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)

third quarterly report 2005

* For identification purposes only

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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 full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM 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: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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

For the three months and nine months ended 30 September 2005, the Company and its subsidiaries (the "Group") recorded a net profit attributable to shareholders of approximately RMB26,590,000 and RMB66,549,000 respectively, an increase of approximately 65.3% and 50.9% over the corresponding period of the previous year respectively, and recorded a turnover of approximately RMB155,765,000 and RMB405,451,000 respectively, an increase of approximately 48.4% and 44.4% over the corresponding period of the previous year respectively.

In July 2005, the Group completed the testing of its two needle production lines which were then put into operation, with newly added needle production capacity of 700 million pieces per annum. In August 2005, the production for pressed blood bags commenced and the annual production capacity of high-end pressed blood bags reached 2 million sets. In September 2005, product registration certificates were obtained for orthopedic products produced by an associated company of the Group in which the Group has 40% interest, and sales have commenced since then, with production capacity of orthopedic products reaching 100,000 sets (units) per annum.

Capitalising on the vertical integration in its production, its diverse product varieties, and increased efforts in market development, the Group has made significant progress in development of new customers. For the three months and nine months ended 30 September 2005, there were 105 and 526 new customers respectively, including 22 and 259 hospitals, and 5 and 31 blood stations respectively. As at 30 September 2005, the Group has a total of 5,148 customers.

Research and development ("R&D") projects have been progressing smoothly. For the nine months ended 30 September 2005, there were 15 patent applications filed (including 2 orthopedic products), and 9 patents were obtained during the period. Medical device product registration certificates have been obtained for 16 new products (including 10 orthopedic products), and applications for 17 product registration are under way. Total R&D expenditures amounted to RMB7,110,000 for the nine months ended 30 September 2005.

The board of Directors (the "Board") does not recommend distribution of a dividend for the three months ended 30 September 2005.

UNAUDITED CONSOLIDATED RESULTS

The Board is pleased to announce the unaudited consolidated results of the Group for the three months and nine months ended 30 September 2005, together with the comparative figures for the corresponding period in 2004 as follows:

Consolidated Income Statements

	Note	Unaudited For the three months ended 30 September 2005 RMB'000	2004 RMB'000	Unaudited For the nine months ended 30 September 2005 RMB'000	2004 RMB'000
Turnover	2	**155,765**	104,956	**405,451**	280,746
Cost of sales		**(93,325)**	(62,730)	**(244,111)**	(165,477)
Gross profit		**62,440**	42,226	**161,340**	115,269
Other operating income		**5,053**	2,036	**10,209**	6,079
Distribution costs		**(23,914)**	(16,972)	**(63,191)**	(44,344)
Administration expenses		**(11,485)**	(7,870)	**(27,242)**	(18,579)
Profit from operations	4	**32,094**	19,420	**81,116**	58,425
Finance costs	5	**(4,908)**	(2,675)	**(12,484)**	(9,513)
Share of results of a jointly controlled company		**(368)**	(413)	**(838)**	(1,064)
Share of results of an associate		**(158)**	11	**(158)**	(47)

	Note	Unaudited For the three months ended 30 September 2005 RMB'000	2004 RMB'000	Unaudited For the nine months ended 30 September 2005 RMB'000	2004 RMB'000
Profit before taxation		**26,660**	16,343	**67,636**	47,801
Taxation	6	**—**	—	**—**	(3,031)
Profit before minority interests		**26,660**	16,343	**67,636**	44,770
Minority interests		**(70)**	(254)	**(1,087)**	(671)
Net profit attributable to shareholders	7	**26,590**	16,089	**66,549**	44,099
Dividend	8	**—**	—	**9,127**	6,052
Earnings per share (Basic)	9	**RMB0.029**	RMB0.019	**RMB0.075**	RMB0.055

Notes:

1. Principal accounting policies and basis of reporting

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS"), and have been prepared on the basis of historical cost convention.

Save as stated below, the accounting polices adopted in these financial statements are consistent with those adopted in the preparation of the audited financial statements of the Group for the year ended 31 December 2004.

