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)

# 2004

## First Quarterly Report

* For identification purposes only

# Characteristics of The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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*This report, for which the directors (the "Directors") of Shandong Weigao Group Medical Polymer Company Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## SUMMARY

On 27th February, 2004, the Company was successfully listed on the GEM of the Stock Exchange, and issued a total of 264,500,000 H Shares of RMB0.1 each, with a net proceed of RMB153,515,000.

For the three months ended 31st March, 2004, the Company and its subsidiaries (the "Group") recorded a turnover of RMB81,708,000, representing an increase of approximately 15.6% over the corresponding period in the previous year, and a net profit of RMB12,155,000, representing an increase of approximately 33.79% over the corresponding period in the previous year.

For the three months ended 31st March, 2004, earnings per share was RMB0.018.

During the quarter, the three investment projects on pre-filled syringe, blood transfusion consumables and needle products proceeded smoothly. Introduction of equipment has also been commenced. Total investment expenditures on the investment projects amounted to RMB21,889,000.

There was significant progress in the development of new customers. The Group added 271 new customers during the quarter, including 92 hospitals and 56 blood stations. As at 31st March, 2004, the total number of customers of the Group amounted to 3,970.

Research and development projects proceeded smoothly. Two new product registration certificates were obtained. Total expenditures on research and development amounted to RMB1,617,000.

The Directors do not recommend distribution of dividend for the three months ended 31st March, 2004.

## Quarterly results

The Board is pleased to announce the unaudited consolidated results of the Group for the three months ended 31st March, 2004, together with the comparative figures for the corresponding period in 2003 as follows:

| | | Unaudited For the three months ended 31st March | |
|---|---|---|---|
| | *Notes* | 2004 *RMB'000* | 2003 *RMB'000* |
| Turnover | 2 | 81,708 | 70,666 |
| Cost of sales | | (48,437) | (42,066) |
| Gross profit | | 33,271 | 28,600 |
| Other operating incomes | | 2,019 | 931 |
| Distribution costs | | (12,457) | (11,689) |
| Administrative expenses | | (5,705) | (5,126) |
| Profit from operations | 4 | 17,128 | 12,716 |
| Finance costs | 5 | (3,588) | (2,311) |
| Share of loss of an associate | | (58) | (57) |
| Profit before taxation | | 13,482 | 10,348 |
| Taxation | 6 | (1,131) | (702) |
| Profit before minority interests | | 12,351 | 9,646 |
| Minority interests | | (196) | (561) |
| Profit attributable to shareholders | | 12,155 | 9,646 |
| Dividend | 7 | 0 | 0 |
| Earnings per share | 8 | RMB1.8 cents | RMB1.5 cents |

*Notes:*

1. Principal accounting policies and basis of presentation

Shandong Weigao Group Medical Polymer Company Limited (the "Company") was incorporated on 28th December, 2000 in Shandong Province, the PRC as a joint stock company with limited liability pursuant to the approval by the Commission for Restructuring the Economic Systems of Shandong province in document Lu Ti Gai Han Zi [2000] No. 39. The Company is mainly engaged in the production and sales of Category I, II and III medical polymer materials and products, plastic products (excluding agricultural sheets). The Company's H Shares was successfully listed on GEM on 27th February, 2004.

Weihai Jierui Medical Products Company Limited ("Jierui Subsidiary"), a subsidiary of the Company, was established under the joint investment by Weihai Medical Polymer Company (the predecessor of Weigao Holding) and Weihai Jierui Medical Company Limited on 22nd January, 1999. On 11th February, 1999, as confirmed under document "Notice of Recognition of Weihai Jierui Medical Products Company Limited as a Social Welfare Entity" (Lu Min Han [1999] No. 25) issued by the Civil Administration Bureau of Shandong Province, Jierui Subsidiary was recognised as a Social Welfare Entity, and has received "Social Welfare Corporation Certificate". The scope of operation for Jierui Subsidiary included the production and sale of infusion sets, laboratory apparatus, medical bags, medical plastic products, medical plastic raw materials, medical wound-care materials, sterile syringes, packaging materials and cardiogram recording papers. The existing major products of Jierui Subsidiary include medical PVC granules, single-use medical devices, plastic bag for packaging and paper boxes. The Company acquired 90% and 6% equity rights in Jierui Subsidiary on 19th April, 2002 and 20th June, 2003 respectively. As at 31st March, 2004, the Company controlled 96% equity rights in Jierui Subsidiary.

The financial statements have been prepared in accordance with the accounting principles generally accepted in Hong Kong, the Statements of Standards Accounting Practice issued by the Hong Kong Society of Accountants as well as the disclosure requirements under the Companies Ordinance, and have been prepared on the basis of historical cost.

