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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 ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2019

SUMMARY

For the year ended 31 December 2019 (the “Year”), the turnover of Shandong Weigao Group Medical Polymer Company Limited (the “Company” and together with its subsidiaries, the “Group”) was approximately RMB10,364,081,000 (2018: RMB8,808,861,000), representing an increase of 17.7% over the previous year. Net profit attributable to the owners of the Company was approximately RMB1,844,883,000 (2018: approximately RMB1,472,935,000), representing an increase of approximately 25.3% over the previous year. Net profit attributable to the owners of the Company (excluding extraordinary items) was approximately RMB1,923,392,000 (2018: approximately RMB1,586,834,000), representing an increase of approximately 21.2% over the previous year. During the Year, extraordinary items represented the one-off loan swap expenses of approximately RMB78,509,000 of Argon Medical Devices Holdings, Inc. (“Argon”) (2018: increase in cost of goods sold of approximately RMB76,962,000 from inventory appreciation based on valuation resulted from the acquisition of Argon and one-off transaction expenses of approximately RMB36,937,000 for the acquisition of Argon).

The Directors recommended the payment of a final dividend of RMB0.061 (2018: RMB0.052 per share), which is subject to the approval by the shareholders of the Company (“Shareholders”) at the forthcoming annual general meeting.

* For identification purpose only

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	<i>NOTES</i>	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Revenue	4	10,364,081	8,808,861
Cost of sales		<u>(3,858,884)</u>	<u>(3,419,707)</u>
Gross profit		6,505,197	5,389,154
Other income, gains and losses	5	247,495	334,103
Impairment losses under expected credit loss model, net of reversal		(16,163)	(17,911)
Selling and distribution expense		(2,781,192)	(2,438,194)
Administrative expenses		(986,235)	(929,612)
Research and development expenses		(406,363)	(311,163)
Finance costs	6	(396,735)	(284,408)
Share of profit of an associate		<u>81,097</u>	<u>33,246</u>
Profit before tax		2,247,101	1,775,215
Income tax expense	7	<u>(327,137)</u>	<u>(258,431)</u>
Profit for the year	8	<u>1,919,964</u>	<u>1,516,784</u>
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>27,041</u>	<u>124,999</u>
Total comprehensive income for the year		<u><u>1,947,005</u></u>	<u><u>1,641,783</u></u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

	Year ended 31/12/2019	Year ended 31/12/2018
<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year attributable to owners of the Company	1,844,883	1,472,935
Profit for the year attributable to non- controlling interests	75,081	43,849
	1,919,964	1,516,784
Total comprehensive income for the year attributable to:		
Owners of the Company	1,869,413	1,585,730
Non-controlling interests	77,592	56,053
	1,947,005	1,641,783
Earnings per share	<i>10</i>	
Basic (RMB per share)	0.41	0.33
Diluted (RMB per share)	0.41	0.33

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	NOTES	31/12/2019 RMB'000	31/12/2018 RMB'000
Non-current assets			
Property, plant and equipment		4,994,857	4,468,162
Right-of-use assets		416,811	–
Prepaid lease payments		–	386,869
Investment properties		159,650	131,476
Goodwill		3,398,885	3,339,069
Deposits paid for acquiring property, plant and equipment		143,069	143,295
Intangible assets		2,266,932	2,409,736
Interests in an associate		1,056,416	970,746
Financial assets at fair value through profit or loss (“FVTPL”)		410,326	107,339
Deferred tax assets		101,018	78,093
Finance lease receivables		153,026	293,361
Loan receivables		627,727	941,201
		<u>13,728,717</u>	<u>13,269,347</u>
Current assets			
Inventories	11	1,242,441	1,137,312
Loan receivables		1,501,502	896,585
Trade and other receivables	12	4,713,078	4,103,675
Debt instruments at fair value through other comprehensive income		421,883	349,531
Finance lease receivables		156,753	195,707
Pledged bank deposits	13	321,923	222,270
Bank balances and cash	14	4,239,441	3,812,446
		<u>12,597,021</u>	<u>10,717,526</u>
Current liabilities			
Trade and other payables	15	3,235,552	2,800,218
Contract liabilities		120,201	96,297
Borrowings		914,247	130,925
Tax payable		123,570	179,211
Deferred income		6,413	5,844
Loans from the ultimate holding company		143,982	114,234
Lease liabilities		7,062	–
		<u>4,551,027</u>	<u>3,326,729</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019 (Continued)

	31/12/2019	31/12/2018
	<i>RMB'000</i>	<i>RMB'000</i>
Net Current Assets	<u>8,045,994</u>	<u>7,390,797</u>
Total Assets less Current Liabilities	<u><u>21,774,711</u></u>	<u><u>20,660,144</u></u>
Capital and Reserves		
Share capital	452,233	452,233
Reserves	<u>15,732,941</u>	<u>14,062,340</u>
Equity attributable to owners of the Company	16,185,174	14,514,573
Non-controlling interests	<u>811,636</u>	<u>676,327</u>
Total Equity	<u><u>16,996,810</u></u>	<u><u>15,190,900</u></u>
Non-current Liabilities		
Borrowings	4,434,984	5,092,889
Deferred income	45,851	36,789
Deferred tax liabilities	278,417	339,566
Lease liabilities	<u>18,649</u>	<u>–</u>
	<u>4,777,901</u>	<u>5,469,244</u>
	<u><u>21,774,711</u></u>	<u><u>20,660,144</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL

Shandong Weigao Group Medical Polymer Company Limited (the “Company”) was established and registered as a joint stock company with limited liability in the People’s Republic of China (the “PRC”) under the Company Law of the PRC on 28 December 2000 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its immediate and ultimate holding company is Weigao Holding Company Limited (“Weigao Holding”), a company registered in the PRC with limited liability. Its ultimate controlling party is Chen Xue Li. The address of the registered office and principal place of business of the Company is No. 18, Xing Shan Road, Weihai, Shandong Province, PRC.

The Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are principally engaged in the research and development, production and sale of medical device products, orthopaedic products, interventional products, pharma packaging products and blood management products, and operate financing business.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the functional currency of the Company.

2. SUMMARY OF APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except *HKFRS 16 Lease*, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

At the date of initial application, the adoption of HKFRS16 has no impact to the retained earnings of the Group as at 1 January 2019.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under HKFRS 16 at 1 January 2019 RMB'000
Non-current Assets			
Prepaid lease payments	386,869	(386,869)	–
Right-of-use assets	–	427,093	427,093
Current Assets			
Prepaid lease payments	13,653	(13,653)	–
Current Liabilities			
Lease liabilities	–	6,726	6,726
Non-current liabilities			
Lease liabilities	–	19,845	19,845
	<u>–</u>	<u>19,845</u>	<u>19,845</u>

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 (“Listing Rules”) and by the Hong Kong Companies Ordinance.

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 accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 *Leases* (before application of HKFRS 16), 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*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

4. 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 blood vessel interventional instruments
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

Segment revenues and results

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

For the year ended 31 December 2019

	Medical device products <i>RMB'000</i>	Orthopaedic products <i>RMB'000</i>	Interventional products <i>RMB'000</i>	Pharma packaging products <i>RMB'000</i>	Blood management products <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue								
External sales	5,636,270	1,555,556	1,433,360	1,281,038	457,857	-	-	10,364,081
Inter-segment sales	250	27,763	42	-	-	-	(28,055)	-
Total	<u>5,636,520</u>	<u>1,583,319</u>	<u>1,433,402</u>	<u>1,281,038</u>	<u>457,857</u>	<u>-</u>	<u>(28,055)</u>	<u>10,364,081</u>
Segment profit	<u>1,100,807</u>	<u>510,902</u>	<u>(79,334)</u>	<u>471,151</u>	<u>62,639</u>	<u>66,853</u>	<u>-</u>	<u>2,133,018</u>
Depreciation of investment properties								(7,037)
Unallocated other income, gains and losses								(36,375)
Rental income of investment properties								17,076
Interest income from bank deposits								37,878
Gain from changes in fair value of financial assets at FVTPL								21,444
Share of profit of an associate								81,097
Profit before tax								<u>2,247,101</u>

For the year ended 31 December 2018

	Medical device products <i>RMB'000</i>	Orthopaedic products <i>RMB'000</i>	Interventional products <i>RMB'000</i>	Pharma packaging products <i>RMB'000</i>	Blood management products <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
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	<u>5,010,850</u>	<u>1,185,862</u>	<u>1,261,528</u>	<u>955,609</u>	<u>402,008</u>	<u>-</u>	<u>(6,996)</u>	<u>8,808,861</u>
Segment profit	<u>955,868</u>	<u>353,653</u>	<u>(102,932)</u>	<u>327,758</u>	<u>51,659</u>	<u>61,760</u>	<u>-</u>	<u>1,647,766</u>
Depreciation of investment properties								(2,959)
Unallocated other income, gains and losses								(136)
Rental income of investment properties								17,602
Interest income from bank deposits								62,093
Gain from changes in fair value of financial assets at FVTPL								17,603
Share of profit of an associate								<u>33,246</u>
Profit before tax								<u><u>1,775,215</u></u>

The accounting policies of the operating 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 deposits, gain from changes in fair value of financial assets at FVTPL and share of profit of an associate. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Segment assets and liabilities

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

Segment assets

	31/12/2019	31/12/2018
	<i>RMB'000</i>	<i>RMB'000</i>
Medical device products	10,016,768	8,840,343
Orthopaedic products	1,466,090	1,497,061
Interventional products	6,053,777	6,073,665
Pharma packaging products	873,260	791,261
Blood management products	406,700	377,619
Others	1,220,369	1,084,554
	<hr/>	<hr/>
Total segment assets	20,036,964	18,664,503
Financial assets at FVTPL	410,326	107,339
Interests in an associate	1,056,416	970,746
Investment properties	159,650	131,476
Deferred tax assets	101,018	78,093
Pledged bank deposits	321,923	222,270
Bank balances and cash	4,239,441	3,812,446
	<hr/>	<hr/>
Consolidated assets	<u>26,325,738</u>	<u>23,986,873</u>

Segment liabilities

	31/12/2019	31/12/2018
	<i>RMB'000</i>	<i>RMB'000</i>
Medical device products	5,016,090	4,596,944
Orthopaedic products	620,370	347,957
Interventional products	2,925,459	2,952,878
Pharma packaging products	151,270	122,474
Blood management products	142,954	107,152
Others	194,368	329,002
	<hr/>	<hr/>
Total segment liabilities	9,050,511	8,456,407
Deferred tax liabilities	278,417	339,566
	<hr/>	<hr/>
Consolidated liabilities	<u>9,328,928</u>	<u>8,795,973</u>