During this period, the Group has adopted, for the first time, the new HKFRS, HKAS and interpretations issued by the Hong Kong Institute of Certified Public Accountants. The new standards are applicable to the accounting periods commencing from 1 January 2005 as stipulated. The adoption of the new standards does not have any material impact on the presentation of the financial statements of the Group.

The following standards and interpretations, which are newly issued but have not become effective in the current period, are adopted by the Group. The Directors expect that the adoption of the new standards or interpretations does not have any material impacts on the financial statements of the Group.

HKAS 19 (amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS — Interpretation 4	Determining whether an Arrangement contains a Lease
HKFRS — Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

2. Turnover

Turnover represents the gross amount from the sale of goods, net of value-added tax, business tax, sales returns and commercial discount.

3. Segment information

The Group is mainly engaged in the manufacture and sale of single-use medical devices, with its major sales operations mostly conducted in the People's Republic of China (the "PRC"). All the Group's identifiable assets 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) the following:

	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
	2005	2004	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Provisions for bad debts	1,129	461	2,791	959
Auditors' remuneration	461	—	779	—
Depreciation and amortisation	5,447	4,020	15,938	11,022
Expenses under operation leases	727	308	2,413	1,454
Research and development expenditure	2,714	2,099	7,110	5,615
Staff cost, including directors' remuneration				
- Retirement benefits scheme contributions	3,440	1,806	9,966	4,706
- Wages and salaries	16,407	11,646	44,227	31,884
Total staff costs	19,847	13,452	54,193	36,590
(Gain)/loss on disposal of property, plant and equipment	(144)	(10)	(182)	5
Interest income	(257)	(44)	(544)	(156)
Rebate of value-added tax ("VAT") *(Note)*	(4,436)	(1,813)	(8,992)	(5,460)

Note: The Tax Bureau in Weihai granted refund on the VAT effectively paid by Weihai Jierui Medical Products Company Limited 威海洁瑞醫用製品有限公司 ("Jierui Medical") on the basis of "payment first then rebate", with effect from 1 May 1999.

5. Finance costs

Finance costs for the nine months ended 30 September 2005 were RMB12,484,000, which mainly included interest expenses for bank and other borrowings. Finance costs increased by 31.2% over the corresponding period of 2004, which were mainly due to the increase in borrowings for investing in new projects during the period.

6. Taxation

Income tax is calculated based on the taxable amount, which is obtained by making corresponding adjustments to the accounting income for the current period based on the relevant requirements under the PRC Tax Law.

The Company was approved by the Ministry of Finance of the PRC as a foreign invested enterprise in July 2004, and under the PRC Tax Law, is entitled to an exemption from PRC enterprise income tax for the two years commencing from 1 July 2004, followed by a 50% tax relief for the next three years.

As confirmed under document Lu Min Han [1999] No. 25 "Approval regarding recognition of Weihai Jierui Medical Products Company Limited as a Social Welfare Entity" by the Civil Administration Bureau of Shandong Province, Jierui Medical enjoys the relevant preferential tax treatments as a social welfare enterprise. Jierui Medical has applied to Weihai Local Tax Office Torch Hi-tech Industrial Development Zone Branch for the exemption of enterprise income tax in respect of the previous year.

Weihai Weigao Blood Purified Product Co., Ltd. 威海威高血液淨化製品有限公司 ("Weigao Blood") is subject to an enterprise income tax rate of 33%.

Pursuant to the approval by the State Tax Bureau of Shenyang City Shenhe Branch under document Shenhe Guo Shui Deng Zi (2005) No. 0049 "Notice regarding the approval of tax reduction and exemption", Shenyang Weigao Jinbao Trading Co., Ltd.瀋陽威高金寶商貿有限公司 ("Weigao Jinbao") is exempted from the enterprise income tax for the year 2005.

Weihai Weigao Group Mould Co. Ltd.威海威高集團模具有限公司("Weigao Mould") is subject to an enterprise income tax rate of 33%.

