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 RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

SUMMARY

For the year ended 31 December 2018 (the "Year"), the turnover from continuing operation of Shandong Weigao Group Medical Polymer Company Limited (the "Company" and together with its subsidiaries, the "Group") was approximately RMB8,808,861,000 (2017: RMB6,292,641,000), representing an increase of 40.0% over the previous year. Net profit attributable to the owners of the Company was approximately RMB1,472,935,000 (2017: approximately RMB1,728,660,000), representing a decrease of approximately 14.8% over the previous year. Net profit attributable to the owners of the Company (excluding extraordinary items) was approximately RMB1,586,834,000 (2017: approximately RMB1,337,592,000), representing an increase of approximately 18.6% over the previous year. During the Year, extraordinary items include increase in cost of good sold of approximately RMB76,962,000 for the current period from inventory appreciation based on valuation resulted from the acquisition of Argon Medical Devices Holdings, Inc. ("Argon") and an one-off transaction expenses of approximately RMB36,937,000 for the acquisition of Argon. (In 2017: extraordinary items recorded an accounting gain for Weigao Blood Purification Products Company Limited ("Weigao Blood Purification") after it became an associate of the Company upon the completion of capital increase, of approximately RMB391,068,000).

During the Year, the Group completed the acquisition of Argon through the joint venture which was owned as to 89.8% by Weigao International, a subsidiary of the Group, on 23 January 2018, and Argon became one of the core platforms for overseas development of the Group.

The Directors recommended the payment of a final dividend of RMB0.052 per share (2017: RMB0.046), which is subject to the approval by the shareholders of the Company ("Shareholders") at the forthcoming general meeting.

* *For identification purpose only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	**2018** ***RMB'000***	2017 *RMB'000* (restated)
Continuing operations			
Revenue	*2*	**8,808,861**	6,292,641
Cost of sales		**(3,419,707)**	(2,299,818)
Gross profit		**5,389,154**	3,992,823
Other income, gains and losses	*3*	**316,192**	172,793
Selling and distribution costs		**(2,438,194)**	(1,922,146)
Administrative expenses		**(929,612)**	(421,491)
Research and development expenses		**(311,163)**	(273,825)
Finance costs	*4*	**(284,408)**	(23,889)
Share of profit of an associate		**33,246**	–
Gain on disposal of a subsidiary		**–**	1,346
Profit before taxation		**1,775,215**	1,525,611
Income tax expense	*5*	**(258,431)**	(224,399)
Profit for the year from continuing operations	*6*	**1,516,784**	1,301,212
Discontinued operation			
Profit for the year from discontinued operation	*7*	**–**	524,121
Profit for the year		**1,516,784**	1,825,333
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations			
– subsidiaries		**124,999**	(7,769)
Total comprehensive income for the year		**1,641,783**	1,817,564

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	**2018** ***RMB'000***	2017 *RMB'000* (restated)
Profit for the year attributable to owners of the Company			
– from continuing operations		**1,472,935**	1,255,220
– from discontinued operation		**–**	473,440
Profit for the year attributable to owners of the Company		**1,472,935**	1,728,660
Profit for the year attributable to non-controlling interests			
– from continuing operations		**43,849**	45,992
– from discontinued operation		**–**	50,681
Profit for the year attributable to non-controlling interests		**43,849**	96,673
		1,516,784	1,825,333
Total comprehensive income for the year attributable to:			
Owners of the Company		**1,585,730**	1,720,891
Non-controlling interests		**56,053**	96,673
		1,641,783	1,817,564
Earnings per share			
From continuing and discontinued operations			
Basic *(RMB per share)*	*9*	**0.33**	0.39
Diluted *(RMB per share)*		**0.33**	0.39
From continuing operations			
Basic *(RMB per share)*	*9*	**0.33**	0.28
Diluted *(RMB per share)*		**0.33**	0.28

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	NOTES	2018 RMB'000	2017 RMB'000 (restated)
Non-current assets			
Property, plant and equipment		**4,468,162**	3,912,137
Investment properties		**131,476**	186,956
Deposits paid for acquiring property, plant and equipment		**143,295**	69,865
Prepaid lease payments		**386,869**	405,035
Intangible assets		**2,409,736**	41,947
Interests in an associate		**970,746**	937,500
Available-for-sale investments		**–**	81,517
Financial assets at fair value through profit or loss		**107,339**	–
Goodwill		**3,339,069**	202,900
Deferred tax assets		**78,093**	60,628
Finance lease receivables		**293,361**	354,081
Loan receivables		**941,201**	1,474,260
		13,269,347	7,726,826
Current assets			
Inventories	*10*	**1,137,312**	805,562
Loan receivables		**896,585**	497,963
Trade and other receivables	*11*	**4,103,675**	3,683,676
Debt instruments at fair value through other comprehensive income		**349,531**	–
Finance lease receivables		**195,707**	186,259
Pledged bank deposits		**222,270**	96,178
Bank balances and cash	*12*	**3,812,446**	3,784,553
		10,717,526	9,054,191
Current liabilities			
Trade and other payables	*13*	**2,800,218**	2,022,113
Contract liabilities		**96,297**	–
Borrowings		**130,925**	97,906
Tax payable		**179,211**	75,976
Deferred income		**5,844**	4,158
Loans from the ultimate holding company		**114,234**	103,311
		3,326,729	2,303,464

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AT 31 DECEMBER 2018

	NOTES	2018 RMB'000	2017 RMB'000 (restated)
Net current assets		**7,390,797**	6,750,727
Total Assets less Current Liabilities		**20,660,144**	14,477,553
Capital and reserves			
Share capital	*14*	**452,233**	452,233
Reserves		**14,062,340**	12,882,272
Equity attributable to owners of the Company		**14,514,573**	13,334,505
Non-controlling interests		**676,327**	303,945
Total equity		**15,190,900**	13,638,450
Non-current liabilities			
Borrowings		**5,092,889**	804,271
Deferred income		**36,789**	34,832
Deferred tax liability		**339,566**	–
		5,469,244	839,103
		20,660,144	14,477,553

1. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interest (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified that to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

2. REVENUE AND 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 operates financing business.

For management purposes, the Group is currently organised into six operating divisions – medical device products, orthopaedic products, interventional products, pharma packaging products, blood management products and others, among which interventional products were produced by Argon. These divisions are the basis of the internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (Managing Director) in order to allocate resources to segments and to assess their performance.

Principal activities of the Group's operating and reportable segments are as follows:

Medical device products	–	production and sale of clinical care, wound management, medical testing, anesthesia and surgical related products and other consumables
Orthopaedic products	–	production and sale of orthopaedic products
Interventional products	–	production and sale of tumour and vascular interventional products
Pharma packaging products	–	production and sale of pre-filled syringes and flushing syringes
Blood management products	–	production and sale of blood collection, storage, separation and sterilization products
Others	–	finance lease and factoring business

In 2017, the Group was organised into three operating divisions - single use medical device products, orthopaedic products, and others. The operation regarding the manufacture and sale of blood purification products was discontinued. The reported segment information does not include any amounts for this discontinued operation, which are described in more details in note 7.