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

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

Other segment information

For the year ended 31 December 2019

	Medical device products <i>RMB'000</i>	Orthopaedic products <i>RMB'000</i>	Interventional products <i>RMB'000</i>	Pharma packaging products <i>RMB'000</i>	Blood management products <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Amounts included in the measure of segment profit or segment assets:							
Additions to property, plant and equipment	722,984	89,491	44,789	74,488	12,458	-	944,210
Allowances for credit losses	1,697	12,188	1,425	-	-	853	16,163
Allowances for inventories	-	24,893	-	-	-	-	24,893
Allowances for property, plant and equipment	-	5,891	-	-	-	-	5,891
Amortisation of intangible assets	-	4,435	236,697	-	75	-	241,207
Depreciation of property, plant and equipment	186,050	87,376	12,936	49,088	14,169	198	349,817
Depreciation of right-of-use assets	14,769	-	4,258	-	-	-	19,027
Loss on disposal of property, plant and equipment	1,087	(17)	2,510	-	-	-	3,580
Research and development expenditure	279,089	71,848	14,242	23,940	17,244	-	406,363
Share-based payment expenses	12,220	-	20,965	1,023	1,594	-	35,802
Government grants	(4,839)	(6,439)	-	(2,514)	(335)	-	(14,127)
Rebate of value added tax ("VAT")	(79,288)	-	-	-	-	(3,620)	(82,908)

For the year ended 31 December 2018

	Medical device products <i>RMB'000</i>	Orthopaedic products <i>RMB'000</i>	Interventional products <i>RMB'000</i>	Pharma packaging products <i>RMB'000</i>	Blood management products <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
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 VAT	(81,079)	-	-	-	-	-	(81,079)

Revenue from major products and services

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

	Year ended 31/12/2019 <i>RMB'000</i>	Year ended 31/12/2018 <i>RMB'000</i>
Sale of medical device products		
– Clinical care	4,255,669	3,891,672
– Wound management	369,693	299,905
– Anesthesia and surgical related products	149,551	105,942
– Medical testing	191,477	150,678
– Other consumables	447,654	378,246
Sale of orthopaedic products	1,555,556	1,180,563
Sale of interventional products	1,655,586	1,444,238
Sale of pharma packaging products	1,281,038	955,609
Sale of blood management products	457,857	402,008
	10,364,081	8,808,861

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 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		Non-current assets	
	Year ended			
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC	8,488,213	7,149,727	8,190,576	6,509,306
United States	918,454	814,588	5,536,443	5,633,039
Europe, the Middle East and Africa	425,605	410,967	1,617	295
Other districts	531,809	433,579	81	74
	<u>10,364,081</u>	<u>8,808,861</u>	<u>13,728,717</u>	<u>12,142,714</u>

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

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

As a practical expedient of HKFRS 15 *Revenue from contracts with customers*, the Group need not disclose the transaction price allocated to these unsatisfied contracts with customers that has an original expected duration of one year or less.

5. OTHER INCOME, GAINS AND LOSSES

	Year ended 31/12/2019 <i>RMB'000</i>	Year ended 31/12/2018 <i>RMB'000</i>
Other income:		
Rebate of VAT (<i>note a</i>)	82,908	81,079
Government grants (<i>note b</i>)	14,127	12,229
Operating rental income	17,076	17,602
Finance lease income	44,738	35,803
Interest income from bank deposits	37,878	62,093
Interest income from factoring business	26,372	19,223
Interest income from loan receivables	65,099	89,493
	<u>288,198</u>	<u>317,522</u>
Other gains and losses:		
Impairment losses on inventories	(24,893)	(611)
Impairment losses on property, plant and equipment	(5,891)	–
Net exchange gain	7,176	1,769
Loss on disposal of property, plant and equipment	(3,580)	(2,044)
Loss on disposal of investments in a subsidiary	(50)	–
Gain on deemed disposal of investments in an associate	4,573	–
Gain from changes in fair value of financial assets measured at FVTPL	21,444	17,603
Donation paid	(36,962)	(2,729)
Loss on Structured Cross Currency Swap	(3,106)	–
Others	586	2,593
	<u>(40,703)</u>	<u>16,581</u>
	<u><u>247,495</u></u>	<u><u>334,103</u></u>

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.

6. FINANCE COSTS

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Interest on bank loans and other borrowings	314,682	284,408
Interest on early repayment of bank loans (<i>note</i>)	79,831	–
Interest on lease liabilities	2,222	–
	396,735	284,408

Note:

During the year, the Group early repaid the borrowings under First Lien Credit Agreement and Second Lien Credit Agreement. The interest on early repayment of bank loans, amounting to RMB79,831,000, represents the difference between the carrying amount of the borrowings derecognised and the consideration repaid.

7. INCOME TAX EXPENSE

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Current enterprise income tax	401,672	321,830
Withholding income tax from dividend distribution	16,200	–
(Over)/Under provision in prior years	(1,795)	4,679
Deferred tax	<u>(88,940)</u>	<u>(68,078)</u>
	<u>327,137</u>	<u>258,431</u>

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% for both years.

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 Company, Jierui and Weigao Orthopaedic were recognised as Shandong Province New and High Technical Enterprises (山東省高新技術企業) from the year 2017 to 2019. 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 2019 and 2018 were made after taking these tax incentives into account.

