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)

annual report 2004

* For identification purposes only

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The directors of Shandong Weigao Group Medical Polymer Company Limited collectively and individually accept full responsibility of this annual report. This annual report includes particulars given in compliance with the GEM Listing Rules of the Stock Exchange of Hong Kong for the purpose of giving information with regard to Shandong Weigao Group Medical Polymer Company Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this annual 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 annual report misleading; and (iii) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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DIRECTORS AND SUPERVISORS

Executive Directors

Mr. Zhang Hua Wei
Mr. Miao Yan Guo
Mr. Wang Yi
Mr. Wang Zhi Fan
Mr. Wu Chuan Ming

Non-executive Directors

Mr. Chen Xue Li
Ms. Zhou Shu Hua

Independent non-executive Directors

Mr. Luan Jian Ping
Mr. Shi Huan
Mr. Lau Wai Kit

Supervisors

Ms. Bi Hong Mei
Mr. Miao Hai Sheng
Ms. Chen Xiao Yun

CORPORATE INFORMATION

Registered office and principal place of business in the PRC
312 Shi Chang Road
Weihai
Shandong Province
PRC

Principal place of business in Hong Kong
Suite 917, 9/F.,
Sun Hung Kai Centre
30 Harbour Road
Wan Chai
Hong Kong

Company secretary
Mr. Chong Tak Fat, Calvin

Compliance officer
Mr. Zhang Hua Wei

Qualified accountant
Mr. Chong Tak Fat, Calvin

Audit committee
Ms. Zhou Shu Hua
Mr. Shi Huan
Mr. Luan Jian Ping
Mr. Lau Wai Kit

Authorised representatives
Mr. Zhang Hua Wei
Mr. Chong Tak Fat, Calvin

Auditors
Deloitte Touche Tohmatsu
Certified Public Accountants

Sponsor
Goldbond Capital (Asia) Limited

Hong Kong share registrar and transfer office
Standard Registrars Limited

Principal bankers
1. Agriculture Bank of China, Weihai Branch
2. Bank of China, Weihai Branch

Website of the Company
www.weigaogroup.com

Stock Code 8199

Regarding Shandong Weigao Group Medical Polymer Company Limited

The Group is principally engaged in the research and development, production and sale of single-use medical devices under the trademarks " " and " ". With an extensive sales network of 12 sales offices and 18 customer liaison centers in the PRC, the Group has developed an extensive customer base with its products sold to over 3,300 healthcare institutions such as hospitals and blood centers and over 1,200 trading companies. The Group's customers include the 中國人民解放軍總醫院301醫院 (General Hospital of the People's Liberation Army (301 Hospital)); 北京同濟醫院 (Beijing Tong Ji Hospital); 北京天壇醫院 (Beijing Tiantan Hospital); 中國人民解放軍空軍總醫院 (General Hospital of the Air Force of the People's Liberation Army); 中國人民武裝警察總醫院 (General Hospital of the PRC Armed Police); 首都醫科大學附屬北京朝陽醫院 (Auxillary Hospital of the Capital Medical University); 上海市第一人民醫院 (First People's Hospital of Shanghai); 第四軍醫大學附屬西安西京醫院 (Xian Xijing Hospital of the Fourth Military Medical University) and 中山大學第三附屬醫院 (Third Auxillary Hospital of Zhong Shan University).

The Group has a wide range of polymer based single-use medical device products. It has 93 product types with over 2,000 specifications. The products are classified into six major categories, namely, i) single-use sterile infusion (transfusion) sets; ii) single-use sterile blood transfusion consumables; iii) single-use sterile syringes; iv) single-use sterile dental devices; v) PVC granules; and vi) other products.

The Group places strong emphasis on the quality of its products. The Company's quality system for the production and service of single-use infusion sets, single-use transfusion sets and single-use sterile syringes has been accredited with ISO9002: 1994 and ISO13488: 1996 by 中國醫療器械質量認證中心 (China Quality Certification Centre for Medical Devices) since November 2001. EC certifications issued by TÜV Product Service Gmbh for the product categories of infusion sets, transfusion sets and single-use syringes have been obtained since December 1999 and were renewed in November 2003 with the inclusion of plastic blood bags. On 5th December, 2003, the Group's product quality inspection center received accreditation from 中國實驗室國家認可委員會 (China National Accreditation Board for Laboratories) for compliance with national testing and calibration requirements.

The Company was ranked as one of the top three manufacturers in the single-use sterile medical device industry in terms of total rated production capacity in the year 2002 by 中國醫療器械行業協會 (China Association for Medical Device Industry), which is a non-profit making industry association formed by entities and individuals engaged in the manufacturing, research and development, training, product inspection and testing of medical devices in the PRC.

The Group's products are exported to Hong Kong and over 18 countries including Germany, Romania and United Kingdom.

MAJOR DEVELOPMENTS

(A) Successful listing on GEM

On 27th February, 2004, the Group was successfully listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited. It marks a milestone of the Group's achievements in the medical consumable market in the People's Republic of China (the "PRC"). This strategic development has benefited the Group in various respects, including extensive recognition of the Company's brand-name which helps developing the Group's markets in the PRC and other regions in the world. Placement proceeds from the listing has strengthened its capital structure and has provided adequate funds to develop the Group's sales and marketing network, to develop new products, and to invest in new projects. The listing has also consolidated the Group's position for long-term development. In addition, the listing provides the Group with a platform for future fund raising and enables the Group to capture the ever-changing market opportunities in future.

(B) Expansion of the Group's sales and marketing network and clientele

The medical consumable market in the PRC has been rapidly expanding as the health consciousness of the PRC consumers increased. In 2004, the Group focused in capturing rapidly growing market of quality and high-end medical device, and caustiously and aggressively expand its sales network and customer base according to the business plan.

During the year, the Group established three new sales offices and representative office, and deployed sales representatives in additional thirteen cities in the PRC. The Group believed that this would enable it to be in contact with more customers and promote its products in a more effective and efficient manner. With the benefits of listing, the Company further enlarged the customer base. For the year ended 31st December, 2004, the Group had 962 new customers, including 382 hospitals, 117 blood stations, 204 other medical units, and 259 dealers. The total number of customers increased to 4,622, or by 26.28% as compared to 2003.

(C) Enhancement of internal control and corporate governance with Enterprise Resources Planning management system

The Group's Enterprise Resources Planning ("ERP") management system has been in full operation. It has enhanced the operation efficiency and supervision in the overall production, supplies and sales of the Group laying the foundation of the Group's management restructuring. At the end of 2004, the Group has completed an management structure reorganisation and process flow re-engineering, enabling the Group to operate more efficiently in the future.

(D) Launching of new products

During the year, the Group continued to increase investments in R&D, and established an accountability system which links development results of R&D projects with the performance of the R&D personnel. The assessment system has been strictly implemented with outstanding results. For the year ended 31st December, 2004, the Group obtained 12 new patents, and 9 are under application. The Group obtained product registration certificates in respect of 33 products, completed R&D for10 products and are under the process of application for registration. Importance is placed on R&D to increase the Group's competitiveness. Further capitalising on the customers' resources laying a foundation for further growth of the Group's profits. The Group's development and participating in competing for wider customer base is secured with the advantage of diversified product range of the Group.

