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 Interim Report

* For identification purposes only

Characteristics of The Growth Enterprise Market ("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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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 27 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 six months ended 30 June 2004, the Company and its subsidiaries (the "Group") recorded a turnover of RMB175,790,000 and a net profit of RMB28,010,000 representing an increase of approximately 16.6% and approximately 28.6% respectively, over the corresponding period in the previous year.

During the second quarter, the three investment projects on pre-filled syringe, blood transfusion consumables and needles proceeded smoothly. Procurement and installation of equipment have been commenced. Total investment in the three projects amounted to RMB39,429,000.

There was significant progress in the development of new customers. The Group secured 517 new customers during the six months ended 30 June 2004, including 182 hospitals and 66 blood centers. As at 30 June 2004, the total number of customers of the Group was 4,216.

In research and development, the Group obtained twelve new product registration certificates and made five patent applications. Total expenditures on research and development amounted to RMB3,516,000.

The Directors recommend payment of cash dividend for the six months ended 30 June 2004 of RMB0.007 per share.

Unaudited consolidated results

The Board is pleased to announce the unaudited consolidated results of the Group for the three months and six months ended 30 June 2004, together with the comparative figures for the corresponding periods in 2003 as follows:

Consolidated Income Statement

	Note	Unaudited For the three months ended 30 June 2004 RMB'000	2003 RMB'000	Unaudited For the six months ended 30 June 2004 RMB'000	2003 RMB'000
Turnover	2	94,082	80,149	175,790	150,815
Cost of sales		(54,310)	(46,409)	(102,747)	(88,475)
Gross profit		39,772	33,740	73,043	62,340
Other operating income		2,024	2,056	4,043	2,987
Distribution costs		(14,915)	(12,526)	(27,372)	(24,215)
Administrative expenses		(5,004)	(5,581)	(10,709)	(10,707)
Profit from operations	4	21,877	17,689	39,005	30,405
Finance costs	5	(3,250)	(3,158)	(6,838)	(5,469)
Share of (loss)/gain of an associate		(651)	41	(709)	(16)
Profit before taxation		17,976	14,572	31,458	24,920
Taxation	6	(1,900)	(1,056)	(3,031)	(1,758)
Profit before minority interests		16,076	13,516	28,427	23,162
Minority interests		(221)	(819)	(417)	(1,380)
Net profit attributable to shareholders	7	15,855	12,697	28,010	21,782
Dividend	8	6,052	—	6,052	—
Earnings per share Basic	9	RMB0.018	RMB0.021	RMB0.036	RMB0.036

Consolidated Balance Sheet

	Note	Unaudited As at 30 June 2004 RMB'000	Audited As at 31 December 2003 RMB'000
Non-current assets			
Property, plant and equipment	10	337,841	300,055
Interest in an associate	11	5,145	5,204
Interest in a jointly controlled entity	12	3,349	4,000
		346,335	309,259
Current assets			
Inventories	13	68,297	57,066
Trade receivables	14	105,590	95,539
Prepayments, deposits and other receivable		28,850	26,772
Amounts due from fellow subsidiaries	15	255	—
Bank balances and cash		150,430	28,951
		353,422	208,328

	Note	Unaudited As at 30 June 2004 RMB'000	Audited As at 31 December 2003 RMB'000
Current liabilities			
Trade payables and bills payable	16	102,337	97,739
Other payables and accrued expenses		26,494	23,813
Amount due to a fellow subsidiary	17	540	—
Bank and other borrowings			
- repayable within one year	18	75,973	82,183
Taxation		4,306	688
		209,650	204,423
Net current assets		143,772	3,905
		490,107	313,164
Capital and reserves			
Share capital	19	86,450	60,000
Reserves (including interim dividend proposed of RMB0.007; (2003: nil))	20	250,539	95,463
		336,989	155,463
Minority interests		3,158	2,741
Non-current liabilities			
Bank and other borrowings			
- repayable after one year	18	149,960	154,960
		490,107	313,164