7. Net profit attributable to shareholders

For the three months and nine months ended 30 September 2005, net profit attributable to the Group's shareholders were RMB26,590,000 and RMB66,549,000 (Corresponding period in 2004: RMB16,089,000 and RMB44,099,000) respectively.

8. Dividend

For the three months ended 30 September 2005 and the corresponding period in the previous year, the Company did not declare any dividend. For the nine months ended 30 September 2005, the Company declared distribution of a dividend of RMB0.01 per share (Corresponding periods in 2004: RMB0.007).

9. Earnings per share

In the Company's extraordinary general meeting held on 20 May 2005, 48,160,000 domestic shares were approved to be issued to Weigao Holding Co. Ltd.威高集團有限公司("Weigao Holding") as consideration for the acquisition of land and properties from it. As at 30 September 2005, the Company has a total of 912,660,000 shares.

For the three months and nine months ended 30 September 2005, basic earnings per share were calculated based on net profit attributable to the Group's shareholders of RMB26,590,000 and RMB66,549,000 (Corresponding periods in 2004: RMB16,089,000 and RMB44,099,000) respectively, and on the weighted average total number of 912,660,000 shares and 887,688,148 shares (Corresponding periods in 2004: 864,500,000 shares and 805,722,222 shares) respectively.

10. Reserves

	Share premium reserve *RMB'000*	Statutory surplus reserve *RMB'000* *(Note b)*	Statutory public welfare fund *RMB'000* *(Note c)*	Retained earnings *RMB'000*	Total *RMB'000*
THE GROUP					
As at 1 January 2004	—	10,821	5,410	79,232	95,463
Net profit for the year	—	—	—	65,888	65,888
Dividend paid	—	—	—	(6,052)	(6,052)
Premium from issue of new H shares	146,012	—	—	—	146,012
Share issue expenses	(19,164)	—	—	—	(19,164)
Appropriations *(Note a)*	—	8,739	4,370	(13,109)	—
As at 31 December 2004	126,848	19,560	9,780	125,959	282,147
As at 1 January 2005	126,848	19,560	9,780	125,959	282,147
Net profit for the period	—	—	—	66,549	66,549
Dividend paid	—	—	—	(11,238)	(11,238)
Premium from issue of new domestic shares	42,184	—	—	—	42,184
As at 30 September 2005	169,032	19,560	9,780	181,270	379,642
Representing:					
Proposed dividend for the nine months ended 30 September 2005					9,127
Reserves					370,515
					379,642

	Share premium reserve *RMB'000*	Statutory surplus reserve *RMB'000 (Note b)*	Statutory public welfare fund *RMB'000 (Note c)*	Retained earnings *RMB'000*	Total *RMB'000*
THE COMPANY					
As at 1 January 2004	—	10,821	5,410	40,728	56,959
Net profit for the year	—	—	—	43,011	43,011
Dividend paid	—	—	—	(6,052)	(6,052)
Premium on issue of new H shares	146,012	—	—	—	146,012
Share issue expenses	(19,164)	—	—	—	(19,164)
Appropriations *(Note a)*	—	6,487	3,243	(9,730)	—
As at 31 December 2004	126,848	17,308	8,653	67,957	220,766
As at 1 January 2005	126,848	17,308	8,653	67,957	220,766
Net profit for the period	—	—	—	44,499	44,499
Dividend paid	—	—	—	(11,238)	(11,238)
Premium from issue of new domestic shares	42,184	—	—	—	42,184
As at 30 September 2005	169,032	17,308	8,653	101,218	296,211
Representing:					
Proposed dividend for the nine months ended 30 September 2005					9,127
Reserves					287,084
					296,211

Notes:

(a) Bases for appropriations to reserves

Appropriations to statutory surplus reserve and statutory public welfare fund were based on the net profit as set out in the financial statements prepared in accordance with generally accepted accounting principles in the PRC ("PRC GAAP").