The comparative amounts of segment information have been reclassified to conform to the current year's classification of operating segments and presentation.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

2018

Continuing operations

	Medical device products *RMB'000*	Orthopaedic products *RMB'000*	Interventional products *RMB'000*	Pharma packaging products *RMB'000*	Blood management products *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Revenue								
External sales	5,010,655	1,180,563	1,260,026	955,609	402,008	–	–	8,808,861
Inter-segment sales	195	5,299	1,502	–	–	–	(6,996)	–
Total	5,010,850	1,185,862	1,261,528	955,609	402,008	–	(6,996)	8,808,861
Segment profit	955,868	353,653	(102,932)	327,758	51,659	61,760	–	1,647,766
Depreciation of investment properties								(2,959)
Unallocated other income, gains and losses								(136)
Rental income of investment properties								17,602
Interest income from bank								62,093
Gain from changes in fair value of financial assets at FVTPL								17,603
Share of profit of an associate								33,246
Profit before taxation (continuing operations)								1,775,215

2017

Continuing operations

	Medical device products *RMB'000* (restated)	Orthopaedic products *RMB'000* (restated)	Interventional products *RMB'000* (restated)	Pharma packaging products *RMB'000* (restated)	Blood management products *RMB'000* (restated)	Others *RMB'000* (restated)	Eliminations *RMB'000* (restated)	Total *RMB'000* (restated)
Revenue								
External sales	4,351,077	870,386	–	718,920	352,258	–	–	6,292,641
Inter-segment sales	16,130	1,622	–	–	–	–	(17,752)	–
Total	4,367,207	872,008	–	718,920	352,258	–	(17,752)	6,292,641
Segment profit	863,622	289,633	–	251,050	44,288	39,963	–	1,488,556
Depreciation of investment properties								(4,229)
Unallocated other income, gains and losses								(14,101)
Rental income of investment properties								11,438
Interest income from bank								42,601
Gain on disposal of a subsidiary								1,346
Profit before taxation (continuing operations)								1,525,611

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of depreciation and rental income of investment properties, other income, gains and losses of the corporate function, interest income from bank, gain from changes in fair value of financial assets at FVTPL, share of profit of an associate, and gain on disposal of subsidiaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

Segment assets

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Continuing operations		(restated)
Medical device products	**8,840,343**	8,175,298
Orthopaedic products	**1,497,061**	1,372,782
Interventional products	**6,073,665**	–
Pharma packaging products	**791,261**	579,256
Blood management products	**377,619**	331,437
Others	**1,084,554**	1,174,912
Total segment assets	**18,664,503**	11,633,685
Available-for-sale investments	**–**	81,517
Financial assets at FVTPL	**107,339**	–
Interests in an associate	**970,746**	937,500
Investment properties	**131,476**	186,956
Deferred tax assets	**78,093**	60,628
Pledged bank deposits	**222,270**	96,178
Bank balances and cash	**3,812,446**	3,784,553
Consolidated assets	**23,986,873**	16,781,017

Segment liabilities

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Continuing operations		(restated)
Medical device products	**4,596,944**	2,349,669
Orthopaedic products	**347,957**	200,860
Interventional products	**2,952,878**	–
Pharma packaging products	**122,474**	129,103
Blood management products	**107,152**	103,282
Others	**329,002**	359,653
Total segment liabilities	**8,456,407**	3,142,567
Deferred tax liabilities	**339,566**	–
Consolidated liabilities	**8,795,973**	3,142,567

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than investment properties, pledged bank deposits, bank balances and cash, deferred tax assets, available-for-sale investments, financial assets at FVTPL and interests in an associate; and

- all liabilities are allocated to operating segments other than deferred tax liabilities.

Other segment information

2018

Continuing operations

	Medical device products *RMB'000*	Orthopaedic products *RMB'000*	Interventional products *RMB'000*	Pharma packaging products *RMB'000*	Blood management products *RMB'000*	Others *RMB'000*	Total *RMB'000*
Amounts included in the measure of segment profit or segment assets:							
Additions to property, plant and equipment	494,654	92,897	35,331	95,451	35,553	8	753,894
Allowances for credit losses	11,541	1,102	730	3,250	650	638	17,911
Allowances for inventories	–	611	–	–	–	–	611
Release of prepaid lease payments	4,924	6,561	–	767	1,240	–	13,492
Amortisation of intangible assets	–	77	214,971	–	–	–	215,048
Depreciation of property, plant and equipment	196,131	72,565	21,506	41,642	12,371	336	344,551
Loss on disposal of property, plant and equipment	1,908	19	117	–	–	–	2,044
Research and development expenditure	210,153	48,571	9,622	24,809	18,008	–	311,163
Share-based payment expenses	15,167	–	22,930	2,022	1,902	–	42,021
Government grants	(1,856)	(8,201)	–	(2,144)	(28)	–	(12,229)
Rebate of value added tax ("VAT")	(81,079)	–	–	–	–	–	(81,079)

2017

Continuing operations

	Medical device products *RMB'000* (restated)	Orthopaedic products *RMB'000* (restated)	Interventional products *RMB'000* (restated)	Pharma packaging products *RMB'000* (restated)	Blood management products *RMB'000* (restated)	Others *RMB'000* (restated)	Total *RMB'000* (restated)
Amounts included in the measure of segment profit or segment assets:							
Additions to property, plant and equipment	557,432	62,675	–	100,048	7,558	631	728,344
Allowances for bad and doubtful debts	21,784	1,676	–	3,250	610	7,703	35,023
Allowances for inventories	–	1,712	–	–	–	–	1,712
Release of prepaid lease payments	4,716	1,829	–	767	1,240	–	8,552
Amortisation of intangible assets	–	3,687	–	–	–	–	3,687
Depreciation of property, plant and equipment	143,336	64,816	–	33,984	12,279	266	254,681
Loss on disposal of property, plant and equipment	466	1	–	–	–	–	467
Research and development expenditure	195,961	35,054	–	26,828	15,982	–	273,825
Share-based payment expenses	19,552	–	–	3,050	2,810	–	25,412
Government grants	(9,022)	(6,157)	–	–	(1,565)	(1,270)	(18,014)
Rebate of value added tax ("VAT")	(81,488)	–	–	–	–	–	(81,488)

Revenue from major products

The following is an analysis of the Group's revenue from continuing operations from its major products and services.

	2018 ***RMB'000***	2017 *RMB'000* (restated)
Sale of medical device products		
– Clinical nursing care	**3,891,672**	3,581,168
– Wound management	**299,905**	221,377
– Anesthesia and surgical related products	**105,942**	36,228
– Medical testing	**150,678**	118,956
– Other consumables	**378,246**	244,245
Sale of orthopaedic products	**1,180,563**	870,386
Sale of interventional products	**1,444,238**	149,103
Sale of pharma packaging products	**955,609**	718,920
Sale of blood management products	**402,008**	352,258
	8,808,861	6,292,641

Information about major customers

There is no single customer contributing over 10% of total sales of the Group for both years.