Condensed Cash Flow Statement

	Unaudited For the six months ended 30 June	
	2004	2003
	RMB'000	*RMB'000*
NET CASH GENERATED FROM OPERATING ACTIVITIES	30,751	51,335
NET CASH USED IN INVESTING ACTIVITIES	(50,692)	(89,518)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	(19,941)	(38,183)
NET CASH INFLOW FROM FINANCING ACTIVITIES	141,420	65,974
NET INCREASE IN CASH AND CASH EQUIVALENTS	121,479	27,791
Bank balances and cash as at 31 December	28,951	14,543
Bank balances and cash as at 30 June	150,430	42,334
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	150,430	42,334

Consolidated Statement of Changes in Equity

	Unaudited For the six months ended 30 June	
	2004	2003
	RMB'000	*RMB'000*
Balance as at 1 January	155,463	114,009
Net profit for the period	28,010	21,782
Issuance of shares		
Equity	26,450	—
Share Premium	127,066	—
Balance as at 30 June	336,989	135,791

Notes:

1. **Principal accounting policies and basis of presentation**

Shandong Weigao Group Medical Polymer Company Limited (the "Company") was incorporated on 28 December 2000 in Shandong Province, the People's Republic of China ("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 principally 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 27 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 22 January 1999. On 11 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 Medical 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% of equity rights in Jierui Subsidiary on 19 April 2002 and 20 June 2003 respectively. As at 30 June 2004, the Company controlled 96% of equity interest 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, less value added tax, business tax, sales returns and commercial discount.

3. Segment information

Sales of the Group's single-use medical devices are mainly conducted in the PRC. All significant identifiable assets of the Group are situated in the PRC. Accordingly, no segmental analysis is presented.

4. Profit from operations

	Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Profit from operations has been arrived at after charging (crediting):				
Allowances for bad debts	**35**	725	**498**	1,083
Auditors' remuneration	**—**	—	**—**	—
Depreciation and amortisation	**3,624**	2,648	**7,002**	5,330
Rental payments in respect of premises under operating leases	**709**	528	**1,146**	968
Research and development expenditure	**1,899**	1,709	**3,516**	3,016
Staff costs, including directors' remuneration				
- Retirement benefits scheme contributions	**2,303**	4,447	**4,049**	6,118
- Salaries and wages	**13,060**	10,851	**20,238**	17,719
Total staff costs	**15,363**	15,298	**24,287**	23,837
Gain on disposal of property, plant and equipment	**23**	(23)	**15**	(23)
Gain on scrap sales	**(52)**	(113)	**(112)**	(276)
Interest income	**(92)**	(9)	**(112)**	(10)
Rebate of value added tax *(note)*	**(1,716)**	(1,900)	**(3,647)**	(2,667)

Note: The Tax Bureau in Weihai granted refund on the value added tax effectively paid by Jierui Subsidiary on the basis of "payment first then rebate", with effect from 1 May 1999.

5. Finance costs

For the three months and six months ended 30 June 2004, finance costs was RMB3,250,000 and RMB6,838,000 respectively (same period of 2003: RMB3,158,000 and RMB5,469,000 respectively), which mainly included interest expenses for bank and other borrowings. Finance costs has increased by 3% and 25.0% respectively for the three months and six months ended 30 June 2004 as compared to the same period in 2003, which was mainly due to increase in loan balances at the beginning of the period.

6. Taxation

For the three months and six months ended 30 June 2004, total income tax was RMB1,900,000 and RMB3,031,000 respectively (same period of 2003: RMB1,056,000 and RMB1,758,000).

According to the document Lu Ke Gao Zi 2001 No. 457(魯科高字 2001 第 457 號) issued by the Department of Science and Technology of Shangdong Province, the Company was recognized as a High and New Technology Enterprise. The Company was entitled to 15% reduced Enterprise Income Tax ("EIT") as it was reviewed by the High-tech Zone sub-bureau of the Weihai Local Tax Bureau that it was satisfied with the criteria of a high-tech enterprise prescribed in Cai Shui Zi 94 0001(財税字940001) issued by the State Tax Bureau on 29 March 1994. Accordingly, the Company was subject to 15% income tax rate.

According 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 the Shangdong Province, it was confirmed that Jierui Subsidiary was entitled to the preferential tax treatment for a social welfare enterprise. Jierui Subsidiary has applied to the Torch Hi-tech Industrial Development Zone sub-bureau of Weihai Local Tax Bureau for exemption of EIT for the previous year.