## 2. Turnover

Turnover represents the amount received and receivable for goods sold by the Group to outside customers, less sales tax and sales return during the period.

## 3. Segment information

The Group is solely engaged in production and sales of single-use aseptic polymer medical products and it operates only in the People's Republic of China ("PRC"). All significant identifiable assets of the Group are located in the PRC. Accordingly, no segmental analysis is presented.

## 4. Profit from operations

Profit from operations has been arrived at after charging (crediting):



| | Unaudited For the three months ended 31st March | |
|---|---|---|
| | 2004 | 2003 |
| | *RMB'000* | *RMB'000* |
| Allowances for bad and doubtful debts | 463 | 358 |
| Depreciation and amortisation | 3,279 | 2,682 |
| Rental payments in respect of premises under operating leases | 437 | 440 |
| Research and development expenditure | 1,617 | 1,307 |
| Staff costs, including directors' remuneration | | |
| – Retirement benefits scheme contributions | 1,746 | 1,671 |
| – Salaries and other allowances | 7,178 | 6,868 |
| Total staff costs | 8,924 | 8,539 |
| Gain on disposal of property and equipment | (8) | 0 |
| Interest income | (20) | (1) |
| Rebate of value added tax | (1,931) | (767) |

## 5. Finance costs

Finance costs for the three months ended 31st March, 2004 were RMB3,588,000 (2003: RMB2,311,000), which mainly included interest expenses on bank and other loans, representing an increase of 55.25% over the corresponding period in 2003, and was mainly attributable to the increase in the balance of loan since the beginning of the period.

## 6. Taxation

For the three months ended 31st March, 2004, total income tax paid was RMB1,131,000 (2003: RMB702,000).

The Company is recognised as a "High and New Technology Enterprise". In accordance with the "Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Preferential Treatment Policies on Enterprise Income Tax", the Company was subject to income tax at a tax rate of 15%. (2003:15%)

Pursuant to the "Notice of Recognition of Weihai Jierui Medical Products Company Limited as a Social Welfare Entity" Lu Min Han [1999] No. 25 issued by the Civil Administration Bureau of Shandong Province, Weihai Jierui Medical Products Company Limimted enjoys the related preferential tax treatment as a Social Welfare Entity, and is exempted from the enterprise income tax for the previous year

## 7. Dividend

The Board does not recommend distribution of any dividend for the three months ended 31st March, 2004. (2003: Nil)

## 8. Earnings per Share

Earnings per Share is calculated based on the net profits attributable to shareholders of RMB12,155,000 (2003: RMB9,085,000) for the three months ended 31st March, 2004, and weighted average number of 688,166,667 (2003: 600,000,000) Shares.

For the purpose of calculation of earnings per Share, the average number of Ordinary Shares have been adjusted in accordance with the sub-division of Shares on 8th December, 2003.

## Reserves

| | Share premium *RMB'000* | Statutory surplus reserve *RMB'000* | Statutory public welfare fund *RMB'000* | Retained earnings *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **Group** | | | | | |
| As at 1st January 2004 | — | 10,821 | 5,410 | 79,232 | 95,463 |
| Net profit for the period | — | — | — | 12,155 | 12,155 |
| Premium arising from share issue | 127,065 | — | — | — | 127,065 |
| As at 31st March, 2004 | 127,065 | 10,821 | 5,410 | 91,387 | 234,683 |
| **Company** | | | | | |
| As at 1st January, 2004 | — | 10,821 | 5,410 | 40,728 | 56,959 |
| Net profit for the period | — | — | — | 6,411 | 6,411 |
| Premium arising from share issue | 127,065 | — | — | — | 127,065 |
| As at 31st March, 2004 | 127,065 | 10,821 | 5,410 | 47,139 | 190,435 |

Pursuant to the laws and regulations of the PRC, the Company's distributable profits shall be the lower of the amounts determined under the PRC accounting principles and rules and under Hong Kong generally accepted accounting principles. As at 31st March, 2004, profits distributable to shareholders were RMB47,139,000.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CORPORATE DEVELOPMENT

For the three months ended 31st March, 2004, total turnover and net profit of the Group were approximately RMB81,708,000 and RMB12,515,000 respectively, representing an increase of 15.6% and 33.79% over 2003 respectively.

Pursuant to the Enterprise Resources Planning ("ERP") system agreement entered into between the Company and a third party system provider on 24th February, 2003, implementation of phase II (that is Human Resources Management and Office Automation) commenced in March this year, and the project is expected to fully commence operation in July this year. This will further rationalise the flow of management information and performance assessment system of the Company, and enhance the management efficiency.