8. PROFIT FOR THE YEAR

	Year ended 31/12/2019 <i>RMB'000</i>	Year ended 31/12/2018 <i>RMB'000</i>
Profit for the year has been arrived at after charging:		
Allowances for credit losses	16,163	17,911
Allowances for inventories	24,893	611
Allowances for property, plant and equipment	5,891	–
Amortisation of intangible assets	241,207	215,048
Auditors' remuneration	7,735	6,237
Depreciation of property, plant and equipment	349,817	344,551
Depreciation of investment properties	7,037	2,959
Depreciation of right-of-use assets	19,027	–
Release of prepaid lease payments	–	13,492
Rental payments in respect of premises under operating leases	–	19,921
Recognition exemption of lease expenses of initial application of HKFRS 16	5,383	–
Lease liabilities interest expense	2,222	–
Cost of inventories recognised as an expense	3,858,884	3,419,707
Staff costs, including directors' and supervisors' remuneration		
– Retirement benefits scheme contributions	109,869	101,707
– Salaries and other allowances	1,773,701	1,313,177
– Share-based payment expenses	35,802	42,021
Total staff costs	<u>1,919,372</u>	<u>1,456,905</u>
Loss on disposal of property, plant and equipment	<u><u>3,580</u></u>	<u><u>2,044</u></u>

9. DIVIDENDS

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Dividends recognised as distribution during the year:		
2019 Interim – RMB0.059 (2018: interim dividend – RMB0.049) per share	266,817	221,594
2018 Final – RMB0.052 (2017: final dividend – RMB0.046) per share	235,161	208,027
Total	501,978	429,621
<i>Less:</i> distribution to the shares hold by the trustees under a share award scheme	5,101	4,366
	496,877	425,255

10. EARNINGS PER SHARE

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:

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Profit for the year attributable to owners of the Company	1,844,883	1,472,935
Earnings for the purpose of basic/diluted earnings per share	<u>1,844,883</u>	<u>1,472,935</u>
	Year ended 31/12/2019 '000	Year ended 31/12/2018 '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	<u>6,467</u>	<u>7,507</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>4,482,839</u>	<u>4,483,879</u>

11. INVENTORIES

	31/12/2019	31/12/2018
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	250,272	267,894
Finished goods	<u>992,169</u>	<u>869,418</u>
	<u>1,242,441</u>	<u>1,137,312</u>

12. TRADE AND OTHER RECEIVABLES

	31/12/2019	31/12/2018
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	4,093,417	3,662,622
<i>Less: Allowance for credit losses</i>	<u>(209,167)</u>	<u>(202,228)</u>
	3,884,250	3,460,394
Receivables from factoring business	297,807	253,274
<i>Less: Allowance for credit losses</i>	<u>(1,649)</u>	<u>(1,719)</u>
	296,158	251,555
Other receivables	288,862	238,972
<i>Less: Allowance for credit losses</i>	<u>(10,122)</u>	<u>(1,765)</u>
	278,740	237,207
Prepayments	253,930	140,866
Prepaid lease payments	<u>–</u>	<u>13,653</u>
	<u>4,713,078</u>	<u>4,103,675</u>

As at 31 December 2019, trade receivables from contracts with customers amounted to RMB4,093,417,000 (2018: RMB3,662,622,000).

Included in trade receivables are an amount due from fellow subsidiaries of RMB515,718,000 (2018: RMB135,224,000), an amount due from ultimate holding company of RMB48,000 (2018: RMB215,000), and an amount due from an associate of RMB147,021,000 (2018: RMB132,376,000) and an amount due from an associate of the ultimate holding company of RMB34,000 (2018: nil). The amounts are unsecured, interest-free and repayable on demand.

Included in receivables from factoring business are an amount due from fellow subsidiaries of RMB257,000,000 (2018: RMB210,800,000), and an amount due from an associate of nil (2018: RMB7,000,000). The amounts are due in one year with effective interest rates ranging from 6.01% to 39.86% (2018: 3.5% to 18.63%) per annum.

Included in other receivables are an amount due from fellow subsidiaries of RMB110,530,000 (2018: RMB135,763,000), an amount due from ultimate holding company of RMB16,626,000 (2018: RMB14,990,000), and an amount due from an associate of RMB111,000 (2018: RMB83,000). The amounts are unsecured and repayable on demand.

Included in prepayments are an amount paid to fellow subsidiaries of RMB17,315,000 (2018: RMB14,392,000), and an amount paid to an associate of nil (2018: RMB4,285,000).

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.

	31/12/2019	31/12/2018
	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days	1,930,010	1,944,541
91 to 180 days	1,034,534	806,726
181 to 365 days	599,862	492,543
Over 365 days	319,844	216,584
	<hr/>	<hr/>
Trade receivables	<u>3,884,250</u>	<u>3,460,394</u>

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB969,884,000 which are past due (2018: RMB739,873,000).

13. PLEDGED BANK DEPOSITS

As at 31 December 2019, pledged bank balances represent deposits pledged to banks to secure trade facilities such as bills payable and letter of credit amounting to RMB321,923,000 (2018: RMB222,270,000).

The pledged bank balances carry fixed interest rates which range from 0.3% to 2.75% per annum as at 31 December 2019 (2018: 0.35% to 1.65% per annum).

14. 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 4.125% per annum (2018: nil to 4.5% per annum).

As at 31 December 2019, bank balances included deposits of RMB283,458,000 (2018: RMB170,166,000), carrying interest rates which range from 0.35% to 4.125% per annum (2018: 0.35% to 0.675% per annum), in an associate of ultimate holding company.

15. 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:

	31/12/2019	31/12/2018
	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days	582,637	488,842
91 to 180 days	138,733	109,455
181 to 365 days	36,204	29,416
Over 365 days	33,743	31,916
	<hr/>	<hr/>
Trade payables	791,317	659,629
Bills payable	339,300	286,436
Other tax payables	103,199	65,569
Construction cost and retention payables	96,767	94,528
Selling expense payables	953,572	843,004
Other payables	806,597	643,701
Dividend payables	144,800	207,351
	<hr/>	<hr/>
	3,235,552	2,800,218
	<hr/> <hr/>	<hr/> <hr/>

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

Included in trade payables are an amount due to fellow subsidiaries of RMB172,112,000 (2018: RMB70,513,000), an amount due to an associate of RMB59,780,000 (2018: RMB32,627,000), an amount due to ultimate holding company of RMB1,000 (2018: RMB1,000). The amounts are unsecured, interest-free and repayable on demand.