7. Net profit attributable to shareholders

For the three months and six months ended 30 June 2004, the Group's net profit from ordinary activities attributable to shareholders was RMB15,855,000 and RMB28,010,000 respectively (same period of 2003: RMB12,697,000 and RMB21,782,000 respectively).

8. Dividend

	Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
	2004	2003	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interim, proposed, RMB0.007 (same period of 2003: nil) per share	6,052	—	6,052	—

At a meeting held on 10 August 2004, the Board of Directors proposed an interim dividend of RMB0.007 per share (same period of 2003: nil). The proposed dividend is not reflected as a dividend payable but will be reflected as an appropriation of retained profits for the year ending 31 December 2004.

9. Earnings per share

According to the resolutions passed on the EGM on 18 April 2002 and the approval issued by the China Securities Regulatory Commission dated 8 December 2003, domestic shares of RMB1.0 each of the Company were subdivided into 10 domestic shares of RMB0.1 each. On 26 February 2004, the Company issued 264,500,000 H Shares by way of placing. As at 30 June 2004, total number of shares of the Company was 864,500,000 shares.

For the three months and six months ended 30 June 2004, basic earnings per share was calculated based on net profit attributable to shareholders of RMB15,855,000 and RMB28,010,000 respectively (same period of 2003: RMB12,697,000 and RMB21,782,000 respectively), and the weighted average number of shares of 864,500,000 shares and 776,333,333 shares respectively (same period of 2003: 600,000,000 shares).

Diluted earnings per share has not been presented as there was no dilutive potential ordinary share in existence during the periods.

10. Property, plant and equipment

	Construction in progress RMB'000	Land use rights RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
THE GROUP							
COST							
At 1 January 2004	89,085	51,530	129,905	51,017	5,247	6,801	333,585
Additions	40,819	—	—	3,050	1,250	930	46,049
Transfer	(61,960)	—	48,832	12,975	—	153	—
Disposals	—	—	(902)	(1,542)	—	(12)	(2,456)
At 30 June 2004	67,944	51,530	177,835	65,500	6,497	7,872	377,178
DEPRECIATION AND AMORTISATION							
At 1 January 2004	—	2,279	11,282	16,213	2,253	1,503	33,530
Provided for the period	—	540	2,178	3,396	166	722	7,002
Eliminated on disposals	—	—	(213)	(970)	—	(12)	(1,195)
At 30 June 2004	—	2,819	13,247	18,639	2,419	2,213	39,337
NET BOOK VALUES							
At 30 June 2004	67,944	48,711	164,588	46,861	4,078	5,659	337,841
At 1 January 2004	89,085	49,251	118,623	34,804	2,994	5,298	300,055

11. Interest in an associate

	THE GROUP	
	Unaudited As at 30 June 2004 *RMB'000*	Audited As at 31 December 2003 *RMB'000*
Share of net assets	5,145	5,204

Details of the Group's associate as at 30 June 2004 are as follows:

Name	Form of business structure	Place of establishment/ operation	Class of share held	Attributable equity interest indirectly held by the Company	Principal activities
Shandong Gaosaide Technology Development Company Limited	Incorporated	PRC	Registered capital	29%	Developing, manufacturing and selling medical products

12. Interest in a jointly controlled entity

	THE GROUP	
	Unaudited As at 30 June 2004 *RMB'000*	Audited As at 31 December 2003 *RMB'000*
Unlisted equity investments, at cost	—	—
Share of net assets	3,349	4,000
	3,349	4,000

Details of the Group's jointly controlled entity as at 30 June 2004 are as follows:

Name	Form of business structure	Place of establishment/ operation	Class of share held	Attributable equity interest directly held by the Company	Principal activities
Shandong JW Medical Systems Corporation	Incorporated	PRC	Registered capital	50%	Production and sales of drug-eluting stent

Since the commencement of trial operation in March 2004, Shandong JW Medical Systems Corporation's operation has been smooth and its products have been launched to the market.