The Group invested RMB4 million to establish a joint venture together with an independent third party for the production of drug eluting stents. The joint venture was formally put into operation in March. The products were well received after launching into the market, and were exported to India and Singapore. The Company is under the process of obtaining product registration for drug eluting stent in the PRC. Commencement of the production of drug eluting stent further increased the competitiveness of the Company in the high-end product market.

The Company has set up a supervisory team for its investment projects, so as to monitor the progress of the investment project. Currently, equipment introduction contract of blood transfusion consumables, pre-filled syringes have been entered into. Equipment selection for phase II needle products were completed, and negotiation of the contract was under way. For the three months ended 31st March, 2004, total expenditures of the investment project amounted to RMB21,889,000.

## RESEARCH AND DEVELOPMENT

For the three months ended 31st March, 2004, the Group has newly added 2 patent applications. There were 2 new products which have obtained Medical Device Product Registration Certificate. The overall expenditure of the Group in research and development amounted to RMB1,617,000, representing 1.97% of the total consolidated turnover.

## PRODUCTION

In February 2004, improvement of the carton box workshop was completed, with an increase in production area of 864 sq.m.. Annual production capacity reached 10 million sq.m. of carton paper. Completion for the improvement of the production line further enhanced the vertical integration production capacity of the Group, and enhanced the quality of product packaging.



For the three months ended 31st March, 2004, the relative increment of the six categories of products of the Group compared with the corresponding period of 2003 were as follows:

(1) approximately 39,143,000 sets of single-use sterile infusion (transfusion) sets, increased by 3.8%;

(2) approximately 2,518,000 sets of single-use sterile blood transfusion products, increased by 3.4%;

(3) approximately 56,984,000 sets of single-use sterile syringes, increased by 5.7%;

(4) approximately 294,000 sets of single-use sterile dental devices, increased by 34.3%;

(5) approximately 1,705 tonnes of PVC granules, increased by 46.3%; and

(6) approximately 37,585,000 sets of other products, increased by approximately 181%.

## SALES NETWORK AND MARKETING

Encompassing the market exploration strategy of the group companies and product structure adjustment strategy, the Group increased its strength in the development of the South and Western markets in the PRC. More efforts were devoted to increase the sales of non-conventional products, through capitalising opportunities obtained in promotion meetings and exhibitions. Assessment on the performance of sales personnel were carried out in a more detailed manner. All of which in turn facilitated the achievement of remarkable results in the sales of non-conventional, high value-added products.

For the three months ended 31st March, 2004, the Group established business relation with approximately 271 new customers, including about 92 hospitals, 56 blood centers. As at 31st March, 2004, the total number of the Group's customers reached 3,970. During the quarter, there were 28 sales personnel newly recruited, with total number of personnel in the sales and marketing team amounting 367 persons.

## HUMAN RESOURCES

As at 31st March, 2004, the Company employed a total of 3,962 employees, and the breakdown by departments were as follows:

| Departments | Number of employees |
|---|---|
| Research and development | 88 |
| Sales and marketing | 367 |
| Production | 3,221 |
| Purchasing | 15 |
| Quality control | 35 |
| Management | 47 |
| Finance and administration | 189 |
| Total | 3,962 |

Save as the company secretary, who resides in Hong Kong, all employees of the Group were located in the PRC. During the period, total cash paid by the Group on the staff salaries, welfare, and various funds amounted to RMB8,924,000.

## FINANCIAL REVIEW

### Liquidity and financial resources

The Group maintained sound financial position during the period. As at 31st March, 2004, the Group has total cash of RMB155,106,000. For the quarter ended 31st March, 2004, the Group's net cash flow from operating activities amounted to RMB18,182,000, where cash-flow position is sound.

During the period, the Group made adjustments to the loans through obtaining low interest rate loans to repay high interest bearing loans and the overall interests rate of borrowings was reduced. New bank loans raised amounting to RMB48,750,000. The Group has repaid bank loans of RMB74,760,000. Comparing to 31st December, 2003, the Group's net loan reduced by RMB26,010,000. As at 31st March, 2004, the Group's short-term bank loans amounted to RMB61,173,000, and long-term bank loans amounted to RMB149,960,000.

The overall interests paid by the Group during the period amounted to RMB3,588,000.



## Gearing ratio

The Group's gearing ratio, being the ratio of total borrowings to total equity was 0.66 (31st December, 2003: 1.53). The drop in this ratio was mainly due to the proceeds from the Group's listing and the increase in the reserves of earnings.

## Contingent liabilities

The Group did not have any material contingent liabilities as at 31st March, 2004.

## Capital commitments

As at 31st March, 2004, the Group has commitments for the acquisition of assets which were contracted but not provided in the financial statements amounting to RMB37,366,000.