Included in other payables are an amount due to fellow subsidiaries of RMB8,434,000 (2018: RMB12,590,000), and an amount due to ultimate holding company of RMB14,397,000 (2018: RMB20,003,000). The amounts are unsecured, interest-free and repayable on demand.

Included in dividend payables are an amount due to other related parties of RMB80,000,000 (2018: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Optimization of product mix

During the Year, the gross profit margin of the Group increased from 62.2% of last year (before deducting extraordinary items: 61.2%) to 62.8%, mainly attributable to the effect from change of product structure.

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

Clinical 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 business includes tumor intervention, vascular intervention and interventional imaging.

1. During the Year, the clinical care business recorded a turnover of approximately RMB4,255,669,000, an increase of 9.4% in revenue over last year, the growth is principally due to enhanced 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 RMB1,281,038,000, representing an increase of 34.1% 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 RMB1,555,556,000, representing an increase of 31.8% 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, the interventional business recorded a turnover of approximately RMB1,655,586,000, representing an increase of 14.6% 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 60.2% (2018: 59.9%).

RESEARCH AND DEVELOPMENT

For the year ended 31 December 2019, the Group obtained 97 new patents and 110 new patents are under application in the PRC. Product registration certificates for 78 new products were obtained. The research and development for 15 products were completed for which application for product registration certificates are underway. For overseas market, 13 new patents are under application and the research and development for 34 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 2019, the Group had over 511 product registration certificates and 488 patents, of which 78 were patents on invention, in the PRC. For overseas market, the Group had over 569 product registration certificates and 157 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 2019, total research and development expenses amounted to approximately RMB441,409,000 (2018: approximately RMB311,163,000), representing 4.3% (2018: 3.5%) 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 prefilled 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 44 hospitals, 66 other medical institutions and 150 distributors to its PRC customer base, and the Group has a PRC customer base of 5,638 in aggregate (including 2,610 hospitals, 414 blood stations, 710 other medical units and 1,904 distributors) and an overseas customer base of 4,873 in aggregate (including 3,209 hospitals, 1,401 other medical units and 263 distributors).

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

Turnover By Geographical information

Regions	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	Over corresponding period %
The PRC			
— Eastern and Central	4,115,175	3,428,935	20.0%
— Northern	1,868,323	1,639,138	14.0%
— Northeast	861,472	752,229	14.5%
— Southern	681,917	562,070	21.3%
— Southwest	737,792	563,553	30.9%
— Northwest	223,534	203,802	9.7%
PRC sub-total	8,488,213	7,149,727	18.7%
Overseas			
— The US	918,454	814,588	12.8%
— Europe, Middle East and Africa	425,605	410,967	3.6%
— Asia	343,058	267,480	28.3%
— Others	188,751	166,099	13.6%
Overseas sub-total	1,875,868	1,659,134	13.1%
Total	10,364,081	8,808,861	17.7%

The integration of sales channels has strengthened the Group's market penetration and influence over the 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. Comparison of revenue of principal products with that in last year is as follows:

Product category	For the year ended 31 December			For the six months ended 31 December		
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	Over corresponding period %	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	Over corresponding period %
Clinical care	4,255,669	3,891,672	9.4%	2,178,573	2,011,914	8.3%
Wound management	369,693	299,905	23.3%	207,607	179,699	15.5%
Blood management	457,857	402,008	13.9%	247,418	222,525	11.2%
Pharma packaging products	1,281,038	955,609	34.1%	654,712	482,071	35.8%
Medical testing	191,477	150,678	27.1%	109,700	80,413	36.4%
Anesthesia and surgical related products	149,551	105,942	41.2%	84,460	75,949	11.2%
Orthopedic products	1,555,556	1,180,563	31.8%	873,491	656,923	33.0%
Interventional products	1,655,586	1,444,238	14.6%	841,960	763,668	10.3%
Other consumables	447,654	378,246	18.3%	222,826	185,201	20.3%
Total	<u>10,364,081</u>	<u>8,808,861</u>	<u>17.7%</u>	<u>5,420,747</u>	<u>4,658,363</u>	<u>16.4%</u>

HUMAN RESOURCES

As at 31 December 2019, the Group employed a total of 10,103 employees. The breakdown by departments when compared with last year is as follows:

DEPARTMENT

	2019	2018
Production	5,289	4,999
Sales and marketing	2,566	2,507
Research and development	1,132	1,124
Finance and administration	495	460
Quality control	276	194
Management	498	167
Purchasing	147	111
	<hr/>	<hr/>
Total	10,103	9,562

There are a total of 878 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 RMB1,919,372,000 (2018: approximately RMB1,456,905,000).

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 2019, the Group recorded a turnover of the year of RMB10,364,081,000, representing an increase of 17.7% over the previous financial year. Net profit attributable to the owners of the Company was approximately RMB1,844,883,000 (2018: approximately RMB1,472,935,000), representing an increase of approximately 25.3% as compared with the previous year. Net profit attributable to the owners of the Company (excluding extraordinary items) was approximately RMB1,923,392,000 (2018: approximately RMB1,586,834,000), representing an increase of approximately 21.2% over the previous year.

FINANCIAL SUMMARY

	2019	2018	Increase
	<i>RMB'000</i>	<i>RMB'000</i>	%
Turnover	10,364,081	8,808,861	17.7%
Gross profit	6,505,197	5,389,451	20.7%
Net profit attributable to the owners of the Company	1,844,883	1,472,935	25.3%
Net profit attributable to the owners of the Company (excluding extraordinary items)	1,923,392	1,586,834	21.2%

During the Year, extraordinary items include one-off expenses of RMB78,509,000 for loan replacement of Argon Medical Devices Holdings, Inc. (“Argon”) (2018: increase in cost of goods sold of approximately RMB76,962,000 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).