Geographical information

Information about the Group's revenue from continuing operations from external customers is presented based on the location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers Year ended		**Non-current assets**	
	31/12/2018	31/12/2017	**31/12/2018**	31/12/2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(restated)		(restated)
PRC	**7,149,727**	5,956,075	**6,509,306**	6,110,421
United States	**814,588**	21,393	**5,633,039**	–
Europe, the Middle East and Africa	**410,967**	158,289	**295**	–
Other districts	**433,579**	156,884	**74**	–
	8,808,861	6,292,641	**12,142,714**	6,110,421

Non-current assets excluded financial assets at FVTPL/AFS investments, loan receivables and deferred tax assets.

Transaction price allocated to the remaining performance obligation for contracts with customers.

All contracts are for periods of one year or less. As permitted by HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

3. OTHER INCOME, GAINS AND LOSSES

	2018	2017
	RMB'000	*RMB'000*
Continuing operations		(restated)
Other income:		
Rebate of VAT *(note a)*	**81,079**	81,488
Government grants *(note b)*	**12,229**	18,014
Operating rental income	**17,602**	11,438
Finance lease income	**35,803**	39,034
Interest income from bank	**62,093**	42,601
Interest income from factoring business	**19,223**	18,794
Interest income from loan receivables	**89,493**	10,844
	317,522	222,213
Other gains and losses:		
Allowances for credit losses	**(17,911)**	(35,023)
Allowances for inventories	**(611)**	(1,712)
Net exchange gain	**1,769**	1,883
Loss on disposal of property, plant and equipment	**(2,044)**	(467)
Gain from changes in fair value of financial assets at FVTPL	**17,603**	–
Donation paid	**(2,729)**	(16,016)
Others	**2,593**	1,915
	(1,330)	(49,420)
	316,192	172,793

Notes:

(a) As Weihai Jierui Medical Products Company Limited ("Jierui"), one of the subsidiary of the Company, was recognised as a "Social Welfare Entity", the Tax Bureau in Weihai granted a rebate of VAT paid by Jierui with effect from 1 May 1999 on the basis of "payment first then rebate".

Pursuant to Caishui [2016] No.52 issued by the State Council, with effect from 1 May 2016, Jierui was granted a rebate of VAT determined with reference to the number of staff with physical disability. For each staff with physical disability, four times of the minimum salary approved by the local government in Weihai is granted to Jierui as rebate of VAT.

Pursuant to Caishui [2016] No.36, Weigao Financial Leasing Co., Ltd., one of the subsidiary of the Company, is entitled to immediate tax rebates upon collection when the actual VAT tax burden rate exceeds 3%.

(b) During the year, government grants were awarded to the Group mainly for business development and certain research and development expenses occurred and were recognised as other income when the government grants were received. There were no unfulfilled conditions in the year in which they were recognised.

4. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Continuing operations		(restated)
Interest on bank loans and other borrowings	**284,408**	23,889

5. INCOME TAX EXPENSE

	2018	2017
	RMB'000	*RMB'000*
Continuing operations		
Enterprise Income Tax		
Current tax	**321,830**	225,427
Underprovision in prior years	**4,679**	6,379
Deferred taxation	**(68,078)**	(7,407)
	258,431	224,399

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

The Company, Jierui and Weigao Ortho were recognised as Shandong Province New and High Technical Enterprises (山東省高新技術企業) from the year 2017 to 2020. In accordance with the "Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Preferential Treatment Policies on Enterprise Income Tax", New and High Technical Enterprise was subject to income tax at a tax rate of 15%.

Jierui has been recognised as a "Social Welfare Entity". Pursuant to Caishui [2016] No. 52 issued by the State Council, with effect from 1 May 2016, Social Welfare Entity is subject to income tax rate of 15%, and an amount equivalent to the total salaries paid to staff with physical disability is further deducted from the taxable income of Jierui. The tax charge provided for the years ended 31 December 2018 and 2017 were made after taking these tax incentives into account.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. The subsidiaries in the U.S. are subject to federal income tax at a tax rate of 21% and state income tax.

The charge for the year can be reconciled to the profit per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018	2017
	RMB'000	*RMB'000*
		(restated)
Profit before taxation (from continuing operations)	**1,775,215**	1,525,611
Taxation at the domestic income tax rate of 15% (2017: 15%)	**266,282**	228,841
Tax effect of share of an associate	**(4,987)**	–
Tax effect of income not taxable for tax purpose	**(2,107)**	–
Effect of additional tax deduction for research and development expenses	**(27,950)**	(17,386)
Additional tax benefit to a Social Welfare Entity	**(5,690)**	(5,466)
Utilisation of tax losses previously not recognised	**(931)**	(1,829)
Tax effect on tax losses and deductible temporary difference not recognised	**4,052**	4,053
Tax effect on expenses not deductible for tax purpose	**9,327**	2,442
State and local income taxes for U.S. subsidiaries	**(4,593)**	–
Effect on different tax rates of subsidiaries	**20,349**	7,365
Underprovision in prior years	**4,679**	6,379
Income tax expense for the year (relating to continuing operations)	**258,431**	224,399

6. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

	2018	2017
	RMB'000	*RMB'000*
Continuing operations		(restated)
Profit for the year has been arrived at after charging:		
Allowances for credit losses	**17,911**	35,023
Allowances for inventories	**611**	1,712
Amortisation of intangible assets	**215,048**	3,687
Auditors' remuneration	**6,237**	4,264
Depreciation of property, plant and equipment	**344,551**	254,681
Depreciation of investment properties	**2,959**	4,229
Prepaid lease payments charged to profit or loss	**13,492**	8,552
Rental payments in respect of premises under operating leases	**19,921**	16,967
Cost of inventories recognised as an expense	**3,419,707**	2,299,818
Staff costs, including directors' and supervisors' remuneration		
– Retirement benefits scheme contributions	**101,707**	96,494
– Salaries and other allowances	**1,313,177**	1,109,431
– Share-based payment expenses	**42,021**	25,412
Total staff costs	**1,456,905**	1,231,337
Loss on disposal of property, plant and equipment	**2,044**	467

7. DISCONTINUED OPERATION

In 2017, Weigao Blood Purification, previously a subsidiary of the Company, which carried out all of the blood purification products operation, was deemed as disposed upon the completion of the subscriptions.

The profit for the year ended 31 December 2017 from the discontinued blood purification products operation is set out below.

