to the fluctuation in exchange rates, foreign exchange gain equivalent to RMB10,508,000 (same period in 2017: foreign exchange gain equivalent to RMB1,501,000) for the six months ended 30 June 2018 was recognized by the Company.

**Contingent Liabilities**

The Group had no material contingent liabilities as of 30 June 2018.

**Material Investments in Subsidiaries/Future Material Investment Plans**

1. During the Period, the Group continued to invest approximately RMB358,557,000 in production facilities and plant construction for the purpose of enhancing the overall construction of the industrial zone for the Group's medical consumables.

2. The Group planned to invest approximately RMB250,000,000 in the new pre-filled syringe production workshops and the new production lines which are under construction, and are expected to be in production gradually by the end of 2019.

3. The Group planned to continue to invest approximately RMB120,000,000 in equipment upgrading and reconfiguration which are underway, and is expected to complete gradually by the end of the year.

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 2018.

### Capital Commitment

As at 30 June 2018, 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 RMB425,334,000 (same period in 2017: approximately RMB772,087,000).

## REVIEW AND OUTLOOK

During the Period, the management of the Company carried out strategic business optimization and determined on eight major subdivided business segments for future development, which extensively covered various subdivided markets and explore products with rapid growth, large market and high gross profit as main area of focus. Leveraging the various resources accumulated over the years and efficient management of the Company, the Group continued to consolidate its advantageous position in medical device sector in the PRC. The Company has been facing different complicated circumstances brought by the continuous deepening medical reform in the PRC. With multi-segments, continual launch of serialized and competitive products as well as overseas resources integration, the Company is capable to cope with all challenges.

Looking forward to the second half of 2018, the Group will focus on carrying out the following works:

1. Consistently expand growth of advantageous products and driving rapid growth of focused new products.

2. Consistently optimize and consummate sales systems and expand market presence and coverage of products from different business segments through key client platform and professional product sales team.

3. Consistently carry out supply chain management, enhance operation efficiency and absorb production cost increases by advanced manufacturing.

4. Consummate comprehensive product portfolio in business segments of wound management, anesthesia and surgical related products through resource integration or mergers or acquisitions.

5. Consummate and implement all foundation works of sales of the U.S. Argon's products in the PRC.

6. Actively plan for overseas market, evaluate overseas marketability of products, accelerate regional registration of marketable products, develop resources of local sales channels as well as explore localised production.

The Directors believe, with the Company's multi-segment strategic planning and quality products, the Company will persevere in the operating strategies of adapting to the market and looking forward to the future. The Company will also stimulate employees' creativity and maintain its leading position in the PRC market and maintain steady growth in operating results.

## SHARE AWARD SCHEME OF THE COMPANY

According to the incentive share scheme adopted by the Company on 17 November 2014 ("**Incentive Share Scheme**"), the incentive shares would be granted to the selected employees, subject to vesting conditions. The remuneration committee may, from time to time and at its absolute discretion, select any eligible participants to participant in the Share Award Scheme and determine the number of shares that the selected employees could entitle 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. The maximum number of 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, i.e. 17 November 2014.

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

| | | | As at 30/6/2017 | | | **As at 30/6/2018** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **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** | **22,410,000** | **23,550,000** | To be vested in five tranches with the vesting date on 31 December of each year from 2015 to 2019 | 2 years following vested |

## ACQUISITION OF ARGON MEDICAL

On 23 January 2018, the WW Medical and Healthcare Company Limited ("**WW Medical**") which is owned as to 90% indirectly by the Company completed the acquisition of 100% equity interest in Argon. Argon is a 90% subsidiary of the Company with its financial results and performance consolidated into the financial statements the Group. Details of the acquisition are set out in the announcements of the Company dated 24 September 2017 and 24 January 2018.

## SHARE OPTION SCHEME OF A SUBSIDIARY

On 16 April 2018, the adoption of share option scheme of WW Medical ("**WW Medical Share Option Scheme**") has been approved by shareholders of the Company. WW Medical is owned as to 90% indirectly by the Company, as such the WW Medical Share Option Scheme is a share option scheme governed by Chapter 17 of the Listing Rules. The purpose of the WW Medical Share Option Scheme is to provide an incentive to the directors, consultants, advisors and key employees of WW Medical and its subsidiaries to continue their association with WW Medical and its subsidiaries by providing opportunities for such persons to participate in the ownership of the WW Medical and in its further growth, and to offer an additional inducement in obtaining the services of such persons. Details of the WW Medical Share Option Scheme are set out in the announcement and circular of the Company dated 26 February 2018 and 28 February 2018 respectively.