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position. As at 31 December 2019, the Group's cash and bank balance amounted to approximately RMB4,239,441,000. For the year ended 31 December 2019, net cash flow from operating activities of the Group amounted to approximately RMB2,320,990,000, representing a sound cash flow position.

For the year ended 31 December 2019, total interest expenses of the Group amounted to approximately RMB396,735,000 (2018 total interest expenses: approximately RMB284,408,000). Among the expenses, RMB79,831,000 was an amortized expense of one-off charge for Argon early repaid bank contribution.

GEARING RATIO

The gearing ratio of the Group as at the end of 2019 declined to 33.9% (2018: 36.8%).

As at 31 December 2019, total net debt of the Group amounted to approximately RMB1,253,772,000 (2018: approximately RMB1,525,602,000). The gearing ratio 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. Foreign exchange risk mainly arises from outstanding borrowings denominated in foreign currencies. Since this year, the Group has adopted foreign currency hedging instruments to achieve better foreign exchange risk management. The objective of the hedge is to minimise the volatility of the RMB expenditures expected to be incurred in the future to meet foreign currency liabilities. The Group's risk management policy is to partially hedge the forecasted cash flows in foreign currencies by considering the appropriate hedging instruments and costs of hedging. The Group uses foreign exchange structured derivative financial contracts to hedge its foreign currency risk. For the twelve months ended 31 December 2019, the Group had not encountered any material difficulty due to currency fluctuation nor had it affected its funds for operation purpose.

Due to the fluctuation in exchange rates, the Company realized the foreign exchange gain equivalent to RMB7,176,000 (2018: foreign exchange gain equivalent to RMB1,769,000) for the year ended 31 December 2019.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as of 31 December 2019.

MATERIAL INVESTMENTS/FUTURE MATERIAL INVESTMENT PLANS

1. During the year, the Group continued to invest approximately RMB949,862,000 in purchase of properties and production facilities and plant construction for the purpose of enhancing the overall construction of the industrial zone for the Group's medical consumables.
2. In 2020, the Group planned to invest approximately RMB200,000,000 in the new production lines, which is expected to be successively put in operation by the end of 2022.
3. In 2020, the Group planned to invest approximately RMB150,000,000 in the upgrading and reconfiguration of the single-use consumables production equipment to further enhance the level of production automation.

Save for the above material investments and investment plans, the Group had no any future plans involving significant investments or capital assets acquisition as at 31 December 2019.

CAPITAL COMMITMENT

As at 31 December 2019, the capital commitment including purchase of property, plant and equipment which the Group and the Company had contracted for but not provided amounted to approximately RMB485,232,000 (2018: approximately RMB726,184,000). The above amounts will be financed by the internal resources of the Group.

PLEDGE OF THE GROUP'S ASSETS

As at 31 December 2019, the Group had pledged the equity interest in Jierui, a wholly-owned subsidiary of the Group, to secure the long-term borrowings from International Finance Corporation, and pledged bank deposits of RMB321,923,000 (2018: RMB222,270,000) to secure the bills and letters of credit granted to the Group.

The Financial Leasing Company had pledged accounts receivable of RMB120,321,000 (2018: RMB202,983,000) to secure financing.

The Group had pledged bills receivable of RMB165,630,000 (2018: RMB58,029,000) to secure bank facilities.

As at 31 December 2019, the loan principal of Argon amounted to US\$320,937,500, which was secured by 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 balances and cash of Argon. In the meantime, the Company provided guarantee for Argon.

As at 31 December 2019, the loan principal of WW Medical and Healthcare Holdings Corporation (“WW Holdings”) amounted to US\$75,000,000, which was secured by 100% equity interests in WW Holdings held by WW Medical and Healthcare Company Limited. In the meantime, the Company provided guarantee for WW Holdings.

RESERVES AND DISTRIBUTABLE RESERVES

As at 31 December 2019, total reserves of the Group amounted to RMB15,732,941,000 (2018: RMB14,062,340,000).

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 2019, the distributable reserves of the Company were approximately RMB4,836,523,000 (2018: RMB3,824,559,000).

REVIEW AND OUTLOOK

During the Year, the Company continued to adhere to product mix optimisation and adjustment strategy, accelerated products iteration, and increased investments in engineering technologies, with a focus to enhance production efficiency and improve product quality; in addition to integrating marketing resources, improving efficiency of new product sales through sharing of internal channel resources, the Company continued to maintain growth in revenue and profit despite intensified competition.

During the Year, the management carried out product lifetime cycle management on the eight major business segments, integrated R&D resources, comprehensively formulated R&D plans, and continuously enhanced the market influence of key products.

During the Year, the Company actively responded to and participated in the reform initiatives of domestic medical industry and provided high-quality products and services to meet clinical needs.

LOOKING FORWARD TO 2020

The Company will endeavor to protect the health and safety of its employees, and ensure an adequate supply of products to meet clinical needs.

While performing on-going product lifetime cycle management, the Company will strengthen product innovation, develop quality products, and further consolidate its brand influence.

While continuously expanding overseas markets, the Company will accelerate global business integration and resource sharing.

While continuously carrying out intelligent manufacturing in the production field and optimizing supply chain management, the Company will continue to improve its product quality and increase production efficiency to maintain cost advantages.

By relying on its extensive strategic layout in the business fields and high-quality products and insisting on the strategy of adapting to market and future-oriented operating 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 promote global resource sharing to achieve the coordinated development of domestic and foreign markets, thus supporting the stable growth in the operating results of the Group.