(E) New business opportunities

The Group is open to available opportunities and has been identifying suitable investments in complementing with and sharing of Group's resources.

(1) During the year, the Company invested RMB3,060,000, and established Shenyang Weigao Jinbao Trading Co., Ltd.(瀋陽威高金寶商貿有限公司)("Weigao Jinbao") with an independent third party. The Group owns 51% of the registered capital of Weigao Jinbao, Weigao Jinbao is a sale agent of kidney dialysis equipment and consumable of Swedish company Jinbao. With a view to further utilise the value of its sales network, the Group will explore more agency opportunities and progressively advance from an agency towards production and technical cooperation.

(2) During the year, the Company invested RMB3,500,000 and established Weihai Weigao Blood Purified Product Co., Ltd.（威海威高血液淨化製品有限公司）("Weigao Blood") with four technical specialists. The Groups owned 70% of the registered capital of Weigao Blood. Weigao Blood is principally engaged in research and development, production and sales of international high-end blood purification treatments and related consumables, providing new business opportunities for the Group to enter the international medical device high-end market. The registration of the relevant products is currently under process, and the registration certificates for blood dialyser, drainage set and protein adsorption product are expected to be obtained by August 2005.

(3) Shandong JW Medical Systems Corporation ("JW Medical"), a joint venture with an independent third party, has completed the equity transfer and capital injection. It enables the Group to compete with international top class manufacturers in the high-end medical consumable markets. As at 31st December, 2004, the Company's aggregate investments in JW Medical amounted to RMB13,000,000, representing 50% of the total registered capital of JW Medical.

(4) The pre-filled syringe project with an aggregated investment of RMB20,193,000 (financed from the net proceeds from the listing) is almost completed. All the related imported equipment are in place and is currently in process of fine tuning. Procurement of domestical ancillary equipment and application for production certificates are in process. The pre-filled syringe in the PRC is currently solely relied on imports. The production line invested by the Company is the first production line of pre-filled syringe in the PRC. The investment in the project will provide business opportunities for the Group to enter into high-end, specialised syringe market.

(5) During the year, the Group successfully developed and commercialized intravenous catheter needle. It was very well received by the market. This product lay the foundation for the Group to compete more effectively with international manufacturers.

FINANCIAL OVERVIEW

	Audited	
	2004	2003
	RMB'000	*RMB'000*
Turnover	407,823	317,935
Gross profit	162,977	132,597
Profit before interests, taxation, depreciation and amortisation	97,482	79,857
Depreciation and amortisation	16,014	11,472
Net profit attributable to shareholders	65,888	50,454

FINANCIAL AND BUSINESS REVIEW

In 2004, market competition became increasingly fierce, which was intensified by tendering invitation by the government and led to the significant prices reduction of conventional products. The strict implementation of maximum truck loading by the government has caused transportation costs to increase by approximately 20%. Due to the continued increase in the prices of crude oil, the prices of raw materials increased significantly. The strict implementation of GMP standard in blood sampling device market in the PRC has largely reduced the usage of blood sampling consumable. Faced with numerous unfavorable elements, the Group proactively adjusted its product mix; increases sales and profits by promoting high-end products to the existing customers. With the advantage of high quality conventional products and integrated production in cost control, couple with developing new customers through tendering process, it squeezed out the market size of the competitors. In respect of the production, the Group accelerated technical reform and material replacements to counteract the negative impact on the gross profit from the price reduction of the conventional products and the increase of raw materials cost. During the year, the Group has recorded significant growth in turnover and net profits attributable to shareholders.

Chairman's Statement

Compared with previous year, turnover for the year increased by 28.3%, amounted to RMB407,823,000. Net profit attributable to shareholders amounted to RMB65,888,000, an increase of 30.6% over last year. Growth in turnover and profits were mainly attributable to the Company's market development strategies and the effective development of the strategy in adjusting the product mix, obtained obvious results from market development in the southern China has been effective, development of new customers and exploring opportunities with existing customers, laying a firm foundation for the operation in 2005.

FUTURE OUTLOOK

2004 was an important year for the Group. Facing with the keen market competitors and the pressure from drastic increase of raw materials cost, the Group put a lot of efforts in maintaining its profitability, and leveraging on the opportunity to expand sales network and customer base, squeezing out the market share and profitability of competitors. With the increasing number of the Group's customers and diminishing room of survival for the competitors, the Group is prepared for industry consolidation.

The Group is very optimistic for the future. The Group's management team has extensive experience and expertise. With the Group's dedication towards quality assurance, enterprise growth and more emphasis on the management efficiency, the Group is ready to boldly move forward and to realise its ambitions.

The Group's achievements as mentioned above have been attributable to the continuous support of the staff, customers and business partners and the shareholders, for which I would herewith express my gratitude.

Chen Xue Li
14th March, 2005

CORPORATE DEVELOPMENT

On 27th February, 2004, the Group was successfully listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited. It marks a milestone of the Group's achievements in the medical consumable market in the PRC. This strategic development has benefited the Group in various respects, including extensive recognition of the Company's brand-name which helps developing the Group's markets in the PRC and other regions in the world. Placement proceeds from the listing has strengthened its capital structure and has provided adequate funds to develop the Group's sales and marketing network, to develop new products, and to invest in new projects. The listing has also consolidated the Group's position for long-term development. In addition, the listing provides the Group with a platform for future fund raising and enables the Group to capture the ever-changing market opportunities in future.

The Group's Enterprise Resources Planning ("ERP") management system has been in full operation. It has enhanced the operation efficiency and supervision in the overall production, supplies and sales of the Group. At the end of 2004, the Group has completed a reorganisation of the overall management structure, which will enable the Group to operate more efficiently in the future.

The Group is open to available opportunities and has been identifying suitable investments in complementing with and sharing of the Group's resources.

(1) During the year, the Company invested RMB3,060,000, and established Shenyang Weigao Jinbao Trading Co., Ltd （瀋陽威高金寶商貿有限公司）("Weigao Jinbao") with an independent third party. The Group owns 51% of the registered capital of Weigao Jinbao. Weigao Jinbao is a sale agent of kidney dialysis equipment and consumable of a Swedish company. With a view to further utilise the value of its sales network, the Group will explore more agency opportunities and progressively advance from an agency towards production and technical cooperation.

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(4) The pre-filled syringe project with an aggregated investment of RMB20,193,000 (financed from the net proceeds from the listing) is almost completed. All the related imported equipment are in place and along with self made equipment and ancillary parts are currently in process of fine tuning. Application for production certificates is in progress. The pre-filled syringe in the PRC is currently solely relied on imports. The production line invested by the Company is the first production line of pre-filled syringe in the PRC. The investment in the project will provide business opportunities for the Group to enter into high-end specialised syringe market.

(5) During the year, the Group successfully developed and commercialized intravenous catheter needle. It was very well received by the market. This product lay the foundation for the Group to compete more effectively with international manufacturers.

For the year ended 30th December, 2004, the Group's turnover and net profit were approximately RMB407,823,000 and RMB65,888,000 respectively, an increase of 28.3% and 30.6% over previous year respectively.