13. Inventories

	THE GROUP	
	Unaudited	Audited
	As at	As at
	30 June	31 December
	2004	2003
	RMB'000	*RMB'000*
At cost:		
Raw materials	21,261	17,899
Finished goods	47,036	39,167
	68,297	57,066

Increase in raw materials was mainly attributable to the increase in reserves of raw materials by the Company in anticipation of the major suppliers' annual repair and maintenance of equipment in July 2004. Increase in finished goods was mainly attributable to the increase in new customers in the first half of the year. Accordingly, the Group has increased its reserves of finished goods to satisfy the demand from new customers on a timely manner.

14. Trade receivable

The Group and the Company allow an average credit period of 90 days to its trade customers. The aging analysis of trade receivable is stated as follows:

	THE GROUP	
	Unaudited	Audited
	As at	As at
	30 June	31 December
	2004	2003
	RMB'000	*RMB'000*
0 to 90 days	73,957	64,267
91 to 180 days	20,953	20,813
181 to 365 days	9,444	9,270
Over 365 days	1,236	1,189
	105,590	95,539

Increase in trade receivables was mainly due to the increase in sales and new customers.

15. Amounts due from fellow subsidiaries

The amounts represented normal trade receivables and were unsecured, non-interest bearing and had no fixed repayment term.

16. Trade payable and bills payable

The aging analysis of trade payable is stated as follows:

	THE GROUP	
	Unaudited	Audited
	As at	As at
	30 June	31 December
	2004	2003
	RMB'000	*RMB'000*
0 to 90 days	30,765	33,725
91 to 180 days	8,732	14,357
181 to 365 days	5,776	1,214
Over 365 days	3,674	4,401
	48,947	53,697
Bills payable	53,390	44,042
	102,337	97,739

Increase in trade payables and bills payable was mainly attributable to the increase in reserve of raw materials by the Group.

17. Amount due to a fellow subsidiary

The amount represents normal trade payable and was unsecured, non-interest bearing and had no fixed repayment term.

18. Bank and other borrowings

	Unaudited As at 30 June 2004 *RMB'000*	Audited As at 31 December 2003 *RMB'000*
Secured bank loans	90,233	90,243
Unsecured bank and other loans	135,700	146,900
	225,933	237,143
The maturity dates of the above bank and other loans were as follows:		
On demand or within one year	75,973	82,183
More than one year but not exceeding two years	142,360	147,360
More than two years but not exceeding five years	7,600	7,600
	225,933	237,143

19. Share capital

	Nominal value *(RMB)*	Number of domestic shares	Number of H shares	Total number of shares	Value *(RMB'000)*
At 31 December 2003	0.1 each	600,000,000	—	600,000,000	60,000
Placing on 26 February 2004	0.1 each	—	264,500,000	264,500,000	26,450
At 30 June 2004		600,000,000	264,500,000	864,500,000	86,450

20. Reserves

	Capital surplus reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Statutory public welfare fund *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
THE GROUP					
At 1 January 2004	—	10,821	5,410	79,232	95,463
Net profit for the period	—	—	—	28,010	28,010
Premium on issue of shares	127,066	—	—	—	127,066
At 30 June 2004	127,066	10,821	5,410	107,242	250,539
Representing:					
Interim dividend proposed for the six months ended 30 June 2004					6,052
Reserves					244,487
					250,539
THE COMPANY					
At 1 January 2004	—	10,821	5,410	40,728	56,959
Net profit for the period	—	—	—	17,187	17,187
Premium on issue of shares	127,066	—	—	—	127,066
At 30 June 2004	127,066	10,821	5,410	57,915	201,212
Representing:					
Interim dividend proposed for the six months ended 30 June 2004					6,052
Reserves					195,160
					201,212

According to the relevant laws and regulations of the PRC and its Articles of Associations, the Company and its subsidiaries has to make provisions for certain statutory reserves, i.e. statutory surplus reserve and statutory public welfare fund (hereinafter referred to as "statutory funds"). It is required to transfer not less than 10% and 5% of its net profit after tax of the period to its statutory funds before paying any dividend at the decision of the Board, until the balance reaches 50% of its registered capital. Statutory funds can only be applied to set off accumulated losses or capital increase with prior approval by the relevant government authorities. Statutory public welfare fund can only be utitlised for the employees' special rewards or their collective welfare. Assets acquired out of such fund will not be dealt with as the Group's assets. If the Group's statutory funds are not sufficient to eliminate accumulated losses of the previous years, such losses will be set off from the net profit of the period before making appropriation to the statutory funds.