SHARE AWARD SCHEME OF THE COMPANY

Share Award Scheme of the Company

As approved on the extraordinary general meeting and class meetings on 17 November 2014 (the “Adoption Date”), the Company adopted a share award scheme (the “Scheme”) regarding a specific mandate to issue a maximum of 223,818,616 Non-listed Shares as incentive shares under the Scheme. The 223,818,616 Non-listed Shares 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 on the Adoption Date. The incentive shares allotted to the eligible participants will be subject to a lock-up period and performance target based on certain key performance indicators. The Scheme serves to retain the long-term service of the selected employee and align his/her continuous performance with the development goal of the Group. The life of the Incentive Share Scheme is for 10 years starting from 17 November 2014. Details of the Scheme are set out in the circular of the Company dated 30 September 2014. As of today, the Company granted 45,960,000 incentive shares to qualified employees.

Details of specific categories of share award are as follows:

	Date of grant	Vesting period	Exercise Price
Batch 1	11/12/2015	5 years	RMB2.2

The granted shares are vested in five tranches with the vesting date on 31 December of each year from 2015 to 2019, the vested shares are excisable after two years lock up period following vested.

As of 31 December 2019, the outstanding incentive shares under the Incentive Share Scheme were 45,960,000 (2018:45,960,000), included 9,078,000 exercisable shares (2018: 8,296,000).

During the year ended 31 December 2019, the trustees repurchased 7,248,000 shares (2018: 6,084,000), which would be taken up by the Selected Employees with the net consideration of RMB23,995,000 (2018: RMB10,543,000) at the price of RMB5.51 per share (2018: RMB3.93). The controlling shareholder provided the required funds for repurchase, and it will absorb, and will not claim for, any shortfalls in repayment. The repurchased shares are held by the trustees for the benefit of the Share Award Scheme, to grant to other selected employees or to sell for the repayment of the loan provided by the controlling shareholder.

Share Option Scheme by WW Cayman

On 26 July 2018, WW Medical and Healthcare Company Limited (“WW Cayman”), a subsidiary of the Company, adopted a non-qualified share option plan (the “Share Option Scheme”) for the primary purpose of providing incentives to directors and eligible employees of WW Cayman and its subsidiaries, which shall be valid and effective for a period of 10 years commencing from the adoption date. Under the Share Option Scheme, a committee designated by the board of directors of the WW Cayman may from time to time in its sole discretion grant options to the eligible employees. Details of the share option scheme by WW Cayman could be referred to announcement and circular of the Company dated 24 January 2018 and 28 February 2018 respectively.

Details of specific categories of options are as follows:

	Date of grant	Vesting period	Exercise Price
Time-based options	26/07/2018	4 years	USD10.00
Time-based options	30/10/2019	4 years	USD10.00
Performance-based options	26/07/2018	4 years	USD10.00
Performance-based options	30/10/2019	4 years	USD10.00

The following table discloses movements of the share options held by employees during the year:

Option type	Outstanding at 1/1/2019 (Unaudited)	Granted during year (Unaudited)	Forfeited during year (Unaudited)	Outstanding at 31/12/2019 (Unaudited)
Time-based options	1,555,300	111,350	(120,175)	1,546,475
Performance-based options	1,555,300	111,350	(120,175)	1,546,475
	<u>3,110,600</u>	<u>222,700</u>	<u>(240,350)</u>	<u>3,092,950</u>

During the year ended 31 December 2019, options were granted on 30 October 2019. The estimated fair value of the time-based options granted on that date is USD4.64. The estimated weighted-average fair value of the performance-based options on that date is USD2.60.

LOAN AGREEMENT WITH INTERNATIONAL FINANCE CORPORATION

On 27 January 2015, the Company entered into a five (5) years loan agreement (the “Loan Agreement”) for the principal amount of RMB600 million (approximately HK\$672 million) (the “Loan”) with the International Finance Corporation (“IFC”), a member of the World Bank Group and the largest global development institution focused exclusively on the private sector. The Loan has been repaid in one lump sum on 15 March 2020. The Loan was jointly secured by 100% equity interest of Jierui that owned by the Company. Details of the Loan Agreement are set out in the announcement of the Company dated 27 January 2015.

PROPOSED SPIN-OFF AND LISTING OF SHANDONG WEIGAO ORTHOPAEDIC DEVICE COMPANY LIMITED ON A STOCK EXCHANGE IN THE PRC

The Company is considering a possible spin-off and separate listing of Shandong Weigao Orthopedic Device Company Limited* (山東威高骨科材料股份有限公司) (“Weigao Ortho”) and its subsidiaries on a Stock Exchange in the People’s Republic of China (“PRC”) (the “Proposed Spinoff and Listing”). Weigao Ortho is a non-wholly-owned subsidiary of the Company and currently mainly engages in the research and development, production and sale of spine, trauma and joint orthopedic implants. On 30 December 2019, the financial advisor of Weigao Ortho made a submission to Shandong Regulatory Bureau of China Securities Regulatory Commission regarding the application for pre-listing tutoring process in connection with the Proposed Spin-off and Listing. The Company has submitted an application in relation to the Proposed Spin-off and Listing to the Hong Kong Stock Exchange for approval pursuant to Practice Note 15 of the Listing Rules in due course. The Proposed Spin-off and Listing, if materialised, will constitute a deemed disposal under Chapter 14 of the Listing Rules. The Company will make further disclosure as and when appropriate pursuant to the relevant requirements of the Listing Rules.