	2017
	RMB'000
Profit of blood purification products operation for the year	133,053
Gain on deemed disposal of blood purification products operation	391,068
	524,121

The results of blood purification products operation in 2017, which have been included in the consolidated statement of profit or loss and other comprehensive income, were as follows:

	2017
	RMB'000
Revenue	1,392,903
Cost of sales	(712,753)
Other income, gains and losses	17,231
Selling and distribution costs	(346,244)
Administrative expenses	(94,308)
Research and development expenses	(31,102)
Finance costs	(34,483)
Share of (loss) profit of joint ventures	(23,904)
Profit before tax	167,340
Income tax expense	(34,287)
Profit for the year	133,053

In 2017, the contribution from the discontinued operation to the Group's net cash flows were as following:

	2017
	RMB'000
Cash flows from discontinued operation	
Net cash inflows from operating activities	162,715
Net cash outflows from investing activities	(794,430)
Net cash inflows from financing activities	562,758
Net cash outflows	(68,957)

8. DIVIDENDS

	2018	2017
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2018 Interim – RMB0.049		
(2017: interim dividend – RMB0.043) per share	**221,594**	194,460
2017 Final – RMB0.046		
(2016: final dividend – RMB0.046) per share	**208,027**	208,027
Total	**429,621**	402,487
Less: distribution to the shares hold by the trustees under a share award scheme	**4,366**	4,090
	425,255	398,397

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of RMB0.052 (2017: RMB0.046) per share, amounting to RMB235,161,000 (2017: RMB208,027,000) in total, has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

9. EARNINGS PER SHARE

For continuing operations

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	2018	2017
	RMB'000	*RMB'000*
		(restated)
Profit for the year attributable to owners of the Company	**1,472,935**	1,728,660
Less:		
Profit for the year attributable to owners of the Company from discontinued operation	**–**	473,440
Earnings for the purpose of basic/diluted earnings per share from continuing operations	**1,472,935**	1,255,220

	2018	2017
	'000	*'000*
Number of shares		
Number of shares for the purpose of basic earnings per share	**4,476,372**	4,476,372
Effect of dilutive potential ordinary shares:		
Incentive shares	**7,507**	6,924
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**4,483,879**	4,483,296

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share from continuing and discontinued operations attributable to owners of the Company is based on the following data:

	2018	2017
	RMB'000	*RMB'000*
		(restated)
Earnings		
Profit for the year attributable to owners of the Company	**1,472,935**	1,728,660

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operation

For the year ended 31 December 2018, no profit is from the discontinued operation. For the year ended 31 December 2017, basic earnings per share for the discontinued operation is RMB0.11 per share and diluted earnings per share for the discontinued operation is RMB0.11 per share, based on the profit for the year from the discontinued operation of RMB473,440,000 and the denominators detailed above for both basic and diluted earnings per share.

10. INVENTORIES

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Raw materials	**267,894**	117,497
Finished goods	**869,418**	688,065
	1,137,312	805,562

As at 31 December 2018, total net book value of inventories served as collateral for the Group's borrowing amounted to RMB197,674,000 (2017: nil).

11. TRADE AND OTHER RECEIVABLES

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
		(restated)
Trade receivables	**3,662,622**	3,034,798
Less: Allowance for credit losses	**(202,228)**	(183,330)
	3,460,394	2,851,468
Receivables from factoring business	**253,274**	285,101
Less: Allowance for credit losses	**(1,719)**	(3,576)
	251,555	281,525
Other receivables	**238,972**	177,918
Less: Allowance for credit losses	**(1,765)**	(1,507)
	237,207	176,411
Bills receivable	**–**	241,598
Prepayments	**140,866**	123,695
Prepaid lease payments	**13,653**	8,979
	4,103,675	3,683,676

All the bills receivable will be matured within one year.

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB3,662,622,000 and RMB3,034,798,000 respectively.

Included in trade receivables are an amount due from fellow subsidiaries of RMB135,224,000 (2017: RMB130,904,000), an amount due from ultimate holding company of RMB215,000 (2017: RMB107,000), and an amount due from an associate of RMB132,376,000 (2017: RMB106,422,000). The amounts are unsecured, interest-free and repayable on demand.

Included in receivables from factoring business are an amount due from fellow subsidiaries of RMB210,800,000 (2017: RMB70,100,000), and an amount due from an associate of RMB7,000,000 (2017: nil).The amounts are due in one year with effective interest rates ranging from 3.5% to 18.63% (2017: 4.98% to 12.09%) per annum.

Included in other receivables are an amount due from fellow subsidiaries of RMB135,763,000 (2017: RMB73,442,000), an amount due from ultimate holding company of RMB14,990,000 (2017: RMB12,161,000), and an amount due from an associate of RMB83,000 (2017: RMB9,171,000). The amounts are unsecured and repayable on demand.

Included in prepayments are an amount paid to fellow subsidiaries of RMB14,392,000 (2017: RMB1,847,000), and an amount paid to an associate of RMB4,285,000 (2017: nil).

The following is an aged analysis of trade receivables net of allowance for credit losses presented based on the invoice date at the end of the reporting period.

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
0 to 90 days	**1,944,541**	1,163,561
91 to 180 days	**806,726**	1,009,557
181 to 365 days	**492,543**	423,621
Over 365 days	**216,584**	254,729
Trade receivables	**3,460,394**	2,851,468

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB739,873,000 which are past due as at the reporting date.

As at 31 December 2018, total net book value of trade and other receivables served as collateral for the Group's borrowing amounted to RMB152,336,000.

As at 31 December 2017, 76% of the trade receivables that are neither past due nor impaired have good repayment history with the Group.

As at 31 December 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB678,350,000 which are past due as at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Aged analysis of trade receivables which are past due but not impaired:

	31/12/2017 *RMB'000*
Overdue by	
0 to 180 days	423,621
Over 181 days	254,729
	678,350

Movements in the allowance for bad and doubtful debts:

	2017 *RMB'000*
At 1 January	188,844
Impairment losses recognised	32,053
Impairment losses reversed	(3,008)
Amounts written off as uncollectible	(3,179)
Disposal of subsidiaries	(31,380)
At 31 December	183,330

Movements in the allowance for bad and doubtful debts of other receivables:

	2017
	RMB'000
At 1 January	2,459
Impairment losses recognised on other receivables	1,093
Impairment losses reversed	(717)
Disposal of subsidiaries	(1,328)
At 31 December	1,507

Receivables that were not impaired relate to a wide range of counter parties for whom there was no recent history of default and with good credit quality.

12. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest rates which range from nil to 4.5% per annum (2017: 0.3% to 3.2% per annum).

As at 31 December 2018, bank balances included deposits of RMB170,166,000 (2017: RMB235,872,000), carrying interest rates which range from 0.35% to 0.675% per annum (2017: 0.8%), in an associate of ultimate holding company.

As at 31 December 2018, bank balances and cash served as collateral for the Group's borrowing amounted to RMB202,717,000 (2017: nil).

13. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
		(restated)
0 to 90 days	**488,842**	381,989
91 to 180 days	**109,455**	77,192
181 to 365 days	**29,416**	10,617
Over 365 days	**31,916**	27,312
Trade payables	**659,629**	497,110
Bills payable	**286,436**	154,660
Other tax payables	**65,569**	109,472
Construction cost and retention payables	**94,528**	61,930
Selling expense payables	**843,004**	644,154
Other payables	**643,701**	480,581
Dividend payables	**207,351**	–
Advances from customers	**–**	74,206
	2,800,218	2,022,113

The normal credit period taken for trade purchases is 30-180 days. All the bills payable will mature within six months.

Included in trade payables are an amount due to fellow subsidiaries of RMB70,513,000 (2017: RMB15,258,000), an amount due to an associate of RMB32,627,000 (2017: RMB45,394,000), and an amount due to ultimate holding company of RMB1,000 (2017: RMB1,000). The amounts are unsecured, interest-free and repayable on demand.

Included in other payables are an amount due to fellow subsidiaries of RMB12,590,000 (2017: RMB49,990,000), an amount due to an associate of nil (2017: RMB9,010,000), and an amount due to ultimate holding company of RMB20,003,000 (2017: RMB14,431,000). The amounts are unsecured, interest-free and repayable on demand.

As at 31 December 2017, included in advances from customers are an amount received from fellow subsidiaries of RMB830,000, an amount received from an associate of RMB652,000, and an amount received from ultimate holding company of RMB9,000.

14. SHARE CAPITAL

	Nominal value of each share *RMB*	Number of Non-listed shares *(note a)*	Number of H shares *(note a)*	Total number of shares	Value *RMB'000*
Registered:					
At 31 December 2017	0.1	2,638,600,000	1,883,732,324	4,522,332,324	452,233
Conversion of Non-listed shares to H shares *(note b)*	0.1	(2,638,600,000)	2,638,600,000	–	–
At 31 December 2018	0.1	–	4,522,332,324	4,522,332,324	452,233
Issued and fully paid:					
At 31 December 2017	0.1	2,638,600,000	1,883,732,324	4,522,332,324	452,233
Conversion of Non-listed shares to H shares *(note b)*	0.1	(2,638,600,000)	2,638,600,000	–	–
At 31 December 2018	0.1	–	4,522,332,324	4,522,332,324	452,233

Notes:

(a) Non-listed shares and H shares are all ordinary shares in the share capital of the Company. However, H shares may only be subscribed for by, and traded in currencies other than RMB between, legal or natural persons of Hong Kong, the Macau Special Administrative Region, Taiwan or any country other than the PRC. Non-listed shares must be subscribed for and traded in RMB. All dividends in respect of H Shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of non-listed shares are to be paid by the Company in RMB. The non-listed shares and the H shares rank pari passu with each other in all other respects and in particular, rank equally for all dividends or distributions declared, paid or made.

(b) 2,638,600,000 Non-listed shares were converted into H-shares with approval of the Listing Committee of the Stock Exchange on 7 August, 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Optimization of product mix

During the Year, the gross profit margin of the Group slightly decreased to 62.2% (before deducting extraordinary items: 61.2%) from 63.5% of last year, mainly attributable to the effect from change of product structure.

At the beginning of the year, the Group re-structured the product strategies and optimised the previous classification into eight business lines, comprising clinical nursing care, wound management, blood management, pharma packaging, medical testing, anesthesia and surgery, orthopedics and interventional products to highlight the Company's product development direction. These business lines cover an enormous size of market. The Group continues to upgrade from the multi-product strategy to the strategy of providing total systematic solution with comprehensive services, in various specialized business lines, which will facilitate steady development of the Company in the long run.

The existing major products under each re-structured business lines are as follows:

Clinical nursing care business includes vascular and non-vascular access infusion devices include infusion sets, syringes, puncture needles, specialized single-use clinical collection kits;

Wound management includes wound healing dressings, wound suture, wound cleaning and nonvascular catheter supporting extracorporeal devices;

Blood management business includes blood collection, storage, separation and sterilization.

Pharma packaging business includes prefilled syringes and pre-filled flush syringes.

Medical testing business includes blood collection devices and blood glucose testing.

Anesthesia and surgery business includes general anesthesia consumables, local anesthesia consumables, anesthesia auxiliary consumables, ICU equipment, open and minimally invasive surgical equipment.

Orthopedics business includes trauma, spinal implant, artificial joints, sports injury, soft tissue repair, reconstruction implant, orthopedic filling, and orthopedic related surgical tools.

Interventional products business includes tumor intervention, vascular intervention and interventional imaging.

1. During the Year, the clinical nursing care business recorded a turnover of approximately RMB3,891,672,000, an overall increase of 8.7% in revenue over last year, the growth is principally due to rich product mix. The Group continued to maintain a dominant position in the market segment.

2. During the Year, the pharma packaging business recorded a turnover of approximately RMB955,609,000, representing an increase of 32.9% over last year and the Company continues to maintain a 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 Year, the orthopedics business recorded a turnover of approximately RMB1,180,563,000, representing an increase of 35.6% over 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 Year, as a result of consolidating products of Argon from the US, the interventional business recorded a turnover of approximately RMB1,444,238,000, representing an increase of 868.6% over last year. The Group will expand sales of Argon products in the PRC market through leveraging resources.

During the Year, as a result of product mix adjustment, the percentage of turnover from high value-added products (products with gross profit margins over 60%) to total turnover was about 59.9% (2017: 59.7%).

RESEARCH AND DEVELOPMENT

For the year ended 31 December 2018, the Group obtained 34 new patents and 136 new patents are under application in the PRC. Product registration certificates for 65 new products were obtained. The research and development for 23 products were completed for which application for product registration certificates are underway. For overseas market, 19 new patents are under application and the research and development for 47 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 competitiveness and laid a foundation for the Company to fully leverage on its customer resources and provided the Group with new profit growth drivers.

For the year ended 31 December 2018, the Group had over 434 product registration certificates and 471 patents, of which 67 were patents on invention, in the PRC. For overseas market, the Group had over 584 product registration certificates and 161 patents.

In view of the need for the strategic adjustments to product mix, the Group continued to increase efforts on improvement and subdivision of product layout in existing products series, so as to further improve its product series and expand product range. The Group continued to maintain the leading position in research and development capability in China. For the year ended 31 December 2018, total research and development expenses from continuing operation amounted to approximately RMB311,163,000 (2017: approximately RMB273,825,000), representing 3.5% (2017: 4.4%) of the revenue of the Group.

PRODUCTION

During the Year, in order to constantly expand production capacity, the Group continued to expand its production facilities including workshops of pre-filled flush syringe and pre-filled syringe to satisfy the sales demand for future market growth. Meanwhile, the Group proactively promoted improvement of production processes and enhanced intellectualization and automation of production equipment. The production costs were reduced through efficiency enhancement and scientific management, maintaining the Company’s overall profitability.