## COMPLETION OF THE H SHARE FULL CONVERSION

On 7 August 2018, the Company completed the H Share full conversion and listing of up to 2,638,600,000 unlisted or domestic shares to H shares, references are also set out in the announcements of the Company dated 10 July 2018, 2 August 2018 and 7 August 2018. The Company obtained the approval on 2 August 2018 for the listing of and for permission to trade 2,638,600,000 H shares ("**Converted H Shares**"), being the maximum unlisted or domestic shares to be converted under the conversion. The listing of the Converted H Shares has commenced at 9:00 a.m. on 8 August 2018. As of the date of this announcement, 4,522,332,324 H shares of RMB0.10 each of the Company are in issue.

## PROPOSED INTERIM DIVIDEND

The Board recommended the distribution of an interim dividend of the RMB0.049 per share (same period in 2017: RMB0.043 per share) for the six months ended 30 June 2018. 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 Tuesday, 6 November 2018.

## 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 H Shares will be closed from Saturday, 6 October 2018 to Tuesday, 6 November 2018 (both days inclusive), during which period no transfer of H 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, 5 October 2018.

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, 5 October 2018 |
| Closure of register of members of the Company for attending and voting in the Special General Meeting | Saturday, 6 October 2018 to Tuesday, 6 November 2018 (both days inclusive) |
| Latest time to lodge in the reply slip | Tuesday, 16 October 2018 |
| Date of the Special General Meeting | Tuesday, 6 November 2018 |

**Entitlement of Interim dividend**

In order to determine entitlement to the interim dividend payment, the register of members of the Company for H Shares will be closed from Tuesday, 13 November 2018 to Sunday, 18 November 2018 (both days inclusive), during which period no transfer of H 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 Monday, 12 November 2018.

In order to qualify to entitle the interim dividend for the six months ended 30 June 2018:–

| | |
|---|---|
| Latest time to lodge in transfer instrument accompanied by the share certificates for H Shares | 4:30 p.m., Monday, 12 November 2018 |
| Closure of register of members of the Company for entitlement of the interim dividend for the six months ended 30 June 2018 | Tuesday, 13 November 2018 to Sunday, 18 November 2018 (both day inclusive) |
| Record date for the entitlement of the interim dividend | Sunday, 18 November 2018 |
| Expected despatch date of the interim dividend | Friday, 21 December 2018 |

The interim dividend will be despatched at the risk of those entitled thereto to their respective registered addresses on or before Friday, 21 December 2018. 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 6 November 2018, the date on which the interim dividend to be declared.

# DISCLOSURE OF INTERESTS

## Directors' Interests and Long Position in Shares

As at 30 June 2018, 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 H Shares of RMB0.10 each of the Company

| Name of Director | Types of interests | Capacity | Total number of H 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 H Shares, representing 0.004% of the issue share capital of the Company.

**(ii) Long positions in the registered capital of 威高集團有限公司 (Weigao Holding Company Limited), the holding company**

| Name of shareholder | 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 55.89% by Mr. Chen Xue Li, 18.00% by Mr. Zhang Hua Wei, 10.00% by Mrs. Zhou Shu Hua, 5.11% by Mr. Wang Yi and 8.00% 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 announcement.

| Name of substantial shareholder | Number of shares interested | % of issued share capital |
|---|---|---|
| Chen Xueli | 2,159,755,676 (L) | 47.76 (L) |
| 威海威高國際醫療投資控股有限公司 (Weihai Weigao International Medical Investment Holding Company Limited) | 2,159,755,676 (L) | 47.76 (L) |
| 威高集團有限公司 (Weigao Holding Company Limited) | 2,159,755,676 (L) | 47.76 (L) |

*Note:* (L) – Long Position

## MAJOR CUSTOMERS AND SUPPLIERS

For the six months ended 30 June 2018, sales to the Group's five largest customers accounted for 3.6% of the total sales for the Period and sales to the largest customer accounted for 0.8% of the total sales for the Period.

For the six months ended 30 June 2018, purchases from the Group's five largest suppliers accounted for 14.9% of the total purchases for the Period and purchases from the largest supplier accounted for 3.9% of the total purchases for the Period.

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 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 seven Directors, including two executive Directors, two 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**

(1) Mr. Wang Yi has been re-designated from an executive director of the Company to an non-executive director of the Company with effect from 29 August 2018.

(2) Mr. Wang has tendered resignation as the Chief Executive Officer of the Company with effect from 29 August 2018;

(3) Mr. Long Jing has been proposed to be appointed as an executive director of the Company subject to the approval by the shareholders of the Company at the upcoming special general meeting or any adjournment thereof; and

(4) Mr. Long has been appointed as the Chief Executive Officer of the Company with effect from 29 August 2018.

Save as disclosed above, pursuant to Rule 13.51B of the Listing Rules, no changes of information on director or 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 2018 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 2018, 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 2018 have been reviewed by the Audit Committee.

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

29 August 2018
Weihai, Shandong, the PRC

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