According to the 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 of Hong Kong. As at 30 June 2004, retained earnings distributable to sharesholders was RMB57,915,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate Development

Pursuant to the Enterprise Resources Planning ("ERP") system agreement entered into between the Group and a third party system provider on 24 February 2003, the Group commenced implementation of phrase II of the ERP project in March this year on human resources management and office automation. The project was expected to become fully operational in the second half of this year. This will further rationalise the flow of management information and performance assessment system of the Group, 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 became operational in March 2004 and the products have undergone clinical trial. The products were well received after launching into the market. It is expected that registration certificate of the product will be obtained in November this year, and sales of drug eluting stents will begin to generate income thereafter. Commencement of the production of drug eluting stent will further increase the competitiveness of the Company in the high-end product market.

For the six months ended 30 June 2004, total turnover and net profit of the Group were approximately RMB175,790,000 and RMB28,010,000 respectively, representing an increase of 16.6% and 28.6% over the same period last year respectively.

The Company has set up a supervisory team to monitor the progress of the investment projects. Currently, installation of equipment for blood transfusion consumables and procurement of equipment for pre-filled syringes have been going smoothly. Contract for purchasing equipment for phase II of the needle production project has been entered into. As at 30 June 2004, total sum paid on the investment project amounted to RMB39,429,000.

Research and development

For the six months ended 30 June 2004, the Group has made 5 new patent applications and obtained product registration certificate for 12 new products. During the period, R&D expenses amounted to RMB3,516,000.

Production

In February 2004, the expansion 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. It has further enhanced the vertically integrated production capacity of the Group and the quality of product packaging.

In February 2004, production for the second phrase of the infusion set project commenced. The new production area is 8,100 sq.m.. Annual production capacity reaches 60 million high-end infusion sets (originally designed production capacity of the Group's infusion set workshop was 150 million sets). It has further enhanced our competitiveness in the high-end infusion set market, and consolidated our position in the industry.

For the six months ended 30 June 2004, sales for the Group's six categories of products compared with the corresponding period of 2003 is as follows:

(1) approximately 77,218,000 sets of single-use sterile infusion (transfusion) sets, increased by 1.0%;

(2) approximately 4,301,000 sets of single-use sterile blood transfusion products, increased by 16.0%;

(3) approximately 120,007,000 sets of single-use sterile syringes, increased by 4.8%;

(4) approximately 294,000 sets of single-use sterile dental devices, increased by 49.3%;

(5) approximately 3,582 tonnes of PVC granules, increased by 40.2%; and

(6) approximately 71,662,000 sets of other products, increased by approximately 289%.

The production volume of regular infusion sets was reduced so as to adjust the product mix by increasing the production of high value-added products such as light-proof series, precision filtering series, mini-dosage series and high elasticity series. The production of blood transfusion products was affected by the Government's comprehensive supervision on domestic blood plasma collection market. Most of the blood plasma collection centre and biological laboratory suspended their blood plasma collection operations, and were modified for obtaining GMP certification. This resulted in sharp decrease in the volume of blood plasma collecting device used. The Group anticipated that the use of blood transfusion products will increase after completion of the GMP modification of the blood plasma collection centre. In addition, as we enhanced sales and marketing effort and led to substantial increase in production volume of other products.

Sales Network and Marketing

The Group strengthened the development of the South China market. More efforts were devoted to increase the sales of conventional products through promotion meetings and exhibitions. Detailed assessment on the performance of sales personnel were carried out. All of which in turn facilitated increase in sales of non-regular, high value-added products.

The development of new customers achieved remarkable results. For the six month ended 30 June 2004, the Group developed 517 new customers, including 182 hospitals and 66 blood centers. As at 30 June 2004, the Group's total number of customers reached 4,216, including 2,173 hospitals, 314 blood centers, 545 other hospital units, and 1,184 dealers.

