

Shandong Weigao Group Medical Polymer Company Limited.*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code : 1066)

* For identification purposes only

Interim Report 2020

WEGO 威高

SUMMARY

For the six months ended 30 June 2020 (the “Period”), the unaudited revenue of Shandong Weigao Group Medical Polymer Company Limited (the “Company”) and its subsidiaries (the “Group”) was approximately RMB5,091,205,000, representing an increase of approximately 3.0% over approximately RMB4,943,334,000 for the same period last year.

The unaudited net profit attributable to the shareholders of the Group for the six months ended 30 June 2020 was approximately RMB969,996,000, representing an increase of approximately 3.5% over approximately RMB937,095,000 for the same period last year.

The board of directors (the “Board”) proposed the distribution of an interim dividend for the six months ended 30 June 2020 of RMB0.062 per share (same period in 2019: RMB0.059 per share). The proposal is subject to the approval of shareholders of the Company (“Shareholders”) at the forthcoming extraordinary general meeting.

UNAUDITED CONSOLIDATED INTERIM RESULTS

The Board is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2020, together with the unaudited comparative figures for the same period in 2019 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited For the six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
	<i>Notes</i>		
Revenue	3	5,091,205	4,943,334
Cost of sales		(2,149,448)	(1,807,179)
Gross profit		2,941,757	3,136,155
Other income, gain and loss		99,696	90,027
Impairment losses under expected credit loss model		(65)	12,268
Distribution costs		(1,178,567)	(1,329,788)
Administration expenses		(422,427)	(478,533)
Research and development expenses		(143,044)	(171,368)
Finance costs	5	(106,072)	(145,917)
Share of profit of an associate		27,325	35,231
Profit before taxation	6	1,218,603	1,148,075
Income tax expense	7	(198,525)	(175,493)
Profit for the Period		1,020,078	972,582

Unaudited
For the six months
ended 30 June

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
Other comprehensive income			
Exchange difference on translation of foreign operations		43,845	1,650
Total comprehensive income for the Period		1,063,923	974,232
Profit for the Period attributable to:			
Owners of the Company	8	969,996	937,095
Non-controlling interest		50,082	35,487
		1,020,078	972,582
Total comprehensive income attributable to:			
Owners of the Company		1,009,159	938,590
Non-controlling interest		54,764	35,642
		1,063,923	974,232
		RMB	RMB
Earnings per share—Basic	10	0.22	0.21

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment	11	5,313,412	4,994,857
Right-of-use assets		399,538	416,811
Investment properties		124,356	159,650
Goodwill		3,445,808	3,398,885
Deposits paid for acquiring property, plant and equipment		87,703	143,069
Intangible assets		2,199,973	2,266,932
Interests in an associate	12	1,083,740	1,056,416
Financial assets at fair value through profit or loss		407,211	410,326
Deferred tax assets		111,290	101,018
Finance lease receivables		124,128	153,026
Loan receivables		441,788	627,727
		13,738,947	13,728,717
Current assets			
Inventories	13	1,343,756	1,242,441
Loan receivables		210,662	1,501,502
Trade and other receivables	14	5,166,091	4,713,078
Debt instruments at fair value through other comprehensive income		417,912	421,883
Finance lease receivables		138,126	156,753
Pledged bank deposits	15	397,227	321,923
Bank balances and cash	16	4,781,005	4,239,441
		12,454,779	12,597,021

	<i>Notes</i>	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 RMB'000
Current liabilities			
Trade and other payables	17	3,198,961	3,235,552
Contractual liabilities		105,938	120,201
Borrowings – repayable within one year		381,988	914,247
Taxation payable		166,369	123,570
Deferred income – current portion		7,058	6,413
Loan from the ultimate holding company		–	143,982
Lease liabilities		7,000	7,062
		3,867,314	4,551,027
Net current assets		8,587,465	8,045,994
Total Assets less Current Liabilities		22,326,412	21,774,711
Capital and reserves			
Share capital	18	452,233	452,233
Reserves	19	16,775,083	15,732,941
Equity attributable to owners of the Company		17,227,316	16,185,174
Non-controlling interest		768,482	811,636
Total equity		17,995,798	16,996,810
Non-current liabilities			
Borrowings – repayable after one year		3,969,199	4,434,984
Deferred income		58,695	45,851
Lease liabilities		17,270	18,649
Deferred income tax liabilities		285,450	278,417
		4,330,614	4,777,901
		22,326,412	21,774,711

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Unaudited	
	For the six months	
	ended 30 June	
	2020	2019
	RMB'000	RMB'000
Net cash inflow generated from operating activities	1,035,468	1,111,981
Net cash outflow used in investing activities	925,041	(977,902)
Net cash (outflow) before financing activities	1,960,509	134,079
Net cash inflow from financing activities	(1,426,787)	(154,707)
Net increase in cash and cash equivalents	533,722	(20,628)
Bank balances and cash as at beginning of Period	4,239,441	3,812,446
Effect of foreign exchange rate changes, net	7,842	6,768
Bank balances and cash as at end of Period	4,781,005	3,798,586

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited	
	For the six months	
	ended 30 June	
	2020	2019
	RMB'000	RMB'000
Balance as at 1 January	16,185,174	14,062,340
Net profit for the Period	969,996	937,095
Capital contributions from minority interests	–	(2,381)
Acquisition of minority interests	(62,072)	126
Debt waiver	(1,847)	–
Share-based payments	13,093	19,765
Disposal of shares repurchased under the share award scheme	83,809	–
Exchange gains and losses arising from foreign currency transactions	39,163	1,494
Balance as at 30 June	<u>17,227,316</u>	<u>15,018,439</u>

NOTES :

1. General

The Company was incorporated as a joint stock company with limited liability on 28 December 2000 in Shandong Province, the People's Republic of China (the "PRC") under the Company Law of the PRC and listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in February 2004 and migrated to the main board in the Stock Exchange in July 2010. The immediate and ultimate holding company of the Company is Weihai Weigao International Medical Investment Holding Co Ltd* (威海威高國際醫療投資控股有限公司), a company registered in the PRC with limited liability. The ultimate controlling shareholder of the Company is Mr. 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 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 unaudited consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company.