The Company has set up a specialized team to supervise the progress of the investment project. Currently, the procurement of the equipment for blood transfusion consumables and pre-filled syringe have been completed and are under equipment tuning and trial production. The phase II introduction of imported equipment for needle grinding and needle products has been completed, and equipment tuning is expected to be completed and put into production by the second quarter of 2005. By then, the Group's annual production capacity of needle products will reach 1.5 billion pieces. For the year ended 31 December 2004, the Group's total investments in the fixed assets amounted to RMB80,965,000. The increased production capacity and new projects resulted from the investment will provide new business opportunities for the Company.

RESEARCH AND DEVELOPMENT

During the year, the Group continued to increase investments in R&D, and established an accountability system which links development results of R&D projects with the performance of the R&D personnel. The assessment system has been strictly implemented with outstanding results. For the year ended 31st December, 2004, the Group obtained 12 new patents, and 9 are under application. The Group obtained product registration certificates in respect of 33 products, completed R&D for 10 products and are the process of application for registration. The Group places importance of R&D to raise the Group's competitiveness, and further utilizes the customers' resources in laying a foundation for the further growth of the Group's profits. The diversified product variety of the Group have continually expanded and secured the Group's customer base.

PRODUCTION

In February 2004, renovation of the carton-box workshop has been completed, with increased production area of 864 sq. m., and the annual production capacity of carton paper production reaches 10 million sq.m., representing an increase of approximately 60% in capacity. Completion of the renovation of the production line has further enhanced the Group's vertical production integration, and enhanced the quality and grade of product packaging.

In February 2004, the phase II construction works of infusion set project was put into production, with increased production area of 8,100 sq. m., and the annual production capacity reaches 60 million sets of high-end infusion sets, representing an increase of approximately 40% in capacity. The commencement of operation of the project has further strengthened the Group's competitiveness in the high-end market of infusion sets, and has enhanced the Group's competitive position in the industry.

In October 2004, the intravenous catheter needle workshop has been put into operation, with increased production purified area of 4,218 sq. m., and the production capacity of the phase I equipment is 10 million pieces of catheter needles. The operation of the project has further enhanced the Group's competitiveness in the high-end product sector.

During the year, the production volumes of the Company's various major products compared with that of the previous year are as follows:

		For the year ended 31st December		
Product name	Unit	2004	2003	%
Infusion sets	10,000 pcs	18,350	15,710	16.8
Transfusion products	10,000 sets	861	840	2.5
Syringe products	10,000 pcs	28,124	22,260	26.3
Dental devices	10,000 sets	143	110	30.0
PVC granules of which:	tonnes	7,607	6,090	24.9
medical grade PVC	tonnes	3,279	2,959	10.8
Other products	10,000 sets	20,056	3,800	427.8

SALES AND MARKETING

In line with its strategy in market expansion and product mix adjustment, the Group increased its development effort in southern China; utilise the opportunities from attending promotion meetings and exhibitions to increase sales effort in non-conventional products. In addition, performance assessment of sales personnel are conducted in more details, thereby enabling the sales of non-conventional, high value-added products to obtain outstanding results.

To leveraging on the ERP system, the Group proactively adjusted the sales team, and standardised market management. In building the sales team, 45 new sales members were recruited and non-performance sales were eliminated. By eliminating bottom performers, that is those with decrease in sales or slow in sales growth, it has further strengthened the team's fighting spirit.

During the year, the Group established three new sales offices and representative office, and deployed sales representatives in additional thirteen cities in the PRC. The Group believed that this would enable it to be in contact with more customers and promote its products in a more effective and efficient manner. With the benefits of listing, the Company further enlarged the customer base. For the year ended 31st December, 2004, the Group had 962 new customers, including 382 hospitals, 117 blood stations, 204 other medical units, and 259 dealers. The total number of customers increased to 4,622, or by 26.28% as compared to 2003.

Comparison of the sales ratios of the various products in different places over the corresponding period of the previous year are set out as follows:

Turnover by geographical segments
For the year ended 31st December

Region	2004		2003		Growth
	RMB'000	*%*	*RMB'000*	*%*	*%*
Northeast	80,326	19.70	63,870	20.09	25.76
Northern	116,089	28.47	99,855	31.41	16.26
Eastern and Central	110,876	27.19	94,413	29.70	17.44
Southwestern	20,587	5.04	16,984	5.34	21.22
Northwestern	15,548	3.81	12,685	3.99	22.56
Southern	47,300	11.60	18,927	5.95	149.91
Overseas	17,097	4.19	11,201	3.52	52.64
Total	407,823	100.00	317,935	100.00	28.27

In addition, the product mix adjustment strategy has shown results. Under the overall trend of price reduction in the conventional products, sales revenue of various key products achieved significant growth. Comparison of the growth in the sales of the various key products over that of the previous year are set as follows:

	For the year ended 31st December		
Product category	2004	2003	
	RMB'000	*RMB'000*	*%*
Infusion set	150,365	130,638	15.1
Syringe	135,449	104,498	29.6
Blood bags	43,000	36,097	19.1
Dental device	2,304	1,916	20.3
PVC granules	36,684	20,712	77.1
Other products	40,021	24,074	66.2
Total	407,823	317,935	28.3

During the year, the Company increased its effort in the sales of PVC granules, transferring the pressure of price increase of materials to the competitors, while controlled the material purchases by the competitors from the Group, thus laying down a foundation for market consolidation of conventional medical consumables in which the Group participates, and increasing the potentialtargets for alliance. The strong growth of other products has been derived from the continuous launching of new products and the stepping up promotion of the existing products. The Group anticipates that following the adjustment of the Company's production capacity and the continuous launching of new products, the ratio of sales of other products will be increased. Gross profit margins of other products ranged from 32% to 76%, and the Group anticipates that following the increase in the sales of other products, the Group's consolidated gross profit margin will increase.

HUMAN RESOURCES

As at 31st December, 2004, the Company employed a total of 4,430 employees, and the breakdown by departments was as follows:

Departments	2004	2003
Research and development	91	88
Sales and marketing	345	339
Production	3,709	3,188
Purchasing	10	15
Quality control	36	35
Management	54	46
Finance and administration	185	189
Total	4,430	3,900

With the operation of the Group's new projects and the increase in production capacities, there was significant increase in the number of the Group's production workers over 2003, and were in the high-end infusion set workshop, needle product workshop, blood bag workshop and pre-filled syringe workshop.

All employees of the Group were in the PRC except the company secretary who resides in Hong Kong. During the year, total cost paid by the Group on staff salaries, welfare, and various funds amounted to RMB56,305,000.

During the year, the 54 key personnel who received MBA training from the People's University have all graduated and obtained graduation certificates. This has provided adequate human resources for the enhancement of the management capability.

REMUNERATION SYSTEM

The Group's remuneration policy has been determined by the Group's remuneration committee in accordance with the profit forecast, changes in the local consumption level and the competition in the human resources market. The remuneration policy so determined has become the principles of the salary levels of employees recruited for different positions. The salary of each employee is determined by the remuneration committee based on the employee's performance, ability, employment conditions and the salary standards set by the Company. Remuneration of Directors are determined with reference to Company's operation results, personal performance and market competitions.