PROPOSED FINANCING ACTIVITIES BY CONTROLLING SHAREHOLDER

The Company was informed by Weigao Holding Company Limited (“Weigao Group”), the controlling shareholder of the Company, that Sure First Limited (“Sure First”), an indirect wholly-owned subsidiary of Weigao Group, has entered into a subscription agreement (the “Subscription Agreement”) for US\$150,000,000 2% Secured Guaranteed Exchangeable Bonds due 2025 (the “Bonds”) on 8 January 2020. Holders of the Bonds are entitled to request Sure First and Weigao Group to deliver or procure the delivery of a pro rata share of the Exchange Property (as defined in the terms and conditions of the Bonds (the “Terms and Conditions”)) upon exercise of their exchange right in respect of their Bonds at an initial exchange price of HK\$11.43 per share in the Company (the “Shares”, and such initial exchange price, the “Initial Exchange Price”), subject to further adjustment upon occurrence of certain events enumerated in the Terms and Conditions. In order to fulfill its obligation to deliver a pro rata share of the Exchange Property to exchanging holders of the Bonds, Sure First and Weigao Group intend to procure Top Vision Limited (“Top Vision”), a wholly-owned subsidiary of Weigao Group and the sole shareholder of Sure First, to use the net proceeds from the issuance of the Bonds to purchase Shares from Weigao Group with reference to the then prevailing market price per Share on or prior to 21 February 2020, being the deadline by which such transfer of Shares is to be completed pursuant to the Terms and Conditions. Details of the financial activities could be referred to the voluntary announcement of the Company dated 8 January 2020.

The Company was also informed by Weigao Group that, in connection with the issuance of the Bonds on 16 January 2020, Top Vision acquired on 11 February 2020 117,000,000 Shares at the price of HK\$8.262 per Share, representing approximately 2.58% of the total issued Shares as at the announcement dated 10 February 2020, from Weigao Group. Top Vision used the net proceeds from the Sure First’s issuance of the Bonds to procure the Shares. As Top Vision is a wholly owned subsidiary of Weigao Group, the transfer of Shares from Weigao Group to Top Vision (the “Share Transfer”) does not change the shareholding of Weigao Group in the Company. In the future, if Shares are delivered upon exercise of the exchange option by any holder of the Bonds, the number of Shares indirectly held by Weigao Group will decrease correspondingly. Details could be referred to voluntary announcement of the Company dated 10 February 2020.

ASSESSMENT OF 2020 CORONAVIRUS IMPACT

Since the outbreak of coronavirus in China in January 2020, the prevention and control of the epidemic has continued throughout the country. The epidemic has thus far impacted certain provinces, cities and industries, especially companies operating in the Hubei Province. This epidemic has also impacted the overall economic environment of China, which in turn impacted the operations of the Group in certain parts of China. The degree and extent of such impact will depend on the duration of the epidemic and prevention and control activities taken by the government.

Our manufacturing sites in China have thus far demonstrated strong resilience, with no material impact on manufacturing output and capacity witnessed since early 2020. On the other hand, sales and distribution activities in China experienced a slow down due to the extended Lunar New Year Holiday and delay in operation resumption in hospitals across multiple regions. Since the gradual resumption of normal business operations across multiple provinces in China from March 2020, our sales and distribution activities are gradually reverting to normal levels in line with the business operations of our customers.

Given the state of the pandemic outside of China, our international business segments are currently being impacted by various disease prevention and control measures implemented by the governments of multiple countries.

The health and safety of our staff, customers and business partners are our most important priority. The Group will continue to pay close attention to the development of this pandemic and assess its impact on our operations on an ongoing basis.

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

Mr. Wang Yi (“Mr. Wang”) has been re-designated from a non-executive director to an executive director of Shandong Weigao Group Medical Polymer Company Limited with effective 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.

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 2019 as set out in this further 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 as approved by the Board of Directors on 29 April 2020. 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 this further 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 on 30 March 2019. 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 2019.

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 Tuesday, 23 June 2020 to Wednesday, 22 July 2020 (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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 22 June 2020.

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.,
Monday 22 June 2020

Closure of register of members of the Company

for attending and voting in the Annual General Meeting Tuesday, 23 June 2020 to
Wednesday, 22 July 2020
(both days inclusive)

Latest time to lodge in the reply slip. Tuesday, 30 June 2020

Date of the Annual General Meeting. Wednesday, 22 July 2020

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 Wednesday, 29 July 2020 to Sunday, 2 August 2020 (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 Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 28 July 2020.

In order to qualify to entitle the final dividend for the year ended 31 December 2019:–

Latest time to lodge in transfer instrument accompanied
by the share certificates for H Shares 4:30 p.m.,
Tuesday, 28 July 2020

Closure of register of members of the Company
for entitlement of the final dividend for
the year ended 31 December 2019. Wednesday, 29 July 2020 to
Sunday, 2 August 2020
(both day inclusive)

Record date for the entitlement of the final dividend Sunday, 2 August 2020

Expected despatch date of the final dividend. Monday, 31 August 2020

The final dividend will be despatched at the risk of those entitled thereto to their respective registered addresses on or before Monday, 31 August 2020.

PROPOSED FINAL DIVIDEND

The Board proposed the distribution of a final dividend for the year ended 31 December 2019 of RMB0.061 (2018: RMB0.052) (before considering any tax effect) per share totaling RMB275,862,000 (2018: RMB235,161,000), which will be subject to the approval of shareholders of the Company at the forthcoming 2019 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 2019 final dividend will be paid on 1 September 2020.

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 2019 will be dispatched to shareholders of the Company and published on the Stock Exchange and the Company's websites respectively in due course.

DESPATCH OF 2019 ANNUAL REPORT

The 2019 annual report for the year ended 31 December 2019 is expected to be despatched to shareholders of the Company on or around 28 May 2020.

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

29 April 2020

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*)