2. Basis of preparation and accounting policies

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

The accounting policies adopted and methods of computation used in the preparation of these consolidated financial information are consistent with those used in the preparation of the financial statements for the year ended 31 December 2019.

The Group has applied certain new standards and revised standards and interpretations for the financial year beginning on 1 January 2020. The adoption of these new standards and revised standards and interpretations did not have a significant impact on the Group's unaudited consolidated financial reporting results.

Such financial statements shall be read in conjunction with the audited annual financial statements for the year ended 31 December 2019.

3. Revenue

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

4. Segment information

The Group is principally engaged in the research and development, production and sale of medical device products, orthopaedic products, interventional products, pharma packaging products, blood management products and finance lease and factoring businesses in the PRC.

For management purposes, the Group is currently organised into six operating divisions—medical device products, orthopaedic products, interventional products, pharma packaging, blood management and others. These divisions are segmented on the basis of internal reporting of the Group that are regularly reviewed by the chief operating decision maker for allocating resources to the segments and assess their performance.

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

- | | | |
|---------------------------|---|--|
| medical device products | — | production and sale of clinical care, wound management, medical testing devices, anesthesia and surgical related products. |
| 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 | — | production and sale of blood bag products and blood transfusion equipment. |
| Others | — | finance lease and factoring businesses. |

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

For the six months ended 30 June 2020

	Medical device products 3RMB'000	Orthopaedic products RMB'000	Interventional products RMB'000	Pharma packaging RMB'000	Blood management RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
Revenue								
External sales	2,567,163	830,604	678,297	764,515	250,626	-	-	5,091,205
Inter-segment sales	112	-	-	-	-	-	(112)	-
Total	<u>2,567,275</u>	<u>830,604</u>	<u>678,297</u>	<u>764,515</u>	<u>250,626</u>	<u>-</u>	<u>(112)</u>	<u>5,091,205</u>
Segment profit	<u>519,910</u>	<u>270,767</u>	<u>22,417</u>	<u>268,148</u>	<u>35,328</u>	<u>32,756</u>	<u>-</u>	<u>1,149,327</u>
Depreciation of investment properties								(2,194)
Unallocated other income, gain and losses								14,450
Rental income of investment properties								5,507
Bank interest income								24,188
Share of profit of associates								<u>27,325</u>
Profit before taxation								<u><u>1,218,603</u></u>

For the six months ended 30 June 2019

	Medical device products RMB'000	Orthopaedic products RMB'000	Interventional products RMB'000	Pharma packaging RMB'000	Blood management RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
Revenue								
External sales	2,719,551	682,065	704,953	626,326	210,439	-	-	4,943,334
Inter-segment sales	120	2,668	-	-	-	-	(2,788)	-
Total	<u>2,719,671</u>	<u>684,733</u>	<u>704,953</u>	<u>626,326</u>	<u>210,439</u>	<u>-</u>	<u>(2,788)</u>	<u>4,943,334</u>
Segment profit	<u>572,025</u>	<u>242,469</u>	<u>427</u>	<u>229,598</u>	<u>26,973</u>	<u>26,587</u>	<u>-</u>	<u>1,098,079</u>
Depreciation of investment properties								(2,435)
Unallocated other income, gain and losses								(16,130)
Rental income of investment properties								5,621
Bank interest income								18,664
Gain or loss from changes in fair value of financial assets at fair value through profit or loss								9,045
Share of profit of an associate								<u>35,231</u>
Profit before taxation								<u><u>1,148,075</u></u>

5. Finance costs

Finance costs for the six months ended 30 June 2020 were approximately RMB106,072,000 (same period in 2019: approximately RMB145,917,000), which were mainly interest expenses on bank borrowings.

6. Profit before taxation

	Unaudited	
	For the six months	
	ended 30 June	
	2020	2019
	RMB'000	RMB'000
Profit before taxation has been arrived at after charging (crediting) the followings:		
Allowances for credit losses	(65)	12,268
Allowances for inventories	13,505	297
Amortization of intangible assets (included in administration expenses)	120,343	117,570
Depreciation of property, plant and equipment	211,250	175,140
Depreciation of investment properties	1,864	2,435
Depreciation of right-of-use assets	8,982	11,107
Cost of inventory recognized as expenses	2,149,448	1,807,179
Staff costs, including directors' and supervisors' remuneration		
Retirement benefits scheme contribution	36,910	54,603
Salaries and other allowances	838,031	839,186
Share-based payment expenses	14,082	20,925
Total staff costs	889,023	914,714
Losses on disposal of property, plant and equipment	251	(180)

7. Income tax expense

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

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

The Company, Jierui Subsidiary, Shandong Weigao Orthopaedic Device Company Limited ("Weigao Orthopaedic") and Weigao Jiesheng Medical Devices Co., Ltd.* (威高潔盛醫療器械有限公司) were recognized as Shandong Province New and High Technology Enterprises (山東省高新技術企業), and Changzhou Jianli Bangde Medical Devices Co., Ltd. ("Changzhou Jianli Bangde") was recognized as Jiangsu Province New and High Technology Enterprises (江蘇省高新技術企業). Therefore, they are subject to income tax at a rate of 15%.