FINANCIAL REVIEW

The Group maintained good financial position. As at 31st December, 2004, the Group has total bank balances and cash of approximately RMB111,681,000. For the year ended 31st December, 2004, the Group had good cash-flow situation with net cash-flow from the Group's operation activities amounted to approximately RMB17,440,000. There was some reduction in the cash-flow from operating activities compared with the corresponding period of the previous year, which mainly was due to the significant growth in the Company's development of new customers in the year. Most of the new customers started to use products, but according to the credit terms of the supplies, the payment had not yet been collected, thus resulting in significant increase in the Group's accounts receivable. In addition, due to the increase in the price of crude oil during the year, prices of chemical raw materials increased significantly. After prudent projections, the Company made most of the purchases in cash in order to reduce purchase costs, which led to the significant increase in cash payments following the increase in sales incomes, causing the increase in the cash outflow in the operating activities. The above two factors had contributed to the reduction of cash-flow from the operating activities despite of the Group's profit growth. The Group considers that other than the brand-name, financial strength is another important competitiveness for the Group's involvement in the coming industry consolidation. The Company has established significant customer base, and has taken over market shares from competitors. By using cash purchases, purchase costs were relatively lower than the competitors, and effectively affected the profitability of the competitors. This lays solid foundation for the Group to be the price setter in the market price in future. The Group considers that the works of the Company in 2004 have provided a solid guarantee for the sales growth, industry consolidation and increase in cash-flow from operation activities in 2005.

During the period, the Group adjusted its loans, and reduced the combined level of loan interest rates by borrowing low interest rate loans to repay high interest rate loans. The Group obtained total bank loans of RMB271,300,000, repaid bank loans of RMB255,143,000, with net loan additions of RMB16,157,000. As at 31st December, 2004, the Group's bank and other borrowings repayable within one year amounted to approximately RMB105,500,000, and bank and other borrowings repayable after one year amounted to RMB147,800,000.

During the year ended 31st December, 2004, the Group's total interest expenses amounted to RMB11,601,000 (corresponding period in 2003: RMB11,583,000).

GEARING RATIO

The Group's gearing ratio, being the ratio of total loans to total capital was 0.69 (corresponding period in 2003: 1.53). The reduction in this ratio was mainly due to the proceeds from the listing and the increase in profit reserves.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31st December, 2004.

CAPITAL COMMITMENTS

At 31st December, 2004, the Group and the Company had commitments for acquisition of property, plant and equipment which were contracted for but not provided in the financial statements amounting to approximately RMB40,016,000 (2003: RMB32,478,000) and RMB35,533,000 (2003: RMB23,997,000) respectively.

PLEDGE OF THE GROUP'S ASSETS

As at 31st December, 2004, the Group has pledged land use right and buildings with a net book value of approximately RMB164,991,000 (2003: RMB130,796,000) and time deposits of RMB9,000,000 (2003: nil) to secure banking facilities granted to the Group.

RESERVES AND DISTRIBUTABLE RESERVES

As at 31st December, 2004, the Group's total reserves amounted to RMB282,147,000 (2003: RMB95,463,000).

Under the PRC laws and regulations, the Company's distributable reserves will be based on the lower of the amount calculated according to the PRC accounting principles and rules and the amount calculated according to the Hong Kong generally accepted accounting principles. As at 31st December, 2004, the Company's distributable profit was RMB67,957,000 (2003: RMB40,728,000).

FUTURE OUTLOOK

2004 was an important year for the Group. Facing with the keen market competitions and the pressure from drastic increase of raw materials cost, the Group put a lot of efforts in maintaining its profitability, and leveraging on the opportunity to expand sales network and customer base, squeezing out the market share and profitability of its competitors. With the increasing number of the Group's customers and diminishing room of survival for the competitors, the Group is prepared for industry consolidation.

The Group is very optimistic for the future. The Group's management team has extensive experience and expertise. With the Group's dedication towards quality assurance, enterprise growth and more emphasis on the management efficiency, the Group is ready to boldly move forward and to realise its ambitions.

The Group's achievements as mentioned above have been attributable to the continuous support of the staff, customers and business partners and the shareholders, for which I would herewith express my gratitude.

COMPARISON OF THE BUSINESS OBJECTIVES WITH THE ACTUAL BUSINESS PROGRESS

Statements of business objectives as set out in the prospectus	Actual business progress from the beginning of the year to 31st December, 2004
Production	
1. To apply RMB72,000,000 from the proceeds of the placing in the renovation of new transfusion consumables, pre-filled syringe, and needle production lines	Actual invested amount was RMB79,218,000. New blood transfusion consumable equipment were in place and products were launched to the market in the first quarter 2005. Equipment for pre-filled syringe was in place, and was under the process of product registration and equipment fine tuning. Procurement of phase II needle production line is underway. See "Notes on the use of proceeds" for details of the payments.
2. The new infusion set workshop was anticipated be in operation in March 2004	New infusion set workshop with monthly production capacity of 5 million sets have commenced production at the beginning of 2004.
3. The 8 product items such as single-use de-leucocyte transfusion set, 0.33mm-1.2mm single-use sterile syringe needle, and transparent light-proof transfusion set are planned to be put into production	Mass production began and the products have been launched to the market.
4. To conduct feasibility studies for the establishment of production facilities in Northwest China	Upon research and careful consideration by the Directors, construction of production facilities in the Southwest of China has more priority over the Northwest, and currently, feasibility studies on the construction of factory in the Southwest of China have been completed and the land requisition agreement been signed. The plant construction is in the stage of preparation. Construction works are expected to commence in March 2005, with phase I investments totaling RMB20 million, and anticipated to be completed and put into production by the fourth quarter in 2005.

Statements of business objectives as set out in the prospectus	Actual business progress from the beginning of the year to 31st December, 2004
Research and development	
To invest RMB3.3 million in the research and development of new products	The Group has obtained product registration certificates in respect of 33 products, completed R&D on 10 products and are under application for registration. The planned project has been completed ahead of schedule. Total expenditures for the R&D were RMB7.156 million, and applied proceeds from the listing of RMB3.3 million.
Sales and marketing	
1. To apply RMB4 million from the proceeds of the listing in marketing	With the Company's competition strategy and launching of new products, the Company participated in numerous domestic and overseas medical device exhibitions and promotion meetings, with outstanding results achieved. The Company increased its development of Huanan and Southwest markets by utilising RMB4 million from the proceeds of the listing. The Directors considered that the above promotions were crucial in pursuing the adjustments of the product mix, and the economic return was obvious.
2. To set up 14 sales offices	During the year, the Company conducted strategic adjustments to nationwide market deployment, and established regional sales management model, in order to deal with the increase in marketing expenses and rising transportation fees. The city representative offices under the region sales management centers can effectively reduce operation costs. During the year, the Group has newly increased 13 city representative offices, 3 sales branches and offices in the PRC.
3. To expand the sales team to approximately 380 persons	In order to ensure the fighting spirit of the sales team, the Company implemented the elimination system during the year, and recruited 45 sales staff, and eliminated 39 sales staff, and the total number of sales persons reached 345.

Statements of business objectives as set out in the prospectus	Actual business progress from the beginning of the year to 31st December, 2004
4. To participate in government tendering	During the year, among the customers of the Company, hospitals of above regional level were managed by tendering, and the Company won the tendering in the various regions.
5. Further increase customer base by developing approximately 150 new customers	During the year, the Group has developed 962 new customers, including 382 hospitals, 117 blood stations, increasing the total number of customers to 4,622. These new customers brought about significant revenue growth to the Group during the year, with contribution of approximately 8% to the Company's total revenue.