## FUTURE OUTLOOK

During the first quarter of the year, business performance for the Group was rosy. Various activities proceeded smoothly. Substantial growth in both sales and profits were realised. Looking forward, we shall use our best endeavours to enhance our efficiency.

1. We shall stay focus to ensure the timely introduction of production equipment of pre-filled syringes, high-end blood transfusion consumables and various needle products, and seek to form production capacity ahead of schedule;

2. We shall capitalise on the opportunities of the Spring Medical Devices Exhibition and the listing of the Company, and strengthen advertising on the Company's brand-name, expanding its sales network, and increasing customers' bases;

3. We shall expedite the intermediate testing and the obtaining of approvals of the new products under development, and pursue for market launch ahead of schedule;

4. We shall ascertain responsibilities, and accelerate the implementation progress of Office Automation and Human Resources Management, further rationalise the management flow and enhancement of management efficiency; strengthen staff recruiting and training processes to improve the harmony and sense of duty of the staff, so as to lay a sound foundation of human resources to facilitate the Group's development;

5. We shall further apply stringent internal management practices to control costs and expenses, which will effectively enhance the Group's profitability and to facilitate sustainable development of the Group.

## DIRECTORS' INTERESTS IN SHARES

At the date of this report, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(i) Long positions of domestic shares of RMB0.10 each of the Company.

| Name of director | Capacity | Total number of domestic shares | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|
| Mr. Zhang Hua Wei | Beneficial owner | 10,800,000 | 1.25% |
| Mr. Miao Yan Guo | Beneficial owner | 7,800,000 | 0.90% |
| Mr. Wang Yi | Beneficial owner | 7,800,000 | 0.90% |
| Mr. Wang Zhi Fan | Beneficial owner | 2,700,000 | 0.31% |
| Mr. Wu Chuan Ming | Beneficial owner | 2,400,000 | 0.28% |
| Ms. Zhou Shu Hua | Beneficial owner | 5,100,000 | 0.59% |

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

| Name of director | Capacity | Total capital contribution | Approximate percentage of the registered capital of Weigao Holding |
|---|---|---|---|
| Mr. Chen Xue Li | Beneficial owner | 36,600,000 | 30.00% |
| Mr. Zhang Hua Wei | Beneficial owner | 30,500,000 | 25.00% |
| Mr. Miao Yan Guo | Beneficial owner | 7,320,000 | 6.00% |
| Mr. Wang Yi | Beneficial owner | 7,320,000 | 6.00% |
| Mr. Wang Zhi Fan | Beneficial owner | 2,610,800 | 2.14% |
| Mr. Wu Chuan Ming | Beneficial owner | 2,257,000 | 1.85% |
| Ms. Zhou Shu Hua | Beneficial owner | 14,579,000 | 11.95% |

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

## 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 and neither the directors nor any of their spouses or children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such rights.

## SUBSTANTIAL SHAREHOLDER

At the date of this report, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that other than the interests disclosed above in respect of certain directors, the following shareholder had notified the Company of relevant interest in the issued share capital of the Company.



| Name | Capacity | Number of domestic shares | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|
| Weigao Holding | Beneficial owner | 540,000,000 | 62.46% |

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at the date of this report.

## SPONSOR'S INTERESTS

Pursuant to the agreement entered into between the Company and Polaris Securities (Hong Kong) Limited (the "Sponsor") on 29th February, 2004, the Sponsor will act as the Company's retained sponsor for the remaining period of the financial year ending 31st December, 2004 and the two subsequent financial years.

Save as disclosed above, as at 31st March, 2004, neither the Sponsor nor its directors or employees or associates (as referred to in Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES



Since the commencement of dealings in the H Shares of the Company on GEM on 27th February 2004 and up to 31st March, 2004, the Company did not repurchase, sell or redeem any listed shares of the Company or any of its subsidiaries.

## CORPORATE GOVERNANCE

The Board considers that the Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the period.

## AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 1st September, 2002 with written terms of reference in compliance with Rules 5.23 to 5.24 of the GEM Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. The Committee has three members comprising Messrs. Shi Huan and Luan Jian Ping, both being independent non-executive directors and Ms. Zhou Shu Hua, a non-executive director.

The Company's financial statements for the quarter ended 31st March, 2004 have been reviewed by the Committee. The 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 disclosures have been fully made.



## PRE-EMPTIVE RIGHTS

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

## COMPETITING INTERESTS

None of the Directors, the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates has an interest in a business which competes or may compete with the business of the Group, or has any other conflicts of interest with the Group.

By Order of the Board
**Shandong Weigao Group Medical Polymer Company Limited**
**Chen Xue Li**
*Chairman*

Hong Kong, 8th May, 2004