Jierui Subsidiary was recognised as a "Social Welfare Entity". Pursuant to Cai Shui [2016] No. 52 issued by the Ministry of Finance and the State Administration of Taxation, with effect from 1 May 2016, Jierui Subsidiary is also subject to an income tax at a tax rate of 15% and an amount equivalent to the total salaries paid to staff with physical disability is further deducted from the assessable profit of Jierui Subsidiary. The tax charge provided for the period ended 30 June 2020 was made after taking these tax incentives into account.

Taxation for other PRC subsidiaries is computed at a tax rate of 25% (2019: 25%).

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

8. Profit attributable to owners of the Company

For the six months ended 30 June 2020, net profit attributable to owners of the Group was approximately RMB969,996,000 (same period in 2019: approximately RMB937,095,000).

9. Dividends

The Board recommends the distribution of an interim dividend of RMB0.062 per share for the six months ended 30 June 2020 (same period in 2019: RMB0.059 per share).

10. Earnings per share

For the six months ended 30 June 2020, basic earnings per share was calculated based on the net profits attributable to shareholders of approximately RMB969,996,000 (same period in 2019: approximately RMB937,095,000) and the weighted average total number of shares of 4,476,372,324 shares (same period in 2019: 4,476,372,324 shares).

For the six months ended 30 June 2020, diluted earnings per share was RMB0.22.

11. Property, plant and equipment

	Construction in progress	Freehold land	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures equipment and tools	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
As at 1 January 2019	717,647	8,441	2,832,423	1,575,253	71,747	752,516	5,958,027
Additions	677,151	-	13,743	166,723	36,027	50,566	944,210
Transfer	(423,912)	-	260,014	95,083	106	68,709	-
Transfer to investment properties	-	-	(71,259)	-	-	-	(71,259)
Transfer from investment properties	-	-	44,191	-	-	-	44,191
Acquisition of a subsidiary	-	-	-	-	1,226	-	1,226
Disposals	-	-	(13,975)	(28,103)	(8,536)	(26,068)	(76,682)
Disposal of a subsidiary	(40)	-	-	(25,900)	(311)	(13,233)	(39,484)
Adjustment on exchange rate	593	63	881	948	(24)	364	2,825
As at 31 December 2019	971,439	8,504	3,066,018	1,784,004	100,235	832,854	6,763,054
Additions	355,974	-	108,365	72,050	4,959	18,571	559,919
Transfer	(162,718)	-	442	113,112	-	49,164	-
Transfer from investment properties	-	-	35,837	-	-	-	35,837
Disposals	-	-	(58,929)	(14,617)	(1,398)	(66,889)	(141,833)
Adjustment on exchange rate	569	126	806	974	10	372	2,857
As at 30 June 2020	1,165,264	8,630	3,152,539	1,955,523	103,806	834,072	7,219,834
DEPRECIATION							
As at 1 January 2019	2,314	-	317,379	735,920	42,619	391,633	1,489,865
Provision for the year	5,891	-	93,801	140,889	9,077	100,159	349,817
Transfer to investment properties	-	-	(5,376)	-	-	-	(5,376)
Transfer from investment properties	-	-	5,401	-	-	-	5,401
Eliminated on disposals	-	-	(2,349)	(20,621)	(7,213)	(19,947)	(50,130)
Disposal of a subsidiary	-	-	-	(12,509)	(105)	(9,277)	(21,891)
Adjustment on exchange rate	-	-	76	300	(1)	136	511
As at 31 December 2019	8,205	-	408,932	843,979	44,377	462,704	1,768,197
Provision for the year	-	-	78,012	74,170	5,510	53,558	211,250
Transfer from investment properties	-	-	3,337	-	-	-	3,337
Eliminated on disposals	-	-	(7,775)	(12,186)	(1,210)	(55,721)	(76,892)
Adjustment on exchange rate	-	-	77	307	1	145	530
As at 30 June 2020	8,205	-	482,583	906,270	48,678	460,686	1,906,422
CARRYING VALUES							
As at 30 June 2020	1,157,059	8,630	2,669,956	1,049,253	55,128	373,386	5,313,412
As at 31 December 2019	963,234	8,504	2,657,086	940,025	55,858	370,150	4,994,857

12. Interests in an associate

Name	Form of Business structure	Place of incorporation or registration/ operation	Proportion of nominal value of registered capital held by the Group		Principal activities
			30 June 2020	31 December 2019	
Weihai Weigao Blood Purification Products Company Limited ("Weigao Blood Purification")	Incorporation	PRC	28.09%	43.30%	Manufacturing of hemodialysis products and provision of related services.
			30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000	
Cost of unlisted investment, at cost			937,500	937,500	
Share of post-acquisition earnings			146,240	118,916	
			1,083,740	1,056,416	

13. Inventories

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Raw materials	285,613	250,272
Finished goods	1,058,143	992,169
	1,343,756	1,242,441

14. Trade and other receivables

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
0 to 90 days	2,222,669	1,930,010
91 to 180 days	1,113,708	1,034,534
181 to 365 days	592,184	599,862
Over 365 days	318,875	319,844
Trade receivables	4,247,436	3,884,250
Receivables from factoring business	313,920	296,158
Other receivables	172,598	278,740
Prepayments	432,137	253,930
	5,166,091	4,713,078

15. Pledged bank deposits

The amounts represented deposits pledged to banks to secure bank credit facilities granted to the Group. The amounts had been pledged to secure against the short-term bank loans and bank credit facilities and are therefore classified as current assets. The bank deposits carry interest rates ranging from 0.3% to 1.75% (same period in 2019: 0.35% to 1.98%) per annum.

16. Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of one year or less, the interest rate of which ranges from 1.35% to 3.5% (same period in 2019: 1.1% to 3.75%) per annum.

17. Trade and other payables

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
0 to 90 days	689,857	582,637
91 to 180 days	192,747	138,733
181 to 365 days	35,336	36,204
Over 365 days	34,834	33,743
Trade payables	952,774	791,317
Bills payable	350,310	339,300
Other tax payables	85,253	103,199
Construction cost and retention payables	91,326	96,767
Selling expense payables	850,921	953,572
Other payables	868,377	806,597
Dividend payables	–	144,800
	3,198,961	3,235,552

18. Share capital

	Nominal value of each share RMB	Number of unlisted shares	Number of H shares	Total number of shares	Value RMB'000
As at 1 January 2019	0.1	–	4,522,332,324	4,522,332,324	452,233
As at 31 December 2019	0.1	–	4,522,332,324	4,522,332,324	452,233
As at 30 June 2020	0.1	–	4,522,332,324	4,522,332,324	452,233

19. Movement in reserves

	Share capital	Share premium reserve	Statutory surplus reserve	Translation reserve	Share-based payments reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2019	452,233	2,575,060	257,956	119,546	75,158	449,484	10,585,136	14,514,573	676,327	15,190,900
Profit for the year	-	-	-	-	-	-	1,844,883	1,844,883	75,081	1,919,964
Total other comprehensive income for the year	-	-	-	24,530	-	-	-	24,530	2,511	27,041
Total comprehensive income for the year	-	-	-	24,530	-	-	1,844,883	1,869,413	77,592	1,947,005
Capital contribution by non-controlling interests	-	-	-	-	-	-	-	-	12,097	12,097
Disposal of partial interest in a subsidiary	-	-	-	-	-	291,967	-	291,967	208,033	500,000
Debt waiver	-	-	-	-	-	(3,776)	-	(3,776)	3,776	-
Acquired interest in subsidiary from non-controlling shareholder	-	-	-	-	-	204	-	204	(16,326)	(16,122)
Recognition of equity-settled share-based payments	-	-	-	-	33,665	-	-	33,665	2,137	35,802
Repurchase of shares under a share award scheme	-	-	-	-	(16,422)	(7,573)	-	(23,995)	-	(23,995)
Dividends recognised as distribution	-	-	-	-	-	-	(496,877)	(496,877)	(152,000)	(648,877)
At 31 December 2019	452,233	2,575,060	257,956	144,076	92,401	730,306	11,933,142	16,185,174	811,636	16,996,810
Profit for the year	-	-	-	-	-	-	969,996	969,996	50,082	1,020,078
Exchange differences arising on translation of foreign operations – Subsidiaries	-	-	-	39,163	-	-	-	39,163	4,682	43,845
Total comprehensive income for the year	-	-	-	39,163	-	-	969,996	1,009,159	54,764	1,063,923
Debt waiver	-	-	-	-	-	(1,847)	-	(1,847)	1,847	-
Acquired interest in subsidiary from non-controlling shareholder	-	-	-	-	-	(62,072)	-	(62,072)	(100,830)	(162,902)
Share-based payments	-	-	-	-	13,093	-	-	13,093	1,065	14,158
Disposal of shares repurchased under a share award scheme	-	-	-	-	-	83,809	-	83,809	-	83,809
As at 30 June 2020	452,233	2,575,060	257,956	183,239	105,494	750,196	12,903,138	17,227,316	768,482	17,995,798

Notes:

(a) Bases for appropriation to reserves

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

(b) Statutory surplus reserve

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

(c) Statutory public welfare fund

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

According to the laws and regulations of the PRC, the distributable profit of the Company was determined at the lower of such amount computed based on the accounting principles and regulations of the PRC or the generally accepted accounting principles in Hong Kong. As of 30 June 2020, the retained earnings available for distribution to shareholders was approximately RMB7,371,237,222.76.

MANAGEMENT DISCUSSION AND ANALYSIS

Optimization and Upgrade of Business Segments

During the Period, the gross profit margin of the Group decreased to 57.8% from 63.4% for the same period last year, mainly attributable to the change of product mix due to the COVID-19 pandemic.