EXPLANATIONS TO THE USE OF PROCEEDS

Project	Plans in 2004 *RMB'000*	Actual situation in 2004 *RMB'000*
Production		
New transfusion consumables *(Note 1)*	30,000	28,653
Pre-filled syringe project *(Note 2)*	28,000	20,193
Needles *(Note 3)*	14,000	30,372
Sub-total	72,000	79,218
Research and development		
New medical devices	3,300	3,300
Sales		
Expansion of sales network and Marketing activities	4,000	4,000
Total	79,300	86,518

Note 1: Introduction of transfusion consumable equipment have been completed ahead of schedule;

Note 2: Import of equipment for pre-filled syringe project have been completed, and the related equipment along with self made equipment and ancillary parts were under fine tuning;

Note 3: The original plan was to install one production line, but the Company installed two production lines and auxiliary machines based on the Group's self demand and market demand. Payment schedule of the equipment has been put forward from the original plan.

To all shareholders:

For the year ended 31st December, 2004, the entire members of the Supervisory Committee of Shandong Weigao Group Medical Polymer Company Limited (the "Company") have complied with the Company Law of the People's Republic of China, the relevant regulations of Hong Kong and the Articles of Association (the "Relevant Regulations"), and under the principles of fidelity, have diligently and seriously discharged their duties to safeguard the benefits of the Company's shareholders and the Company.

During the year, the Supervisory Committee has provided reasonable opinions and recommendations to the Board over the business and development plans, and has performed serious and effective supervision on the Company's policies on whether it was in compliance with the Relevant Regulations and whether the interests of the Company shareholders have been protected.

The Supervisory Committee, having made inspections, considers that the audited financial report of the Company truly and fully reflected the Company's operating results and assets situation for the year. The Supervisory Committee considers that the Report of the Board and the profits distribution plan proposal are in compliance with the Relevant Regulations. The Supervisory Committee has attended the Board meetings. The Supervisory Committee considers that the meetings were convened in compliance with the Relevant Regulations. The Supervisory Committee considers that the Company's Board members, general manager and other senior management have strictly abode with the principles of fidelity, hard working, and conscientiously performing their duties for the best benefits of the Company. None of the Directors, general manager and other senior management of the Company has been found to have abused their duties, harmed the Company's benefits or infringed the interests of the Company's shareholders and staff, and made violation of the Relevant Regulations.

The Supervisory Committee is satisfactory with the various works of the Company and the operating results obtained, and is fully confident on the future development prospects of the Company.

By Order of the Supervisory Committee

Shandong Weigao Group Medical Polymer Company Limited
Bi Hong Mei
Chairman

Weihai, Shandong Province, the PRC

15th March, 2005

Directors

Executive Directors

Mr. Zhang Hua Wei, aged 41, is the vice chairman and general manager of the Company and vice chairman of Weigao Holding. Mr. Zhang studied politics and economics at the Weihai Campus of Shandong University from 1996 to 1998. Mr. Zhang was the deputy factory director of Weigao Holding from 1988 to 1998, and has been the general manager of Weigao Holding since 1998. Mr. Zhang joined the Company in December 2000.

Mr. Miao Yan Guo, aged 42 is an executive Director and deputy general manager of research and development of the Company. Mr. Miao studied Business Administration at the Weihai Campus of Shandong University from 1999 to 2001. Mr. Miao joined Weigao Holding in 1988 and was sales director from 1988 to 1991, operating manager from 1991 to 1993 and head of the No. 1 branch of Weigao Holding from 1993 to 1998. He was a deputy general manager of Weigao Holding from 1998 to 2000. Mr. Miao joined the Company in December 2000.

Mr. Wang Yi, aged 45, is an executive Director and deputy general manager of general affairs of the Company. Mr. Wang studied Business Administration at the Shandong Cadres Distance Learning University from 1994 to 1997. He joined Weigao Holding in 1988 and was production director from 1988 to 1989, head of the No. 2 branch of Weigao Holding from 1989 to 1992 and manager of the No. 3 branch of Weigao Holding from 1992 to 2004 of sales. Mr. Wang joined the Company in December 2000.

Mr. Wang Zhi Fan, aged 49, is an executive Director and deputy general manager of sales of the Company. He joined Weigao Holding in 1988 and was the production head and the manager of foreign trade of Weigao Holding. Mr. Wang joined the Group in December 2000.

Mr. Wu Chuan Ming, aged 46, is an executive Director and deputy general manager of production of the Company. Mr. Wu joined Weigao Holding in 1988. He has been the manager of the blood transfusion branch from 1996 to 2004. He joined the Group in December 2000.

Non-executive Directors

Mr. Chen Xue Li, aged 53, is the Chairman of both the Company and Weigao Holding. Mr. Chen founded Weigao Holding in 1988, and was the head of it from 1988 to 1998, Mr. Chen has been elected as the chairman of the Company since December 2000. He received the award of Entrepreneur of Weihai Economy Development in June 2003.

Mr. Zhou Shu Hua, aged 48, is a non-executive Director of the Company and financial deputy general manager of Weigao Holding. Ms. Zhou studied Business Administration at the Weihai Campus of Shandong University from 1999 to 2001. Ms. Zhou joined Weigao Holding in 1989 and held a number of positions such as head of the finance division in the finance department, manager of the finance department and financial deputy general manager of Weigao Holding. Ms. Zhou joined the Group in December 2000.

Independent non-executive Directors

Mr. Shi Huan, aged 68, is an independent non-executive Director. Mr. Shi is the president of China Pharmaceutical Association of Plant Engineering, a senior engineer and a former deputy head of State Pharmaceutical Administrative Bureau. He was appointed as an independent non-executive Director in September 2002.

Mr. Luan Jian Ping, aged 51, is an independent non-executive Director. Mr. Luan studied philosophy and logic at (the People's University of China) from 1979 to 1986. He also studied Business Administration at the Aston University in the United Kingdom from 1992 to 1994. He obtained a PRC Lawyer's License issued by the Ministry of Justice of the PRC in October 1996 and is currently a partner of Beijing DeRun Law Firm. He was appointed as an independent non-executive Director of the Company in September 2002.

Mr. Lau Wai Kit, aged 41, holds a Bachelor of Law degree and a Postgraduate Certificate in Law from the University of Hong Kong. Mr. Lau is a partner of Gobi Partners, Inc. He was appointed as the financial director and financial controller of two private companies, responsible for the financial management of these companies from 1998 to 2001. Mr. Lau has over sixteen years of experience in practising law, and is a solicitor of the High Court of Hong Kong, an attorney and counselor at law of the Supreme Court of the State of California. Mr. Lau is also the Chairman of Diamondlite Group, a jewelry manufacturer headquartered in Hong Kong. He is also an independent non-executive director of Tianjin Development Holdings Limited and China Insurance International Holdings Company Limited. He sits on the Small Entrepreneur Research Assistance Programme Project Assessment Panel of the Government of the Hong Kong Special Administrative Region. He was appointed as an independent non-executive Director of the Company in November 2004.