The turnover for the period grew by 16.6% as compared to the same period last year benefiting mainly from the effective implementation of the Group's market development strategy. Promising results accomplished from development of the South China market. The development of new clients and the increased cross selling to old customers gained remarkable outcome. The analysis of sales amount by region is as follows:

	For the six months ended 30 June		
Region	**2004**	2003	
	RMB	*RMB*	*% increase*
North Eastern	**36,478,000**	30,233,000	20.7
Northern	**59,915,000**	56,123,000	6.8
Eastern and Central	**37,887,000**	33,093,000	14.5
South Western	**7,873,000**	7,363,000	6.9
North Western	**8,432,000**	8,077,000	4.4
Southern	**19,119,000**	9,999,000	91.2
Overseas	**6,086,000**	5,927,000	2.7
Total	**175,790,000**	150,815,000	16.6

In addition, with the general trend of price reduction of regular products, the Group devoted more effort on adjusting product mix. Significant increase in sales was achieved for all major product categories. Comparison of turnover for the major products over the same period in 2003 is as follows:

	For the six months ended 30 June		
Product category	**2004**	2003	
	RMB	*RMB*	*% increase*
Infusion sets	**68,927,000**	64,353,000	7.1
Blood transfusion consumables	**17,553,000**	16,174,000	8.5
Syringes	**58,335,000**	51,514,000	13.2
Dental devices	**1,097,000**	845,000	29.8
PVC granules	**15,375,000**	7,969,000	92.9
Other products	**14,503,000**	9,960,000	45.6
Total	**175,790,000**	150,815,000	16.6

HUMAN RESOURCES

As at 30 June 2004, the Group employed a total of 4,143 employees. Breakdown by departments is as follows:

Departments	Number of employees
Research and development	88
Sales and marketing	338
Production	3,431
Purchasing	15
Quality control	35
Management	47
Finance and administration	189
Total	4,143

Save as the company secretary, who resides in Hong Kong, all employees of the Group were resided in the PRC. For the first six months of the year, total amount paid by the Group on staff salaries, welfare, and various funds amounted to RMB24,636,000.

FINANCIAL REVIEW

Liquidity and financial resources

The Group maintained sound financial position during the period. As at 30 June 2004, the Group had total cash of RMB150,430,000. For the six months ended 30 June 2004, the Group's net cash inflow from operating activities amounted to RMB30,751,000.

During the period, the overall interests rate of borrowings decreased through obtaining low interest rate loans to repay high interest rate loans. Total bank loans raised amounted to RMB125,650,000. The Group repaid bank loans of RMB136,860,000. The Group's net loan reduced by RMB11,210,000. As at 30 June 2004, the Group's short-term bank loans amounted to RMB75,973,000, and long-term bank loans was RMB149,960,000.

The overall interests paid by the Group during the period was RMB6,838,000.

Gearing ratio

As of 30 June 2004, the Group's gearing ratio, being the ratio of total borrowings to total equity, was 0.67 (the corresponding period in 2003: 1.61). Decrease in gearing ratio was mainly due to proceeds from the listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited since 27 February 2004 ("the Listing") and the increase in retained earnings.

Contingent liabilities

The Group did not have any material contingent liabilities as at 30 June 2004.

Capital commitments

As at 30 June 2004, the Group has commitments for the acquisition of assets which were contracted but not provided in the financial statements amounting to RMB28,655,000. Such amounts will be paid by the Group out of the proceeds from the Listing and the Group's internal resources.

Pledge of the Group's assets

As at 30 June 2004, net assets of RMB130,245,000 (31 December 2003: RMB130,796,000) were pledged by the Group.

FUTURE OUTLOOK

The Group expects that the price of chemical industrial raw materials will remain at a high level in the second half of the year due to the impact of crude oil price. In addition, as the Group devotes more effort on Government tender, the trend of descending price of regular products will remain. The Directors considers this as an opportunity in competition. Leveraging on our brand name, capital strength, advantages of extensive product range and cost control of our ventically integrated production, the Group will be able to increase its market share, laying a strong foundation for future development.

The Group will continue to speed up launching of new products. The higher profit from high-end products will drive the continuous growth in sales and gross margin. In addition, with the rise in selling price of PVC granules we will increase external sales of medical PVC granules.

While blood plasma collecting centre are in the process of obtaining the GMP modification and certification, we will strengthen the promotion of high-end pressed blood bag and blood segregator consumables. We will endeavor to enlarge market share by replacing conventional blood transfusion consumables with high end products and increase market share following the completion of blood plasma collection centres' GMP modification.