The major products under each business segment are as follows:

1. During the Period, the clinical care business recorded a turnover of approximately RMB1,860,569,000, representing a decrease of 10.4% over the corresponding period mainly due to the impact of the COVID-19 pandemic; in the future, the Group will continuously enrich its product mix, and continue to maintain a dominant position in the market with the Company's strong scale strength.
2. During the Period, the pharma packaging business recorded a turnover of approximately RMB764,515,000, representing an increase of 22.1% over the same period last year and maintaining strong growth momentum. Prefilled syringes have further expanded its market influence in the segment of pre-pack bio-pharmaceuticals and built a broad customer base.
3. During the Period, the orthopedics business recorded a turnover of approximately RMB830,604,000, representing an increase of 21.8% over the same period last year. Through further consolidating its market position in the spine segment, increased marketing of joint products, further penetration of distribution channels and establishment of a logistic platform have driven sales growth.
4. During the Period, the interventional business recorded a turnover of approximately RMB783,262,000, representing a decrease of 3.7% over the same period last year mainly due to the impact of the overseas pandemic. In the future, through sharing of internal resources, sales of Argon products in the PRC market will expand.

RESEARCH AND DEVELOPMENT

For the six months ended 30 June 2020, the Group obtained 57 new patents and 112 patents are under application in the PRC. New product registration certificates for 13 products were obtained. The research and development for 19 products were completed for which application for product registration certificates are underway. Overseas, 14 new patents are under application and the research and development for 69 products were completed for which application for product registration certificates are underway.

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

As at 30 June 2020, the Group had 507 product registration certificates and 491 patents, of which 76 were patents on invention, in the PRC. For overseas market, the Group had 553 product registration certificates and 163 patents.

In view of the need for the strategic adjustments to product mix, the Group continued to invest in the research and development in existing products series and new medical devices, so as to further improve its product mix under sub-classification of medical devices product types. For the six months ended 30 June 2020, total research and development expenses amounted to approximately RMB143,044,000 (same period in 2019: approximately RMB171,368,000), representing 2.8% (same period in 2019: 3.5%) of the turnover of the Group.

PRODUCTION

During the Period, the Group continued to increase its investments in the capacity building and production facilities to meet the increasing sales and market growth. At the same time, the Group actively strives for the improvement in production process and intelligent production equipment and automation to reduce production costs through efficiency improvement and scientific management, so as to maintain the overall profitability of the Company.

SALES AND MARKETING

The Group continues to implement the strategy in integrating its sales channels and adjusting its product mix. For the six months ended 30 June 2020, the Group newly added 16 hospitals, 19 other medical institutions and 13 distributors to its PRC customer base. As at the date of this report, the Group has a PRC customer base of 5,686 in aggregate (including 2,626 hospitals, 414 blood stations, 729 other medical units and 1,917 distributors) and an overseas customer base of 4,912 in aggregate (including 3,218 hospitals, 1,417 other medical units and 277 distributors).

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

Turnover by Geographical Locations

Regions	For the six months ended 30 June				
	2020		2019		Over
	RMB'000	%	RMB'000	%	corresponding period %
The PRC					
– Eastern and Central	2,049,386	40.3	1,958,799	39.6	4.6
– Northern	851,923	16.7	905,888	18.3	(6.0)
– Northeast	333,691	6.6	411,797	8.3	(19.0)
– Southern	353,018	6.9	316,445	6.4	11.6
– Southwest	328,726	6.5	339,236	6.9	(3.1)
– Northwest	100,155	2.0	108,504	2.2	(7.7)
PRC sub-total	4,016,899	78.9	4,040,669	81.7	(0.6)
Overseas					
– The US	436,259	8.6	429,345	8.7	1.6
– Europe, Middle East and Africa	317,952	6.2	200,667	4.1	58.4
– Asia	203,236	4.0	167,132	3.4	21.6
– Others	116,860	2.3	105,521	2.1	10.7
Overseas sub-total	1,074,306	21.1	902,665	18.3	19.0
Total	5,091,205	100.0	4,943,334	100.0	3.0

The integration of sales channels has strengthened the Group's market penetration and influence over the direct sales to customers and enhanced sales contribution per customer. It continued to drive up the product penetration to 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 Period. Comparison of sales revenue of principal products with that in last year is as follows:

Product category	For the six months ended 30 June		Over corresponding period %
	2020 RMB'000	2019 RMB'000	
Clinical care	1,860,569	2,077,096	(10.4)
Wound management	133,125	162,086	(17.9)
Blood management	253,930	210,439	20.7
Pharma packaging products	764,515	626,326	22.1
Medical testing	99,191	81,777	21.3
Anesthesia and surgical related products	65,263	65,091	0.3
Orthopedic products	830,604	682,065	21.8
Interventional products	783,262	813,626	(3.7)
Other consumables	300,745	224,828	33.8
Total	5,091,205	4,943,334	3.0

HUMAN RESOURCES

As at 30 June 2020, the Group employed a total of 10,153 employees. The breakdown by departments when compared with last year is as follows:

Department	As at 30 June 2020	As at 31 December 2019
Production	5,273	5,289
Sales and marketing	2,597	2,566
Research and development	1,146	1,132
Finance and administration	503	495
Quality control	280	276
Management	204	198
Purchasing	150	147
Total	10,153	10,103

A total of 881 overseas employees reside in the US, Europe and Hong Kong. Other employees of the Group reside in Mainland China. During the Period, total cost of salaries, welfare and social benefits of the Group amounted to approximately RMB889,023,000 (same period in 2019: approximately RMB914,714,000).

Remuneration System

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

FINANCIAL REVIEW

For the six months ended 30 June 2020, the turnover reached approximately RMB5,091,205,000, representing an increase of 3.0% over the same period last year. Net profit attributable to shareholders was approximately RMB969,996,000, representing an increase of approximately 3.5% as compared to the same period of last year.