Supervisors

The Company has a committee of Supervisors whose primary duty is to supervise the senior management of the Company, including the Board, Directors, managers and other senior officers. The function of the committee of Supervisors is to ensure that the senior management of the Company acts in the interests of the Company, and does not violate the rights of the Company's shareholders and employees. The committee of Supervisors reports to the shareholders in general meetings. The Articles of Association provides that the committee of Supervisors has the right to investigate the Group's financial affairs; to supervise the directors, general manager and other senior officers of the Company in the event that they contravene any laws, administrative regulations or the Articles of Association in the performance of their duties; to require the Directors, general manager and other senior management to rectify any activities committed by them that is harmful to the interests of the Company; to examine financial reports, result reports, profit distribution plans and other financial documents prepared by the Board to be submitted to shareholders in general meeting, and in appropriate cases, to appoint certified accountants or certified practicing auditors in the name of the Company to assist in such review; to propose the convening of extraordinary general meetings of shareholders; to represent the Company during negotiations with the Directors or to initiate legal proceedings against the Directors; and other functions and powers given by the shareholders in general meeting. The committee of Supervisors currently comprises the following three members:

Ms. Bi Hong Mei, aged 41, is a supervisor of the Company and the director of the purchase department. Ms. Bi graduated from the Economic Management Department of Shandong Cadres Distance Learning University in 1997. She joined Weigao Holding in December 1988 and has been the head of the finance division and the deputy manager of the infusion sets branch from 2001 to 2004. She joined the Company in December 2000.

Mr. Miao Hai Sheng, aged 32, is a supervisor of the Company and the project manager of auxiliary pre-filled syringe branch. Mr. Miao graduated from the Weihai Campus of Shandong University in 1997, majoring in economic management. He joined Weigao Holding in 1991 and has been the accountant, finance director, the labour and management officer of Weigao Holding. He joined the Company in December 2000.

Ms. Chen Xiao Yun, aged 31, is a supervisor of the Company and the manager of marketing and finance department. Ms. Chen studied financial accounting at the Shandong Broadcast and Television University from 1994 to 1998. She joined Weigao Holding in July 1991 and was the head of the finance division in finance department and the assistant to the manager of infusion sets branch. She joined the Company in December 2000, and has been the assistant to the manager of infusion sets branch since March 2002.

Senior Management

Mr. Jiang Qiang, aged 32, is the financial controller of the Company. Mr. Jiang obtained a Master degree in Accounting from Northeast University of Finance and Economics in the PRC in 1998. He is a certified public accountant and has extensive experience in accounting and financial management. Mr. Jiang joined the Company in June 2002.

Mr. Yuan Yong Xiang, aged 36, is secretary to the Board of the Company. Mr. Yuan obtained a Master degree in Business Administration from Shanghai University of Finance and Economics in 1996 and studied commerce at the University of Santo Tomas in the Philippines from 1996 to 1997. He was the project manager of investment bank head office (Shanghai) of Huaxia Securities Co., Ltd. from 1997 to 1999. From 1999 to 2001, he was the deputy general manager of Weihai Pneumatic Components Company Limited, and from 2001 to 2002, the factory manager of Weihai Ying Wei Si Control Device Company Limited. Mr. Yuan has extensive experience in corporate management. He joined the Company in August 2002.

Mr. Song Zhen Sheng, aged 41, is the deputy general manager in charge of marketing. Mr. Song joined Weigao Holding in 1992 and has taken various posts in Weigao Holding and the Group. He joined the Group in December 2000.

The directors present their annual report and the audited financial statements for the year ended 31st December, 2004.

The Company was established and registered as a joint stock company with limited liability in the PRC under the Company Law of the People's Republic of China on 28th December, 2000.

The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effective from 27th February, 2004.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the research and development, production and sale of single-use medical devices. The activities of its subsidiaries are set out in note 12 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2004 are set out in the consolidated income statement on page 32.

An interim dividend of RMB0.7 cents per share was paid during the year. The directors now recommend the payment of a final dividend of RMB1.3 cents per share to the shareholders on the register of members on 20th May, 2005 amounting to RMB11,239,000, and the retention of the remaining profit for the year of RMB48,597,000.

PROPERTY, PLANT AND EQUIPMENT

The Group acquired property, plant and equipment during the year at an aggregate costs of approximately RMB81 million in order to increase its production capacity. Details of this and other movements during the year in the property, plant and equipment of the Group and the Company are set out in note 11 to the financial statements.

SHARE CAPITAL

On 26th February, 2004, the Company issued 264,500,000 new H Shares of RMB0.10 each at HK$0.62 per share by way of placement. The Group intended to use the net proceeds of approximately HK$146 million for expansion and as general working capital of the Group.

Details of movements during the year in the share capital of the Company are set out in note 20 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICES CONTRACTS

The directors of the Company during the year and up to the date of this report were:

EXECUTIVE DIRECTORS

Mr. Zhang Hua Wei
Mr. Miao Yan Guo
Mr. Wang Yi
Mr. Wang Zhi Fan
Mr. Wu Chuan Ming

NON-EXECUTIVE DIRECTORS

Mr. Chen Xue Li
Ms. Zhou Shu Hua

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Wai Kit (appointed on 17th November, 2004)
Mr. Luan Jian Ping
Mr. Shi Huan

Each of the executive and non-executive directors entered into a service agreement with the Company on 11th February, 2004 (except for the two independent non-executive directors who entered into service agreements with the Company on 1st September, 2002, the service agreement of Mr. Lau Wai Kit, the non-executive director, has been effective since 17th November, 2004), commencing on 27th February, 2004 for an initial term of three years, unless and until terminated by either party by giving to the other party not less than three months' notice in writing. For all executive directors, non-executive directors and independent non-executive directors, the service agreements are renewable for successive three-year terms upon the agreement between the relevant parties and subject to the Articles of Association of the Company adopted by the shareholders of the Company on 10th February, 2004. No directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The service agreements for executive and non-executive directors do not stipulate for any amount of remuneration or bonus payments to be paid for services provided as directors of the Company. Instead, the executive and non-executive directors are paid annual salaries for holding senior management positions in the Company. Pursuant to the current Articles of Association of the Company, the remuneration of the senior management personnel of the Company shall be determined by the Board in accordance with a remuneration schedule applicable to all senior management personnel of the Company. Pursuant to the service agreement entered into between the Company and each of the two independent non-executive directors, Mr. Luan Jian Ping and Mr. Shi Huan, shall receive an annual service fee of RMB30,000. Another independent non-executive director, Mr. Lau Wai Ki, shall receive an annual service fee of HK$48,000. All the executive and non-executive directors shall be entitled to welfare benefits in accordance with the relevant laws and regulations in the PRC (including but not limited to, retirement benefit and medical insurance).

DIRECTORS' INTERESTS AND LONG POSITIONS IN SHARES

At 31st December, 2004, 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 Transaction by Directors of Listed Companies, were as follows:

(1) 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%

(2) 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 year 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.

SUBSTANTIAL SHAREHOLDER

At 31st December, 2004, 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	Total number of domestic shares	Approximate percentage of the issued share capital of the Company
Weigao Holding	Beneficial owner	540,000,000	62.46%

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the largest supplier of the Group by itself and together with the next four largest suppliers accounted for about 16% and 46% respectively of the Group's purchase.

Aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total turnover.

At no time during the year did a director, an associate of a director or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) have an interest in any of the five largest customers or suppliers.

SPONSORS' INTERESTS

On 23rd July, 2004, the appointment of Polaris Securities (Hong Kong) Limited ("Polaris") as the continuing sponsor to the Company under the sponsorship agreement dated 19th February, 2004 has been terminated and that Goldbond Capital (Asia) Limited ("Goldbond"), which was the bookrunner and joint lead manager during the Company's initial public offerings of shares in February 2004, has been appointed as the continuing sponsor of the Company from 24th July, 2004 to 31st December, 2006.

Neither Goldbond, nor its directors or employees or associates (as referred to in note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company or any other companies in the Group as at the date of this report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

BOARD PRACTICES AND PROCEDURES

During the year, 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, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1st January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for financial year ending 31st December 2005.

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 1st September 2002 with written terms of reference in compliance with Rules 5.28 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 has three members comprising Messrs. Shi Huan, Luan Jian Ping and Lau Wai Kit, being independent non-executive directors and Mrs. Zhou Shu Hua, a non-executive director. Mr. Lau Wai Kit was appointed as a member of the Committee with effective from 17th November 2004.

During the year 2004, the audit committee met 4 times, reviewed the Group's financial statement of the year 2003 and of first three quarters of 2004. The committee is of the view that such statement complied with the applicable accounting standards, the stock exchange and legal requirements, and that adequate disclosures have been made.

The Company's financial statements for the year ended 31st December, 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 Company's Articles of Association and the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

COMPETITION AND COMPETING INTERESTS

None of the Directors or the management shareholders (as defined in the GEM Listing Rules) or their respective associates has any 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.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

The connected transactions between the Group, Weigao Holding and its subsidiary during the year ended 31st December, 2004, and following the listing of the Company on the Stock Exchange on 27th February, 2004 are required to be disclosed in this report as follows:

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

A. The Company and its non-wholly owned subsidiary, Weihai Jierui Medical Products Company Limited ("Jierui Subsidiary") signed a sales contract on 27th January, 2004. Under the contract, Jierui Subsidiary agree to supply medical PVC granules, carton boxes, plastic boxes and other forms of packaging (together, the "Supplies") to the Company according to the Company's specifications. The Company is responsible for the payment of the purchase price of the Supplies and has the right to designate the suppliers of raw materials. The Company has retained the right to source the Supplies from other suppliers. Jierui Subsidiary is responsible for manufacturing the Supplies in accordance with international and national standards and delivery of the Supplies.

   For the year ended 31st December, 2004, the Company purchased the Supplies from Jierui Subsidiary at the agreed contract price. The annual purchase amounted to RMB70,484,000. For the period from 1st January, 2004 to 31st March, 2004, the total purchase amounted to RMB15,434,000. Pursuant to the amended provisions of the Listing Rules effective from 31st March, 2004, the above transactions have ceased to constitute a connected transactions starting from 31st March, 2004.

B. The Company and Jierui Subsidiary signed a needles sales contract on 27th January, 2004 (the "Needles Sales Contract") pursuant to which Jierui Subsidiary shall supply various needle components and products to the Company, part of which will be used in the production of the Company's products and the remainder of which will be resold to customers using the Company's sales network.

For the year ended 31st December, 2004, the Company purchased the needle components and products from Jierui Subsidiary at the agreed contract price. The annual purchase amounted to RMB12,932,000. For the period from 1st January, 2004 to 31st March, 2004, the total purchase amounted to RMB982,000. Pursuant to the amended provisions of the Listing Rules effective from 31st March, 2004, the above transactions have ceased to constitute connected transactions starting from 31st March, 2004.

C. The Company and its fellow subsidiary, Weigao Medical Material Co., Ltd. ("Weigao Medical") signed a sub-manufacturing contract on 27th January, 2004. Under the sub-manufacturing contract, Weigao Medical is responsible for procuring the raw materials and the manufacture of certain products and spare parts in compliance with national quality and hygiene standards for the Company.

For the year ended 31st December, 2004, the Company sub-contracted the processing of various spare parts and products to Weigao Medical at the agreed price set out in the contract. The total processing amounted to RMB3,070,000 for the year.

CONNECTED TRANSACTIONS ENTERED INTO PRIOR TO LISTING

Pursuant to a loan agreement dated 1st January, 2004 between the Company and Jierui Subsidiary ("Needles Factory Loan Agreement"), the Company confirmed that it had, prior to the listing of the shares on the Stock Exchange, on various occasions in 2004 provided funding to Jierui Subsidiary in an aggregate amount of approximately RMB41,688,000 for the construction of facilities and the purchase of related equipment. The loan provided by the Company to Jierui Subsidiary is unsecured and non-interest bearing, with a one-off repayment date being 30th June, 2004. In addition, Jierui Subsidiary is entitled to set-off outstanding amounts owed by the Company to it against the repayment of the principal amount owed by it under the Needles Factory Loan Agreement. The amount was fully settled on 30th June, 2004.

CONNECTED TRANSACTION ENTERED AFTER THE BALANCE SHEET DATE

On 10th January, 2005, the Company entered into an agreement with ultimate holding company to acquire a building located in the PRC and land use right of that property at a consideration of RMB9,000,000.

Save as above disclosed, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

The Directors confirm that the Company has complied with the disclosure requirements in accordance with chapter 20.

The independent non-executive directors have reviewed the connected transactions above and in their opinion, these transactions entered into by the Group are in the ordinary and usual course of business of the Group and in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

EMOLUMENT POLICY

The emoluments policy of the employees of the Group is set up by the remuneration committee on the basis of their merit, qualification and competence.

The emoluments of the directors of the Company are decided by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2004.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 29 to the financial statements.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Chen Xue Li
Chairman

Weihai, Shandong, the PRC
14th, March, 2005

Deloitte.
德勤

TO THE SHAREHOLDERS OF SHANDONG WEIGAO GROUP MEDICAL POLYMER COMPANY LIMITED
(incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 32 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
14th March, 2005

Consolidated Income Statement

For the year ended 31st December, 2004

	NOTES	2004	2003
		RMB'000	*RMB'000*
Turnover	3	407,823	317,935
Cost of sales		(244,846)	(185,338)
Gross profit		162,977	132,597
Other operating income		8,951	6,950
Distribution costs		(60,602)	(49,128)
Administrative expenses		(29,611)	(21,983)
Profit from operations	5	81,715	68,436
Finance costs	6	(11,601)	(11,583)
Share of results of a jointly controlled entity		(200)	—
Share of results of an associate		(47)	(51)
Profit before taxation		69,867	56,802
Taxation	8	(3,040)	(4,572)
Profit before minority interests		66,827	52,230
Minority interests		(939)	(1,776)
Net profit for the year		65,888	50,454
Dividends	9	17,291	—
Earnings per share	10	8 cents	8 cents