(b) Statutory surplus reserve

As required under the Articles of Association of the Company, the Company is required to transfer 10% of its profit after taxation under the PRC GAAP to the statutory surplus reserve fund, up to 50% of its registered capital. According to the Articles of Association, under normal circumstances, the statutory surplus reserve fund can only be used for making up losses, capitalisation into share capital and expansion of the Company's production and operation. For the capitalisation of statutory surplus reserve into share capital, the remaining amount of such reserve shall not be less than 25% of the registered share capital.

(c) Statutory public welfare fund

Under the PRC Company Law, the Company is required to transfer 5% to 10% of its profit after taxation prepared under the PRC GAAP to the statutory public welfare fund. The statutory public welfare fund can only be used for capital items of the collective welfare of the employees. Individual employees have only the right of using such facilities, while the ownership still belongs to the Company. Statutory public welfare fund is part of the share capital of the shareholders and cannot be distributed other than for the purpose of liquidation.

According to the relevant laws and regulations of the PRC, distributable profit of the Company was determined at the lower of such amount calculated based on the accounting principles and regulations of the PRC or the generally accepted accounting principles in Hong Kong. As at 30 September 2005, retained earnings distributable to shareholders was RMB101,218,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate development

During the nine months ended 30 September 2005, the Group continued to generate growth in both turnover and net profit. It was mainly attributable to the implementation of the Group's strategy of "Actively upgrading conventional product rank in the market, Increasing production of high value-added products, and Focusing on a long-term basis on customers in the high end market" ("Three Highs Strategy"), and the efforts in the restructuring and streamlining of the product mix.

For the nine months ended 30 September 2005, the Group's turnover and net profit were approximately RMB405,451,000 and RMB66,549,000 respectively, representing an increase of 44.4% and 50.9% over the corresponding periods in 2004 respectively.

During the period, the Group put more efforts in the restructuring of and streamlining its product mix, and minimised the adverse impact of the significant increase in crude oil prices in the international market which led to the increase in the product costs. The consolidated gross profit margin in the third quarter 2005 was 40.1%, basically similar to that in the corresponding period in 2004. The Group expected that, with the increase in the proportion of sale of high value-added products, the gross profit margin will be further enhanced.

Weigao Jinbao, which was established with an independent third party, continued to contribute positive results to the Group in the third quarter of 2005. Strong demands for its kidney dialysis equipment and consumables continued in the domestic market. By leveraging on the Group's sales network, Weigao Jinbao has rapidly established foothold in the key markets in the Northeast China, and is further expanding to markets in the regional and county levels.

Weigao Blood is mainly engaged in the research and development, production and sale of international high-end blood treatment consumables. Currently, clinical certification of blood segregator, drainage set, and genetic recombinant protein adsorption product are under way. These products will bring new business opportunities for the development of the Group.

Shandong Weigao Bone Materials Co., Ltd. 山東威高骨科材料有限公司 ("Weigao Bone"), established in the second quarter of 2005, is a sino-foreign joint venture in which the Company has 40% interest with the remaining 60% held by an independent third party. Weigao Bone is principally engaged in the research and development, production and sale of technologically advanced and high value-added products such as medulla nail series, steel plate series, bone connecting screw series and spine fixing series. Procurement of equipment and product registration process have been completed. Products have been launched to the market. Orthopedic products are expected to be a new source that will drive the growth of the profitability of the Group.

Weigao Mould, which was jointly established by the Company with an independent third party in the second quarter of 2005, is mainly engaged in the manufacture and sale of moulds. It can satisfy the production needs of the Group, enhancing the precision level and product quality of the moulds manufactured for the Group's equipment. It also helps to lower the Group's manufacturing cost. Procurement of the relevant equipment has been completed, and the equipment has now been put into operation.

Research and development

For the nine months ended 30 September 2005, 15 patent applications were filed (including 2 orthopedic products), and 9 patents were obtained. Medical device product registration certificates have been obtained for 16 new products (including 10 orthopedic products), and applications for 17 product registration are under way. For the nine months ended 30 September 2005, total research and development expenditures amounted to RMB7,110,000.

Production

In February 2005, the Group's new plant for blood transfusion consumables commenced operation, with newly added production area of 5,538 sq. m., increasing the production capacity of high-end blood transfusion products by 16 million sets annually.