Liquidity and Financial Resources

The Group has maintained a sound financial position. As at 30 June 2020, the Group's cash and bank balance amounted to approximately RMB4,781,005,000. For the six months ended 30 June 2020, net cash flow from operating activities of the Group amounted to approximately RMB1,035,468,000, representing a sound cash flow position.

Total interest expenses of the Group for the six months ended 30 June 2020 were approximately RMB106,072,000 (same period in 2019: approximately RMB145,917,000).

Gearing Ratio

As at 30 June 2020, the gearing ratio of the Group was 25.3% (same period in 2019: 36.0%). 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 domestic outstanding borrowings denominated in foreign currencies. 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 six months ended 30 June 2020, 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, foreign exchange gain equivalent to RMB4,474,000 (same period in 2019: foreign exchange gain equivalent to RMB6,768,000) for the six months ended 30 June 2020 was recognized by the Company.

Contingent Liabilities

The Group had no material contingent liabilities as of 30 June 2020.

Material Investments in Subsidiaries/Future Material Investment Plans

1. During the Period, the Group continued to invest approximately RMB488,511,000 in production facilities and plant construction for the purpose of enhancing the overall construction of the industrial zone for the Group's medical consumables.
2. During the Period, the Group planned to invest approximately RMB200,000,000 in the new production lines, construction of which is already underway and is expected to be in operation by the end of 2021.
3. During the Period, the Group planned to invest approximately RMB600,000,000 in the new production lines, which are expected to be successively put in operation in 2022.
4. During the Period, construction is underway for the planned investment of approximately RMB150,000,000 for 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 30 June 2020.

Capital Commitment

As at 30 June 2020, the capital commitment that the Group and the Company had contracted for but not provided in the financial statements amounted to approximately RMB766,489,000 (same period in 2019: approximately RMB672,025,000).

REVIEW AND OUTLOOK

During the Period, the outbreak of the COVID-19 pandemic caused a serious impact on human life and health and the global economy, which in turn has posed severe challenges on medical services and enterprises in the industry. Despite that, the Company's product and market diversification strategies and resource integration measures have demonstrated amazing anti-risk capabilities. With better control over the pandemic, the Company will continue to implement the established strategies. It adheres to product mix optimisation and adjustment strategy, accelerates product upgrade and replacement and enhances efforts on technological transformation to improve production efficiency and product quality. The Company integrates marketing resources to improve efficiency of new product sales through the sharing of internal channel resources. The Company will continue to maintain a steady growth in revenue and profit amidst intensified competition.

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

The Company actively responds to and participates in the reform initiatives of domestic medical industry by providing quality products and services to meet clinical needs, thus increasing its product penetration.

The Company will keep on effective COVID-19 prevention and control to protect the health and safety of its employees, and will ensure an adequate supply of products to meet customer requirements.

By promoting collaboration in overseas markets, the Company will realise global business integration and resource sharing.

The Company will continue with intelligent manufacturing in the production and optimise supply chain management, so as to increase its product quality and production efficiency to maintain its cost effectiveness.

The management believes that, by relying on extensive business strategic layout and high-quality products, insisting on the business strategy of adapting to market and focusing on future, as well as motivating the creativity of employees, the Company will continue to maintain its leading market position in the PRC. Meanwhile, the Company will promote global resource sharing to achieve coordinated development of domestic and foreign markets, which in turn, would underpin the stable growth in the operating results of the Group.

SEVEN YEARS GREEN BOND AND FIVE YEARS LONG-TERM LOAN FACILITY

The Company entered into a subscription agreement and a loan agreement with International Finance Corporation (“**IFC**”), a member of the World Bank Group and the largest global development institution focused on the private sector in developing countries dated 31 March 2020. Pursuant to the subscription agreement, IFC has agreed, subject to the terms and conditions contained therein, to subscribe and pay for senior secured green bonds due 2027 in registered form in an aggregate principal amount of RMB1,000,000,000 to be created and issued by the Company. Pursuant to the loan agreement, IFC has agreed, subject to the terms and conditions contained therein, to make available to the Company a loan in an aggregate principal amount of RMB500,000,000. For details, please refer to the announcement of the Company dated 1 April 2020.

DISPOSAL OF PROPERTY BY WEIGAO ASSET

On 17 April 2020, Weigao Asset entered into the Sale and Purchase Agreement I with Weigao Holding, pursuant to which Weigao Asset agreed to dispose and Weigao Holding agreed to acquire a plot of land covering a gross area of 23,189 sq.m. located at 威海市香江路26號 (26 XiangJiang Road, Weihai*) with 9 blocks of buildings with a saleable area of 40,612 sq.m. (“**Properties A**”) for a total consideration of approximately RMB156,440,200. Weigao Asset is an indirect non wholly subsidiary of the Company and is intended to redeploy its assets and realize its investment in the Property A to make funds available for other business investments. For details, please refer to the announcement of the Company dated 17 April 2020.

ACQUISITION OF PROPERTY BY WEIGAO ORTHO

On 17 April 2020, Weigao Ortho entered into the Sale and Purchase Agreement II with Weigao Holding, pursuant to which Weigao Ortho agreed to acquire and Weigao Holding agreed to sell a mixed used production plant with offices, canteen and staff quarters situated on a plot of land covering a gross area of 61,633 sq.m. located at 威海環翠區張村鎮天目路東·大嵐山南 (South of Mt. DaLan, East of TianMu Road, ZhangCun Town, HuanCui District, Weihai*) (“**Properties B**”) for a total consideration of RMB151,650,000. Weigao Ortho is a non wholly subsidiary of the Company and is intended to use the Properties B as an integrated production plant which is in proximity to existing industrial park of Weigao Ortho. For details, please refer to the announcement of the Company dated 17 April 2020.