In respect of individual projects, we will work hard on the following:

1. We shall stay focused to ensure the importation and installation of production equipment of pre-filled syringes, high-end blood transfusion consumables and needles are carried out as scheduled. We seek to complete testing and adjustment of those projects by December 2004, and prepare for product launch in the first quarter of 2005;

2. We shall capitalise on the listing status of the Company to participate in various medical device exhibitions to strengthen advertising on the Group's brand name, expanding our sales network and increasing customer bases. We will increase marketing and promotional effort. We will increase promotion of pre-filled syringe, pressed blood bag and catheter needles through customers promotional meetings and new product launch briefing;

3. We will continue to adjust product mix and expedite the intermediate testing and the obtaining of product registration certificate for new products under development, and strive to launch to the market ahead of schedule;

4. Based on the implementation plan of the Enterprise Resources Planning on Office Automation and Human Resources Management, we shall further rationalize the management information flow and enhance management efficiency; strengthen staff recruitment and training to instill the sense of belonging of our staff, laying a sound foundation of human resources to facilitate the Group's development;

5. We shall intensify technology improvement, and increase the extent of automated production. By the end of the year, we shall ensure the completion of automated assembly and modification of the medicine fluid filter and air filter, and the automatic cutting and modification of transfusion device, achieving semi-automation for the production of infusion sets. We shall expedite the processing and assembly of venous infusion needles, and ensure to complete the system automation assembly of needle device by the end of the year.

Comparison of Business Objectives with Actual Progress for the six months ended 30 June 2004

Business objectives as stated in the prospectus	Actual progress
Production	
1. to apply approximately RMB40,000,000 of the net proceeds from the Placing for the conversion of workshops and purchase of machinery and equipment for the production of new blood transfusion consumables, pre-filled syringes and venous infusion needles	Applied RMB39,429,000. It is expected that the testing and adjustment of production equipment will be completed by the end of the year. The products will be launched to the market in the first quarter of next year. The details of investment expenditure items are set out in the sector headed "Use of Proceeds".
2. commercial production for the new infusion production workshop is expected to commence in March 2004	The new infusion production workshop with a monthly production capacity of 5 million sets has commenced production at the beginning of the year.

Business objectives as stated in the prospectus	Actual progress
3. to commence commercial production of single-use de-leucocyte blood bag, 0.33mm-1.2mm single-use sterile syringe needle and transparent ultraviolet radiation proof infusion set	The first two products have been launched in the market. The production volume of single-use de-leucocyte blood bag was 38,000 sets. The production volume of 0.33mm-1.2mm single-use sterile syringe needle was 30,620,000 sets. The clinical promotion for transparent ultraviolet radiation proof infusion set has begun and has not commenced mass production.
4. to conduct feasibility study of establishing production facilities in Northwest China	Upon analysis and careful consideration by the Directors, the priority should be placed on establishing production facilities in Southwest China, rather than Northwest China. The feasibility study on establishing a factory in Southwest China has been completed.

Business objectives as stated in the prospectus	Actual progress
Research and development	
to invest RMB1.0 million in the development of the new products	The proceeds from the Listing of RMB 1 million has been applied. 12 new product registration certificates have been obtained. Total research and development expenditure amounted to RMB3,516,000.
Sales and marketing	
1. to apply approximately RMB1.5 million from the net proceeds in market promotion	With the introduction of new products into market, the Group took part in three medical device products exhibitions and held 37 promotional meetings achieving good results. The total capital expenditure used in market promotion amounted to RMB1,718,000, in which 1.5 million was from the Listing proceeds. The Directors considered that the above promotional meetings were important for the Group to further adjust its product mix and brought obvious economic benefits.

Business objectives as stated in the prospectus	Actual progress
2. to set up seven sales offices	In the first half of the year, the Group conducted strategic adjustment on nationwide market network and established regional offices. The offices serving as management centre on regional scale can effectively lower marketing and transportation costs. In the first half of the year, the Group set up nine new offices in Southwest China.
3. to expand the sales team to approximately 340 members	In order to enhance the competitiveness of the sales team, the Group fully implemented its performance based elimination scheme. It recruited 38 new salespersons, and laid off 39 salespersons. The total number of salespersons was 338.