In July 2005, the Group completed the testing of its two needle production lines which were then put into operation, increasing the production capacity of needles by 700 million pieces per annum.

In August 2005, the production for pressed blood bags commenced and the annual production capacity of high-end pressed blood bags reached 2 million sets.

In September 2005, product registration certificates were obtained for orthopedic products produced by an associated company of the Group in which the Group has 40% interest, and sales have commenced since then, with production capacity of orthopedic products reaching 100,000 sets (units) per annum.

As the adjustments to the standards on medical packaging materials by the PRC government is under way, certification for pre-filled syringes has been postponed and the product certificates for which are anticipated to be obtained by the end of November 2005. Production preperation and sales promotions have been completed, and the products are ready for market launch once the product registration certificate is obtained.

For the nine months ended 30 September 2005, the Group's products and the respective production capacity compared with the corresponding period of 2004 were as follows:

(1) approximately 153,679,000 sets of single-use sterile infusion (transfusion) sets, increased by 23.6%;

(2) approximately 8,024,000 sets of single-use sterile blood transfusion consumables, increased by 25.3%;

(3) approximately 220,376,000 sets of single-use sterile syringes, increased by 15.7%;

(4) approximately 6,908.8 tonnes of PVC granules, increased by 24.2%;

(5) approximately 1,223,000 sets of dental & anaesthetic products, increased by 7.7%;

(6) approximately 417,380,000 pieces of needle products, increased by 90.3%;

(7) approximately 25,990,000 sets of blood sampling products, increased by 141.3%;

(8) approximately 33,060,000 sets of other products, increased by 131.1%.

Sales network and marketing

During the nine months ended 30 September 2005, with the successful implementation of the Three Highs Strategy, the Group further rationalised its sales system, integrated the sales team, enhanced market development, and increased the speed in market expansion by leveraging on market promotions and business expansions to promote sales of non-conventional and high value-added products.

The Group's sales network can be distinguished into overseas and seven domestic sales regions, consisting of both direct sale and wholesale of goods, so as to fully capitalise on the network coverage capabilities.

For the three months and nine months ended 30 September 2005, the Group established business relationship with 105 and 526 new customers respectively, including approximately 22 and 259 hospitals, and 5 and 31 blood stations respectively. As at 30 September 2005, the Group has a total of 5,148 customers, including 2,632 hospitals, 396 blood stations, 685 other medical units and 1,435 dealers.

Comparison of the sales of various products by geographical area over the corresponding periods in the previous year is set out as follows:

	For the three months ended 30 September		Increase over the corresponding period	For the nine months ended 30 September		Increase over the corresponding period
	2005	2004		2005	2004	
	RMB'000	*RMB'000*		*RMB'000*	*RMB'000*	
Northeast	**30,178**	19,372	55.8%	**75,886**	55,851	35.9%
Northern	**31,122**	22,249	39.9%	**113,194**	82,164	37.8%
Eastern and Central	**58,945**	40,607	45.2%	**113,207**	78,493	44.2%
Southwestern	**7,392**	5,560	32.9%	**18,057**	13,433	34.4%
Northwestern	**2,340**	1,531	52.8%	**14,095**	9,963	41.5%
Southern	**19,977**	13,457	48.5%	**46,545**	32,576	42.9%
Overseas	**5,811**	2,180	166.6%	**24,467**	8,266	196.0%
Total	**155,765**	104,956	48.4%	**405,451**	280,746	44.4%

In addition, the product mix adjustment was another important factor that enhanced the results in the third quarter of 2005. Despite that the market became increasingly competitive, sales of various key products recorded remarkable growth during the period. Comparison of the growth in the sales of various key products over those in the corresponding periods of the previous year are set out as follows:

	For the three months ended 30 September		Increase over the corresponding period	For the nine months ended 30 September		Increase over the corresponding period
	2005	2004		2005	2004	
	RMB'000	*RMB'000*		*RMB'000*	*RMB'000*	
Infusion sets	**52,693**	36,391	44.8%	**136,297**	105,318	29.4%
Syringes	**44,277**	31,869	38.9%	**113,672**	90,204	26.0%
Blood bags	**18,280**	11,832	54.5%	**48,631**	29,385	65.5%
PVC granules	**13,532**	9,704	39.4%	**37,159**	25,079	48.2%
Medical instruments	**6,801**	191	3,460.7%	**20,923**	664	3,051.1%
Blood sampling products	**3,631**	2,490	45.8%	**7,826**	3,823	104.7%
Dental & anaesthetic products	**2,850**	2,471	15.3%	**7,567**	5,888	28.5%
Catheters	**1,784**	996	79.1%	**2,046**	1,103	85.5%
Others	**11,917**	9,012	32.2%	**31,330**	19,282	62.5%
Total	**155,765**	104,956	48.4%	**405,451**	280,746	44.4%

HUMAN RESOURCES

As at 30 September 2005, the Company employed a total of 5,251 employees. Breakdown by department is as follows:

Departments	Number of employees
Research and development	100
Sales and marketing	588
Production	4,259
Purchasing	28
Quality control	62
Management	52
Finance and administration	162
Total	5,251

Save the company secretary, who resides in Hong Kong, all employees of the Group resided in the PRC. For the nine months ended 30 September 2005, total staff costs amounted to RMB54,193,000.

FINANCIAL REVIEW

Liquidity and financial resources

The Group has maintained a sound financial position for the nine months ended 30 September 2005. As at 30 September 2005, the Group's cash and bank balances amounted to RMB109,905,000.

During the period, the Group adjusted its borrowing portfolio so as to satisfy the capital requirements for the expansion of operations, equipment investments and technological innovations. For the nine months ended 30 September 2005, the Group has obtained bank loans of RMB289,950,000 and repaid RMB202,500,000, resulting in an increase of RMB87,450,000 in net borrowings. As at 30 September 2005, the Group's short-term bank loans amounted to RMB135,750,000 and long-term bank loans amounted to RMB205,000,000.

The Group incurred finance cost of RMB12,484,000 during the nine months ended 30 September 2005.

Gearing ratio

The Group's gearing ratio, being the ratio of total borrowings to total equity, was 0.52 (corresponding period in 2004: 0.20). Increase in gearing ratio was mainly due to the increase in loans for investing in new projects during the period.

Contingent liabilities

The Group did not have any material contingent liabilities as at 30 September 2005.

Capital commitments

As at 30 September 2005, the Group has commitments for the acquisition of assets which were contracted but not provided for in the financial statements amounting to RMB15,584,000. Such amount will be paid by the Group out of the proceeds from the listing of the Company's H Shares on GEM on 27 February 2004 and internal resources.

OUTLOOK

Performance of the Group's business for the nine months ended 30 September 2005 is satisfactory, thanks to the adjustment to the Group's product mix and organisational structure. Operation of newly invested projects has set up a firm foundation for the sustained growth of the Group's profit. In the future, the Group will continue to focus on its Three Highs Strategy. It is planned that the ratio of profit contribution of new business to the Group's overall profit will grow steadily.

1. Devote more efforts in R&D and enhance R&D team. The Group will adopt a market-oriented approach in the R&D of its new products to speed up product renewals;

2. Speed up technological upgrade, promote the implementation of production resources management system "MRPII", so as to efficiently deploy production resources, thereby lowering the impact caused by the increase in material costs;

3. Speed up the progress of certification and market launch of pre-filled syringes and blood purification system products, make full efforts in organizing production and sales promotion of new products such as orthopedic products, needle products and pressed blood bags, so as to enhance the growth in the Group's turnover; and

4. Put more efforts in the development of new customers in the high-end markets, explore the possibility of selling new products to existing customers, enhance market promotion work, expand gradually the proportion of high value-added products in the product mix, so as to provide more value-added products to customers.