On 19 May 2020, Weigao Asset, Weigao Ortho and Weigao Holding entered into a supplemental agreement pursuant to which Weigao Ortho assigned the legal title for Properties B to Weigao Asset under sale and purchase agreement II. Under the sale and purchase agreement I, Weigao Asset sold Properties A to Weigao Holding. Under the supplemental agreement, Weigao Holding and Weigao Ortho agreed for Weigao Asset to be assigned the legal title for Properties B under sales and purchase agreement II. As a result, it constituted assets swap between Weigao Holding and Weigao Asset. The supplemental agreement formed an integral part of sale and purchase agreement I and sale and purchase agreement II and has the same legal effect. For details, please refer to the announcement of the Company dated 19 May 2020.

EXEMPTED CONNECTED TRANSACTION – ACQUISITION OF INDIRECT INTEREST IN WEIGAO ORTHO

Mr. Gong Jianbo, an executive director of the Company agreed to sell and 威海威高信達企業管理諮詢服務有限公司 (Weihai Weigao Xingda Enterprise Management Consulting Services Company Limited*), a wholly owned subsidiary of the Company established in the PRC agreed to buy 28.57% in the Limited Partnership for approximately RMB84.7 million. The cash consideration for the Acquisition will be paid within 30 days from the date of the Acquisition Agreement. The Limited Partnership is a limited partnership holding 23,333,333 Ortho Shares, representing 6.51% shares in Weigao Ortho. The Seller is a director of Weigao Ortho and the Company and a connected person of the Company. The Acquisition constituted a connected transaction for the Company for the purpose of the Listing Rules. For details, please refer to the announcement of the Company dated 21 May 2020.

PROPOSED SPIN-OFF

The Company proposes to spin-off and separately list the ordinary shares of Weigao Ortho on the science and technology innovation board on the Shanghai Stock Exchange (“**Sci-Tech Board**”). On 11 June 2020, Weigao Ortho submitted an application to the Shanghai Stock Exchange for the proposed listing on the Sci-Tech Board (the “**Proposed Listing**”). Currently, the Company, directly and indirectly, holds approximately 80.5% equity interest in Weigao Ortho. Upon completion of the Proposed Listing on the Sci-Tech Board, it is expected that Weigao Ortho will remain as a subsidiary of the Company. The Proposed Listing on the Sci-Tech Board is conditional upon, among other things, the approval of the CSRC, the Shanghai Stock Exchange and the Hong Kong Stock Exchange and completion of the proposed initial public offering of the ordinary shares of Weigao Ortho (the “**Offering**”). The terms of the Offering, including the size and price range of the Offering, and the timetable of the Proposed Listing have not yet been fixed as at the date of this report. For details, please refer to the announcement of the Company dated 11 June 2020.

WAIVER ON ASSURED ENTITLEMENT

Refer to the announcement of the Company dated 11 June 2020, the Stock Exchange has also granted the Company a waiver from strict compliance with the applicable requirements in relation to the assured entitlement under paragraph 3(f) of PN15 (the “**Waiver**”) on the condition that the Company would include in an announcement: (i) the Board’s confirmation to the Company that the Proposed Spin-off and Listing and the Waiver are fair and reasonable and in the interests of the Company and its shareholders as a whole; (ii) the reasons for not providing its shareholders with assured entitlements to the shares in Weigao Ortho under the Proposed Spin-off and Listing; and (iii) the legal restriction in providing the assured entitlement. For details, please refer to the announcement of the Company dated 30 July 2020.

SHARE AWARD SCHEME OF THE COMPANY

According to the incentive share scheme adopted by the Company on 17 November 2014 (“**Incentive Share Scheme**”), the incentive shares would be granted to the selected employees, subject to vesting conditions. The remuneration committee may, from time to time and at its absolute discretion, select any eligible participants to participate in the Share Award Scheme and determine the number of shares that the selected employees could entitle to subscribe, the length of the vesting period to be fulfilled prior to the exercise of the subscription rights, and vesting conditions and other conditions, including any lock-up period and/or performance target, that must be satisfied for the exercise of the subscription right. The vesting period for such 45,960,000 shares is ranged from one year to five years. The maximum number of shares which may be issued under the Share Award Scheme would be 223,818,616, which represent 5% of the issued share capital of the Company or approximately 4.76% of the issued share capital of the Company as enlarged by the issue of the 223,818,616 non-listed shares as of the date of the adoption date, i.e. 17 November 2014.

As of 30 June 2020, the incentive shares granted under the Incentive Share Scheme were 23,564,000 shares (same period in 2019: 45,960,000 shares).

PROPOSED INTERIM DIVIDEND

The Board recommended the distribution of an interim dividend of the RMB0.062 per share (same period in 2019: RMB0.059 per share) for the six months ended 30 June 2020. Such proposal is subject to the approval of the shareholders of the Company (the “**Shareholders**”) at the forthcoming special general meeting (“**Special General Meeting**”) to be held on Wednesday, 14 October 2020.

SPECIAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

Attending and Voting in the Special General Meeting

In order to determine the shareholders who are entitled to attend and vote at the Special General Meeting, the register of members of the Company for H Shares will be closed from Friday, 9 October 2020 to Wednesday, 14 October 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 Special General Meeting, Shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H Share registrar, Tricor Standard Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 8 October 2020.