Business objectives as stated in the prospectus	Actual progress
4. to participate in tenders put out by the Government	In the first half of the year, among the Group's client, all hospitals above city level were part of Government's tender. The Group did not lose any tenders in all regional tendering, and the success rate was 100%.
5. to further increase customer base by securing about approximately 150 new customers	The Group has secured 517 new customers, including 182 hospitals and 66 blood centers. The Group's total number of customers reached 4,216.

USE OF PROCEEDS

For the six months ended 30 June 2004

Items	As stated in the prospectus *RMB*	Actual *RMB*
Production		
- new blood transfusion consumables *(note 1)*	22,000,000	12,083,000
- pre-filled syringe project *(note 2)*	14,000,000	13,312,000
- needles *(note 3)*	4,000,000	14,034,000
Research and development		
- new medical device products	1,000,000	1,000,000
Sales		
- expansion of sales network and marketing activities	1,500,000	1,500,000
Total	42,500,000	41,929,000

Note 1: The payment period for second installment of new blood transfusion consumable device of RMB7,930,000 will be in the third quarter of the year instead of during the first half of the year as originally scheduled.

Note 2: Two letters of credit amounting to Euro 380,000 and Euro 839,800 respectively were issued for the purchase the production equipment of pre-filled syringes. The letters of credit are expected to be settled before 22 August 2004 and 23 November 2004, respectively.

Note 3: Introduction of equipment for needles production was ahead of the schedule. As such, investment on equipment which originally planned to be paid in the second half of the year was already paid in the first half of the year ahead of time.

DIVIDENDS

The Directors proposed the payment of interim dividend of RMB0.007 per share, or a total of approximately RMB6,052,000 for the six months ended 30 June 2004. Dividends payable to domestic shareholders will be paid in RMB, while dividends payable to holders of H shares will be paid in Hong Kong dollars.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 30 September 2004 to 5 October 2004, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Standard Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 28 September 2004. Dividend warrants will be despatched on or before 15 October 2004 to shareholders whose names appear on the Company's register of members on 5 October 2004.

DIRECTORS' INTERESTS AND LONG POSITIONS IN SHARES

During the reporting period, 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	1.25%
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%

(2) Long positions in the registered capital of Shandong Weigao Group Company Limited ("Weigao Holding", the Company's associated corporation), as the controlling shareholder 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	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%

Save as disclosed above, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its ultimate controlling company or any of the subsidiaries of the ultimate controlling company a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at the date hereof, save as the interests of the Directors disclosed above, the following shareholders 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.

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

Save as disclosed above, as at the date hereof, the Company has not been notified of any interests or short positions in the issued capital of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

For the six months ended 30 June 2004, purchases from the Group's five largest suppliers accounted for 46.2% of the total purchases, and sales to the Group's five largest customers accounted for 4.6% of the total sales.

To the best of the Directors' knowledge, neither the Directors, their associates nor any shareholders who owned more than 5% of the Company's issued capital, had any beneficial interest in any of the Group's five customers or suppliers during the period.

SPONSORS' INTERESTS

Pursuant to the agreement entered into between the Company and Polaris Securities (Hong Kong) Limited ("Polaris") on 19 February 2004, Polaris would act as the Company's sponsor and would be responsible for providing continuous sponsor services to the Company for the remaining period of the financial year ending 31 December 2004 and two subsequent financial years.

The above agreement has terminated on 23 July 2004. The Group entered into an agreement with Goldbond Capital (Asia) Limited (the "Sponsor") on 24 July 2004 for the Sponsor to provide continuous sponsor services to the Company for the remaining period of the financial year ending 31 December 2004 and the subsequent financial years.

As of the date of this report, neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 of the Rule 6.35 of the GEM Listing Rules) had any equity interest in the share capital of the Company or any members of the Group.

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 repurchase, sell or redeem any listed shares of the Company.

CORPORATE GOVERNANCE

The Board considers that the Company has complied with the board practices and procedures as set our 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 "Audit Committee") on 1 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 Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit 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 six months ended 30 June 2004 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 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 (the "PRC", the place of jurisdiction which the Company was established) , 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2004, the Company had adopted a code of conduct regarding securities transactions 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.

BOARD PRACTICES AND PROCEDURES

Throughout the period, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

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

Hong Kong, 10 August 2004