SALES AND MARKETING

During the Year, the Group consolidated the marketing management system and further adhered to the strategy of sales channel integration and product mix adjustment and to focus on marketing resources on customer development and maintenance in the core healthcare market. The Group achieved substantial results in key client accounts management. As at the date of this announcement, the Group newly added 136 hospitals, 57 other medical institutions and 68 distributors to its PRC customer base, and the Group has a PRC customer base of 5,378 in aggregate (including 2,566 hospitals, 414 blood stations, 644 other medical units and 1,754 distributors) and an overseas customer base of 4,418 in aggregate (including 2,873 hospitals, 1,377 other medical units and 168 distributors).

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

Turnover By Geographical information

Regions	**2018** ***RMB'000***	**2017** *RMB'000*	**Over corresponding period %**
The PRC			
–Eastern and Central	**3,428,935**	2,698,118	27.1%
–Northern	**1,639,138**	1,407,858	16.4%
–Northeast	**752,229**	676,203	11.2%
–Southern	**562,070**	471,260	19.3%
–Southwest	**563,553**	502,137	12.2%
–Northwest	**203,802**	200,499	1.6%
PRC sub-total	**7,149,727**	5,956,075	20.0%
Overseas			
–The US	**814,588**	21,393	3,707.7%
–Europe, Middle East and Africa	**410,967**	158,289	159.6%
–Asia	**267,480**	94,408	183.3%
–Others	**166,099**	62,476	165.9%
Overseas sub-total	**1,659,134**	336,566	393.0%
Total	**8,808,861**	6,292,641	40.0%

The integration of sales channels has strengthened the Group's market penetration and influence over the core customers. It enhanced sales contribution per customer and continued to drive up the product penetration to high-end customers and was an important approach in generating revenue growth for the Group.

Adjustment in product mix was another important factor in enhancing the results for the Year. During the Year, the Group enhanced the sales of all product lines, resulting in an increase in the proportion of revenue from high value-added products over its total revenue. Comparison of revenue of principal products with that in last year is as follows:

	For the year ended 31 December			**For the six months ended 31 December**		
Product category	**2018**	2017	Over corresponding period	**2018**	2017	Over corresponding period
	RMB'000	*RMB'000*	*%*	***RMB'000***	*RMB'000*	*%*
Clinical nursing care	**3,891,672**	3,581,168	8.7%	**2,011,914**	1,882,999	6.8%
Wound management	**299,905**	221,377	35.5%	**179,699**	112,376	59.9%
Blood management	**402,008**	352,258	14.1%	**222,525**	197,823	12.5%
Pharma packaging products	**955,609**	718,920	32.9%	**482,071**	348,992	38.1%
Medical testing	**150,678**	118,956	26.7%	**80,413**	66,351	21.2%
Anesthesia and surgical related products	**105,942**	36,228	192.4%	**75,949**	21,334	256.0%
Orthopedic products	**1,180,563**	870,386	35.6%	**656,923**	480,797	36.6%
Interventional products	**1,444,238**	149,103	868.6%	**763,668**	78,836	868.7%
Other consumables	**378,246**	244,245	54.9%	**185,201**	125,203	47.9%
Total	**8,808,861**	6,292,641	40.0%	**4,658,363**	3,314,711	40.5%

HUMAN RESOURCES

As at 31 December 2018, the Group employed a total of 9,562 employees. The breakdown by departments when compared with last year is as follows:

DEPARTMENT

	2018	2017
Production	**4,999**	3,842
Sales and marketing	**2,507**	2,287
Research and development	**1,124**	1,037
Finance and administration	**460**	320
Quality control	**194**	163
Management	**167**	154
Purchasing	**111**	63
Total	**9,562**	7,866

There are a total of 755 overseas employees who are resided in Hong Kong, the US and Europe. Other employees of the Group are resided in Mainland China. During the Year, the total cost of salaries, welfare and social benefits of the Group amounted to approximately RMB1,456,905,000 (in 2017: approximately RMB1,231,337,000).

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 year ended 31 December 2018, the Group recorded a turnover from continuing operations of RMB8,808,861,000, representing an increase of 40.0% over the previous financial year. Net profit attributable to the owners of the Company was approximately RMB1,472,935,000 (2017: approximately RMB1,728,660,000), representing a decrease of approximately 14.8% as compared with the previous year. Net profit attributable to the owners of the Company (excluding extraordinary items) was approximately RMB1,586,834,000 (2017: approximately RMB1,337,592,000), representing an increase of approximately 18.6% over the previous year.

FINANCIAL SUMMARY

	2018	2017	Increase
	RMB'000	*RMB'000*	*%*
Turnover from continuing operations	**8,808,861**	6,292,641	40.0%
Gross profit from continuing operations	**5,389,451**	3,992,823	35.0%
Net profit attributable to the owners of the Company	**1,472,935**	1,728,660	(14.8%)
Net profit attributable to the owners of the Company (excluding extraordinary items)	**1,586,834**	1,337,592	18.6%

During the Year, extraordinary items include increase in cost of good sold of approximately RMB76,962,000 for the current period from inventory appreciation based on valuation resulted from the acquisition of Argon and an one-off transaction expenses of approximately RMB36,937,000 for the acquisition of Argon. (In 2017: extraordinary items recorded an accounting gain for Weigao Blood Purification Products Company Limited ("Weigao Blood Purification") after it became an associate of the Company upon the completion of capital increase, among which approximately RMB391,068,000).

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during the Year. As at 31 December 2018, the Group's cash and bank balance amounted to approximately RMB3,812,446,000. For the year ended 31 December 2018, net cash flow from operating activities of the Group amounted to approximately RMB2,219,196,000. The Group has maintained a sound cash flow position.

Total interest expenses from continuing operation of the Group for the year ended 31 December 2018 were approximately RMB284,408,000 (2017: approximately RMB23,889,000).

GEARING RATIO

Due to the acquisition of Argon in January 2018, our gearing ratio as at the end of 2018 increased to 36.8% (2017: 7.5%), higher than that for the previous year.

As at 31 December 2018, total net liabilities of the Group amounted to approximately RMB1,525,602,000 (2017: total net cash of RMB2,779,065,000). 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 and the United States. Assets, liabilities and transactions in the PRC are denominated in RMB, while overseas assets and transactions are mainly denominated in US dollars. For the year ended 31 December 2018, the Group had not encountered any material difficulty due to currency fluctuation nor had it affected its funds for operation purpose. However, due to the relatively long repayment cycle with steady revenue in US dollars from overseas subsidiaries, the outstanding borrowings in US dollars will not cause significant foreign currency risk to the Group. Notwithstanding, the management will closely monitor risks of exchange rate and consider hedging significant currency risks when necessary.

Due to the change in exchange rates, foreign exchange gain from continuing operations equivalent to RMB1,769,000 for the year ended 31 December 2018 was recognised (2017: foreign exchange gain equivalent to RMB1,883,000) by the Company.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2018.

MATERIAL INVESTMENTS/FUTURE MATERIAL INVESTMENT PLANS

1. During the Year, the Group continued to invest approximately RMB651,495,000 for building of properties and production facilities and for the construction of the Group's medical consumables industrial zone.