DIRECTORS' INTERESTS AND LONG POSITIONS IN SHARES

As at 30 September 2005, the interests of each Director and his associates in the shares, underlying shares and debentures of the Company or any of its associated corporations which are required to be entered in the register pursuant to section 352 of the Securities and Futures Ordinance ("SFO"), or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

(1) Long positions in domestic shares of RMB0.10 per share:

Name of Directors	Capacity	Number of domestic shares	Approximate percentage of the Company's issued share capital
Mr. Zhang Hua Wei	Beneficial owner	10,800,000	1.18%
Mr. Miao Yan Guo	Beneficial owner	7,800,000	0.85%
Mr. Wang Yi	Beneficial owner	7,800,000	0.85%
Mr. Wang Zhi Fan	Beneficial owner	2,700,000	0.30%
Mr. Wu Chuan Ming	Beneficial owner	2,400,000	0.26%
Mrs. Zhou Shu Hua	Beneficial owner	5,100,000	0.56%

Note: With the approval obtained in the extraordinary general meeting held on 20 May 2005, 48,160,000 domestic share were issued to Weigao Holding by the Company in exchange for land and properties acquired from it. The total number of domestic shares held by the Directors remained unchanged, but there were changes to their approximate percentages in the issued share capital of the Company.

(2) Long positions in the registered capital of the ultimate holding company, Weigao Holding, an associated corporation of the Company:

Name of Directors	Capacity	Amount of registered capital	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	29,280,000	24.00%
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%
Mrs. Zhou Shu Hua	Beneficial owner	14,579,000	11.95%

Note: On 8 March 2005, Mr. Zhang Hua Wei, a director, transferred 1% of his shareholding in Weigao Holding, representing 1,220,000 domestic shares, to Mr. Jiang Qiang, vice general manager of the Company. Hence, there were changes to the total contribution of Mr. Zhang Hua Wei and his approximate percentage in the registered capital of Weigao Holding.

Save as disclosed above, as at the date hereof, none of the directors and their associates had registered an interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDER

As at the date of the report, save for the interests of the Directors as disclosed above, the following shareholder had notified the Company that their interests in the issued share capital of the Company, which were recorded in the register of interests of the substantial shareholder required to be kept by the Company pursuant to Section 336 of the SFO.

	Capacity	Number of domestic shares	Approximate percentage of the Company's issued share capital
Weigao Holding	Beneficial owner	588,160,000	64.44%

SPONSOR'S INTERESTS

Pursuant to the agreement entered into between the Company and Goldbond Capital (Asia) Limited ("Goldbond") on 24 July 2004, Goldbond has been appointed to act as the Company's sponsor and would be responsible for providing sponsor services to the Company for the financial period until 31 December 2006.

Neither Goldbond 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 27 February 2004, the Company did not purchase, sell or redeem any listed shares of the Company.

BOARD PRACTICES AND PROCEDURES

During the whole period, the Company has been in compliance with the board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company set up an Audit Committee (the "Committee") on 1 September 2002 with written terms of reference in compliance with rules 5.28 to 5.33 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 comprised Mr. Luan Jian Ping, Mr. Shi Huan and Mr. Lau Wai Kit, being independent non-executive directors, and Mrs. Zhou Shu Hua, a non-executive director.

The Company's financial statements for the nine months ended 30 September 2005 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 rights under the Articles of Association and the laws of the PRC, the place of jurisdiction where the Company was established, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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 no directors nor any of their spouse or children under 18 has the right to subscribe for the shares in the Company, or has exercised such right.

COMPETING INTERESTS

None of the Directors, the substantial shareholders or 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2005, the Company had adopted a code of conduct regarding securities transaction by directors on terms no less exacting than the required standard of dealings. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

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

Weihai, Shandong, the PRC,
10 November 2005

As at the date of this report, the Board comprises Mr. Zhang Hua Wei, Mr. Miao Yan Guo, Mr. Wang Yi, Mr. Wang Zhi Fan and Mr. Wu Chuan Ming as the executive directors, Mr. Chen Xue Li and Mrs. Zhou Shu Hua as the non-executive directors, and Mr. Luan Jian Ping, Mr. Shi Huan and Mr. Lau Wai Kit as the independent non-executive directors.