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

Latest time to lodge in the transfer instrument accompanied by the share certificates 4:30 p.m., Thursday, 8 October 2020

Closure of register of members of the Company for attendance of the special general meeting Friday, 9 October 2020 to Wednesday, 14 October 2020

Date of special general meeting Wednesday, 14 October 2020

Entitlement of Interim dividend

In order to determine entitlement to the interim dividend payment, the register of members of the Company for H Shares will be closed from Tuesday, 20 October 2020 to Thursday, 22 October 2020 (both days inclusive), during which period no transfer of H Shares will be effected. In order to qualify for entitlement of the interim dividend, holders of H Shares should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H Share registrar, Tricor Standard Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 19 October 2020.

In order to qualify to entitle the interim dividend for the six months ended 30 June 2020:–

Latest time to lodge in the transfer
instrument accompanied by the
share certificates 4:30 p.m., Monday,
19 October 2020

Closure of register of members of the
Company for entitlement of
interim dividend Tuesday 20 October 2020–
Thursday, 22 October 2020

Record date for entitlement of
interim dividend Thursday, 22 October 2020

Despatch date of interim dividend Friday, 20 November 2020

The interim dividend will be despatched at the risk of those entitled thereto to their respective registered addresses on or before Friday, 20 November 2020. The applicable exchange rate for converting RMB into Hong Kong dollar for the purpose of the interim dividend payment will be based on the average middle exchange rate of Renminbi as quoted by the People's Bank of China for the calendar week proceeding 14 October 2020, the date on which the interim dividend to be declared.

DISCLOSURE OF INTERESTS

Directors' Interests and Long Position in Shares

As at 30 June 2020, the interests of the directors in the share capital of the Company and their associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("**SFO**")), (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities transactions by Directors of Listed Companies (the "**Model Code**") contained in the Listing Rules:

(i) Long positions of H Shares of RMB0.10 each of the Company

Name of Director	Types of interests	Capacity	Total number of H Shares	Approximate percentage of the issued share capital of the Company
Mr. Zhang Hua Wei	Personal	Beneficial owner	32,400,000	0.716%
Mr. Wang Yi	Personal	Beneficial owner	18,392,000	0.407%
Mrs. Zhou Shu Hua	Personal	Beneficial owner	15,300,000	0.338%

In addition, Mr. Chen Lin, son of Mr. Chen Xue Li, a director of Weigao Holding Company Limited is holder of the Company's 196,000 H Shares, representing 0.004% of the issue share capital of the Company.

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

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

Note: 威海威高國際醫療投資控股有限公司 (Weihai Weigao International Medical Investment Holding Company Limited*) is owned as to 51.70% by Mr. Chen Xue Li, 16.65% by Mr. Zhang Hua Wei, 9.25% by Mrs. Zhou Shu Hua, 4.73% by Mr. Wang Yi, 7.4% by Mr. Chen Lin and 7.50% by 威海市創鑫投資合伙企業(有限公司)。

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

Name of substantial shareholder	Number of shares interested	% of issued share capital
Chen Xueli	2,099,755,676 (L)	46.43 (L)
威海威高國際醫療投資控股有限公司 (Weihai Weigao International Medical Investment Holding Company Limited)	2,099,755,676 (L)	46.43 (L)
威高集團有限公司 (Weigao Holding Company Limited)	2,099,755,676 (L)	46.43 (L)

Note: (L) – Long Position

MAJOR CUSTOMERS AND SUPPLIERS

For the six months ended 30 June 2020, sales to the Group's five largest customers accounted for 3.25% of the total sales for the Period and sales to the largest customer accounted for 0.77% of the total sales for the Period.

For the six months ended 30 June 2020, purchases from the Group's five largest suppliers accounted for 13.2% of the total purchases for the Period and purchases from the largest supplier accounted for 4.8% of the total purchases for the Period.

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

CORPORATE GOVERNANCE

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

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

Board of Directors

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

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

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

Disclosure of Information on Director and Supervisor

- 1) Mr. Hu Yun Yong has been appointed as a supervisor of the Company with effect from 22 July 2020.
- 2) Ms. Gu Mei Jun has been appointed as a supervisor of the Company with effect from 22 July 2020.

Except for the above, pursuant to Rule 13.51B of the Listing Rules, no changes of information on director or supervisor has been recorded during the Period.

Compliance with the Model Code for Directors' Securities Transactions

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

Internal Control

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

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

Audit Committee

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

The Company's financial statements for the six months ended 30 June 2020 have been reviewed by the Audit Committee. The Audit Committee considered that the relevant financial statements have been prepared in compliance with the applicable accounting principles and requirements of the Stock Exchange and other laws, and adequate disclosures have been made.

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

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

COMPETING INTERESTS

So far as the Directors are aware, for the six months ended 30 June 2020, none of the Directors or management shareholders of the Company (as defined in the Listing Rules) or their respective associates have an interest in a business which competes or may compete with the business of the Group, or have any other conflict of interest with the Group.

REVIEW OF INTERIM RESULTS

The unaudited interim results for the six months ended 30 June 2020 have been reviewed by the Audit Committee.

By Order of the Board

Shandong Weigao Group Medical

Polymer Company Limited

Zhang Hua Wei

Chairman

26 August 2020

Weihai, Shandong, the PRC

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