2. On 23 January 2018, the Group completed the acquisition of Argon through a joint venture formed by Weigao International Medical Company Limited ("Weigao International"), a subsidiary of the Group, and an independent third party for a consideration of US$850,888,000, of which US$405,443,000 was debt financing raised by Argon. The remaining of US$445,445,000 was funded by Weigao International from its internal resources.

3. In 2019, the Group plans to invest approximately RMB280,000,000 for purchase of new production lines, which are expected to be in production successively by the end of 2021.

4. In 2019, the Group plans to further invest approximately RMB150,000,000 for upgrading and reconfiguration of the single-use consumables production equipment to further enhance the level of production automation.

5. It is planned to invest US$40 million in outsourced research and development projects of interventional products to enrich the Company's high-end product line.

Save for the above material investments and investment plans, the Group had no material capital plans or any future plans involving significant investments or capital assets acquisition as at 31 December 2018.

CAPITAL COMMITMENTS

As at 31 December 2018, the capital commitments of the Group and the Company contracted but not provided for in respect of the acquisition of property, plant and equipment and other commitments amounted to approximately RMB726,184,000 (2017: RMB2,948,758,000). The above amounts will be financed by the internal resources of the Group.

PLEDGE OF THE GROUP'S ASSETS

As at 31 December 2018, the Group had pledged the equity interest in Weigao Jierui, a wholly-owned subsidiary of the Group, to secure the long-term borrowings from International Finance Corporation, and pledged bank deposits of RMB222,270,000 (2017: RMB96,178,000) to secure the bills and letters of credit granted to the Group.

The Financial Leasing Company had pledged accounts receivable of RMB202,983,000 (2017: RMB239,589,000) to secure financing.

The Group had pledged bills receivable of RMB58,029,000 (2017: nil) to secure bank facilities. The Group had a security package of 100% equity interests in Argon and its subsidiaries as well as the property, plant and equipment, intangible assets, inventories, trade and other receivables, bank deposits and cash of Argon to secure the loan with a principal of US$420,000,000.

RESERVES AND DISTRIBUTABLE RESERVES

As at 31 December 2018, total reserves of the Group amounted to RMB14,062,340,000 (2017: RMB12,882,272,000).

Under the PRC laws and regulations, the Company's distributable reserves will be based on the lower of the amount calculated according to the PRC accounting principles and rules and the amount calculated according to the Hong Kong generally accepted accounting principles. As at 31 December 2018, the distributable reserves of the Company were approximately RMB3,824,559,000 (2017: RMB3,391,686,000).

REVIEW AND OUTLOOK

During the Year, the Company continued to adhere to product mix optimisation and adjustment strategy, accelerated products iteration, and increased investment in engineering technologies, with a focus to enhance production efficiency and improve product quality; in addition to enhancing the sales management strategy and integrating marketing resources, sharing of key accounts as well as implementing staff incentive arrangement, the Company continued to maintain growth in revenue and profit despite intensified competition.

During the Year, the management re-structured and streamlined the product strategy and determined on eight major business lines 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 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.

During the Year, the domestic healthcare industry faced different complicated circumstances brought by the continuous deepening medical reform in the PRC. Government policy adjustment will be implemented further in various aspects. With profound experience in the industry, multi-segments, continual launch of serialized and competitive products as well as overseas resources integration, the Group is capable to cope with all risks and challenges.

LOOKING FORWARD TO 2019

Through resources integration, the Company will strengthen product upgrading and research and development capabilities. The Company will continue to increase investment in research and development, further strengthen existing product lines and intensify the marketing of new products. The Company will place more effort to promote product safety and patient application safety, improve patient treatment experience and quicken the pace in launching pipeline products, which could help to offset numerous adverse impacts and to maintain its competitive edge.

In view of the effectiveness achieved by key client accounts management, the Company will continue to focus on such strategy and increase single customer contribution by promoting various products via the key accounts management

The in-depth implementation of national medical reform policies may cause fluctuations in the financial performance to a certain extent in the short term but will facilitate industry concentration and increase the market share of excellent brands in the long-term and benefit the rapid growth of leading enterprises in the industry.

As overseas market is the focus of our medium and long-term strategic plan, the Company will proactively develop its overseas business layout and proceed with sales of marketable product in target market, and it will gradually establish long-term stable sales channel and network. The proportion of sales in overseas markets to the total revenue of the Group is expected to increase gradually.

On 23 January 2018, WW Medical and Healthcare Holdings Corporation("WW Holding"), the Group's 89.8% owned subsidiary, acquired 100% of the shares of Argon for consideration of USD850,888,001(equivalent to RMB5,446,449,000). Argon is principally engaged in the production and sale of medical devices for interventional radiology, vascular surgery, interventional cardiology and oncology. At the strategic level, Argon will become the Group's platform for overseas expansion and play an active role in technological upgrade, product innovation and mergers and acquisitions. At the business operation level, the Group will work with the management team of Argon to implement the sale of interventional products in the market in China. The management considers that Argon as an important business unit of Weigao will make contributions to the long-term stable development of the Group.

While continuously carrying out engineering technologies, automation and supply chain management improvement in production, the Company will continue to improve its product quality and to, increase production efficiency to maintain cost advantages.

By relying on its extensive strategic layout in the business fields and high quality products and insistence on adapting to market and future-oriented operating strategy and motivation of employee creativity, the management believes that the Company will continue to maintain its leading position in the PRC market. Meanwhile, the Company will proactively develop overseas business to achieve the coordinated development of domestic and foreign markets, supporting the stable growth in the operating results of the Group.

Argon will become the Group's platform for overseas expansion and interventional product operations expansion.

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

During the Year, there was no purchase, sale or redemption of its securities by the Company or any of its subsidiaries.

BOARD PRACTICES AND PROCEDURES

The Code on Corporate Governance Practices (the "CCGP") contained in the Listing Rules which set out the principles of good corporate governance and the Company is required to comply with the code provisions of the CCGP. The Company fully admitted that good corporate governance, as part of the Company's culture, can create values to the Group and the Shareholders efficiently. The Board is committed to continuing to enhance the standards of corporate governance within the Group and to ensure that the Group conducts its businesses in an honest and responsible manner. The Group has adopted practices which meets the code provisions of the CCGP.

CHANGE OF BOARD COMPOSITION AND SENIOR MANAGEMENT

(1) Mr. Wang Yi ("**Mr. Wang**"), an executive director, has been re-designated as a 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 has been appointed as the Chief Executive Officer of the Company with effect from 29 August 2018.

(4) Mr. Long Jing ("**Mr. Long**") has been appointed as an executive director of the Company with effect form 6 December 2018.

(5) Mr. Wang, a non-executive director has been re-designated as an executive director of the Company with effect from 14 March 2019.

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.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive directors, namely Mr. Lo Wai Hung, Mrs. Fu Ming Zhong and Mrs. Wang Jin Xia and one non-executive Director, namely Mrs. Zhou Shu Hua. The Chairman of the Audit Committee is Mr. Lo Wai Hung. The Audit Committee has reviewed the Group's audited consolidated financial statements for the Year which have been agreed by the Company's auditor, and is of the view that the Group's audited consolidated financial statements for the Year are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made. The Audit Committee has also reviewed the annual results for the Year.

CONFIRMATION OF INDEPENDENCE OF THE INDEPENDENT NON EXECUTIVE DIRECTORS

The Company confirmed that it had received the annual confirmation of independence from each of the Independent Non-executive Directors in compliance with Rule 3.13 of the Listing Rules for the year ended 31 December 2018. The Company is of the view that the Independent Non-executive Directors remain independent during the Year in accordance with the relevant requirements of Rule 3.13 of the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive right under the Company's articles of association and the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company is committed to maintain high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest. The Company has complied with the code provision of the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Listing Rules throughout the year ended 31 December 2018.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

Attending and Voting in the Annual General Meeting

In order to determine the shareholders who are entitled to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Saturday, 1 June 2019 to Tuesday, 2 July 2019 (both days inclusive), during which period no transfer of H Shares will be effected. In order to qualify for attending and voting in the Annual 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, 31 May 2019.

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

Latest time to lodge in transfer
instrument accompanied
by the share certificates for H Shares . . . . .4:30 p.m., Friday,
31 May 2019

Closure of register of members of
the Company for attending and voting
in the Annual General Meeting . . . . Saturday, 1 June 2019 to
Tuesday, 2 July 2019
(both days inclusive)

Latest time to lodge in the reply slip. . . . . .Tuesday, 11 June 2019

Date of the Annual General Meeting. . . . . Tuesday, 2 July 2019

Entitlement of Proposed Final dividend

In order to determine entitlement to the proposed final dividend payment, the register of members of the Company for H Shares will be closed from Tuesday, 9 July 2019 to Sunday, 14 July 2019 (both days inclusive), during which period no transfer of H Shares will be effected. In order to qualify for entitlement of the proposed final dividend, Shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H Share registrar, Tricor Standard Limited, at 22/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 8 July 2019.

In order to qualify to entitle the final dividend for the year ended 31 December 2018:–

Latest time to lodge in transfer instrument accompanied
by the share certificates for H Shares . . . . 4:30 p.m., Monday,
8 July 2019

Closure of register of members of the Company for entitlement of the final dividend for the year ended 31 December 2018	Tuesday, 9 July 2019 to Sunday, 14 July 2019 (both day inclusive)
Record date for the entitlement of the final dividend	Sunday, 14 July 2019
Expected despatch date of the final dividend	Thursday, 15 August 2019

The final dividend will be despatched at the risk of those entitled thereto to their respective registered addresses on or before Thursday, 15 August 2019.

PROPOSED FINAL DIVIDEND

The Board proposed the distribution of a final dividend for the year ended 31 December 2018 of RMB0.052 (2017: RMB0.046) (before considering any tax effect) per share totaling RMB235,161,000 (2017: RMB208,027,000), which will be subject to the approval of shareholders of the Company at the forthcoming 2018 annual general meeting. Dividend payable to Shareholders will be declared in Renminbi and paid in Hong Kong dollars, the exchange rate of which will be calculated based on the average exchange rate published by The People's Bank of China during the week prior to the Annual General Meeting. Subject to the approval of the Annual General Meeting, the 2018 final dividend will be paid on 15 August 2019.

In accordance with the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementation rules effective on 1 January 2008, where a PRC domestic enterprise distributes dividends for financial periods beginning from 1 January 2008 to non-resident enterprise shareholders, it is required to withhold 10% enterprise income tax for such non-resident enterprise shareholders. Therefore, as a PRC domestic enterprise, the Company will, after withholding 10% of the final dividend as enterprise income tax, distribute the final dividend to non-resident enterprise shareholders, i.e. any shareholders who hold the Company's shares in the name of non-individual shareholders, including but not limited to HKSCC Nominees Limited, other nominees, trustees, or holders of H Shares registered in the name of other organizations and groups.

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124) (《國家稅務總局關於印發〈非居民享受稅收協定待遇管理辦法(試行)〉的通知》(國稅發[2009]124號)) (the "Tax Treaties Notice"), the Notice of the State Administration of Taxation on the Questions Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), other relevant laws and regulations and other regulatory documents, the Company shall, as a withholding agent, withhold and pay individual income tax for the individual holders of H shares in respect of the dividend to be distributed to them. However, the individual holders of H shares may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries (regions) in which the individual holders of H shares are domiciled and the tax arrangements between Mainland China, Hong Kong or Macau. For individual holders of H shares in general, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the individual holders of H shares in the distribution of the dividend. However, the tax rates applicable to individual holders of H Shares overseas may vary depending on the tax treaties between the PRC and the countries (regions) in which the individual holders of H shares are domiciled, and the Company will withhold and pay individual income tax on behalf of the individual holders of H shares in the distribution of the dividend accordingly.

The Company will identify the country of domicile of the individual holders of H shares according to their registered address on the H share register of members of the Company (the "Registered Address"). If the domicile of an individual holders of H shares is not the same as the Registered Address or if the individual holders of H shares would like to apply for a refund of the additional amount of tax finally withheld and paid, the individual holders of H shares shall notify and provide relevant supporting documents to the Company. Upon examination of the supporting documents by the relevant tax authorities, the Company will follow the guidance given by the tax authorities to implement the relevant tax withholding provisions and arrangements. Individual holders of H shares may either personally or appoint a representative to attend to the procedures in accordance with the requirements under the Tax Treaties Notice if they do not provide the relevant supporting documents to the Company.

The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the individual holders of H shares and for any claims arising from or in connection with any delay in or inaccurate determination of the tax status or tax treatment of the individual holders of H shares or any disputes over the withholding mechanism or arrangements.

Shareholders are recommended to consult their tax advisors regarding the PRC, Hong Kong and other tax implications arising from or in connection with their holding and disposal of the H shares of the Company.

PUBLICATION OF FINANCIAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

This announcement is available for viewing on the websites of the Stock Exchange and the Company. The annual report of the Company for the year ended 31 December 2018 will be dispatched to shareholders of the Company and published on the Stock Exchange and the Company's websites respectively in due course.

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

27 March 2019
Weihai, Shandong Province, the PRC

As at the date of this announcement, the Board Comprises:
Mr. Zhang Hua Wei *(Executive Director)*
Mr. Wang Yi *(Executive Director)*
Mr. Long Jing *(Executive Director)*
Mr. Gong Jian Bo *(Executive Director)*
Mrs. Zhou Shu Hua *(Non-executive Director)*
Mr. Lo Wai Hung *(Independent non-executive Director*
Mrs. Fu Ming Zhong *(Independent non-executive Director)*
Mrs. Wang Jin Xia *(Independent non-executive Director)*