Consolidated Balance Sheet

As 31st December, 2004

	NOTES	2004 RMB'000	2003 RMB'000
Non-current assets			
Property, plant and equipment	11	363,599	300,055
Interest in an associate	13	—	5,204
Interest in a jointly controlled entity	14	12,800	4,000
		376,399	309,259
Current assets			
Inventories	15	68,010	57,066
Trade receivable	16	139,646	95,539
Prepayments, deposits and other receivables		31,262	26,772
Pledged time deposit	23	9,000	—
Bank balances and cash		111,681	28,951
		359,599	208,328
Current liabilities			
Trade payable and bills payable	18	84,811	97,739
Other payable and accrued expenses		18,434	23,813
Bank and other borrowings – repayable within one year	19	105,500	82,183
Taxation		1,936	688
		210,681	204,423
Net current assets		148,918	3,905
		525,317	313,164
Capital and reserves			
Share capital	20	86,450	60,000
Reserves	21	282,147	95,463
		368,597	155,463
Minority interests		8,920	2,741
Non-current liabilities			
Bank and other borrowings – repayable after one year	19	147,800	154,960
		525,317	313,164

The financial statements on pages 32 to 59 were approved by the Board of Directors on 14th March, 2005 and are signed on its behalf by :

Chen Xueli
DIRECTOR

Zhang Hua Wei
DIRECTOR

Balance Sheet

As 31st December, 2004

	NOTES	2004 RMB'000	2003 RMB'000
Non-current assets			
Property, plant and equipment	11	253,687	204,384
Interest in subsidiaries	12	49,583	23,823
Interest in a jointly controlled entity	14	13,000	4,000
		316,270	232,207
Current assets			
Inventories	15	52,927	53,292
Trade receivable	16	131,877	88,587
Prepayments, deposits and other receivables		21,321	26,679
Amount due from a subsidiary	17	—	41,688
Pledged time deposit	23	9,000	—
Bank balances and cash		86,629	18,406
		301,754	228,652
Current liabilities			
Trade payable and bills payable	18	65,508	87,340
Other payable and accrued expenses		15,064	20,529
Bank and other borrowings – repayable within one year	19	105,500	80,383
Taxation		1,936	688
		188,008	188,940
Net current assets		113,746	39,712
		430,016	271,919
Capital and reserves			
Share capital	20	86,450	60,000
Reserves	21	220,766	56,959
		307,216	116,959
Non-current liabilities			
Bank and other borrowings – repayable after one year	19	122,800	154,960
		430,016	271,919

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2004

	Total equity *RMB'000*
At 1st January, 2003	114,009
Net profit for the year	50,454
Dividend paid	(9,000)
At 1st January, 2004	155,463
Issue of shares	26,450
Premium on issue of shares	146,012
Share issued expenses	(19,164)
Net profit for the year	65,888
Dividend paid	(6,052)
At 31st December, 2004	368,597

Consolidated Cash Flow Statement

For the year ended 31st December, 2004

	2004	2003
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
Profit before taxation	69,867	56,802
Adjustments for:		
Interest income	(522)	(131)
Interest expenses	11,601	11,583
Depreciation and amortisation	16,014	11,472
Allowances for bad and doubtful debts	2,853	1,856
Share of results of a jointly controlled entity	200	—
Share of results of an associate	47	51
Gain on disposals of property, plant and equipment	(127)	(13)
Operating profit before working capital changes	99,933	81,620
Increase in inventories	(10,944)	(13,740)
Increase in trade receivable	(46,617)	(25,599)
Increase in prepayments, deposits and other receivables	(4,833)	(6,604)
Decrease (increase) in trade payable and bills payable	(12,928)	30,089
Decrease in other payable and accrued expenses	(5,379)	(6,900)
Decrease in amount due from ultimate holding company	—	8,488
Decrease in amounts due from fellow subsidiaries	—	1,049
Decrease in amounts due to fellow subsidiaries	—	(7)
Decrease in amount due to an associate	—	(6)
Net cash generated from operations	19,232	68,390
PRC income tax paid	(1,792)	(8,639)
NET CASH GENERATED FROM OPERATING ACTIVITIES	17,440	59,751
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(80,965)	(133,624)
Capital contribution to a jointly controlled entity	(9,000)	(4,000)
Acquisition of a further 6% equity interest in Jierui Subsidiary	—	(3,229)
Proceeds from disposal of property, plant and equipment	1,534	2,159
Proceeds from disposal of an associate	5,157	—
Interest received	522	131
Increase in pledged time deposit	(9,000)	—
NET CASH USED IN INVESTING ACTIVITIES	(91,752)	(138,563)

Consolidated Cash Flow Statement

For the year ended 31st December, 2004

	2004	2003
	RMB'000	*RMB'000*
FINANCING ACTIVITIES		
New borrowings raised	271,300	193,827
Placing of shares	172,462	—
Expenses in connection with the listing of the shares	(19,164)	—
Repayments of borrowings	(255,143)	(80,024)
Capital contributions from minority interests	5,240	—
Interest paid	(11,601)	(11,583)
Dividend paid	(6,052)	(9,000)
NET CASH GENERATED FROM FINANCING ACTIVITIES	157,042	93,220
NET INCREASED IN CASH AND CASH EQUIVALENTS	82,730	14,408
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	28,951	14,543
CASH AND CASH EQUIVALENTS AT END OF YEAR	111,681	28,951
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	111,681	28,951

For the year ended 31st December, 2004

1. GENERAL

The Company was established and registered as a joint stock company with limited liability in the People's Republic of China (the "PRC") under the Company Law of the PRC on 28th December, 2000. Its ultimate holding company is Shandong Weigao Group Company Limited, a company registered in the PRC with limited liability.

The Company's shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 27th February, 2004.

The Company is principally engaged in the research and development, production and sale of single-use medical devices. The principal activities and other details of its subsidiaries are set out in note 12.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with the accounting policies generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

BASIS OF CONSOLIDATION

The consolidated financial statements incorporated the financial statements of the Company and its subsidiaries made up to the balance sheet date each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intra-group transactions and balances have been eliminated on consolidation.

REVENUE RECOGNITION

Revenue from sales of medical products and tools are recognised when the medical products and tools are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rebate of value added tax is recognised as other operating income when it is entitled to receive.

OPERATING LEASES

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

RETIREMENT BENEFIT COSTS

Payments to state-managed retirement benefits schemes are charged as an expense as they fall due.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation and amortisation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following annual rates:

Land use rights	Over the term of the rights
Buildings	3.3% - 10%
Plant and machinery	10% - 20%
Motor vehicles	20%
Moulds	50%
Furniture, fixtures and office equipment	20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

CONSTRUCTION IN PROGRESS

Construction in progress is stated at cost which includes all development expenditure and other direct costs attributable to such projects. Costs on completed construction work are transferred to the appropriate category of property, plant and equipment. No depreciation is provided on construction in progress until the construction is completed and the relevant assets have been put into commercial use.

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

INTEREST IN AN ASSOCIATE

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in an associate is stated at the Group's share of the net assets of the associate, less any identified impairment loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTEREST IN A JOINTLY CONTROLLED ENTITY

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interest in a jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net asset of the jointly controlled entity, less any identified impairment loss. The Group's share of the post-acquisition result of its jointly controlled entity is included in the consolidated income statement.

The Company's investment in jointly controlled entity is stated at cost, as reduced by any identified impairment loss. The result of jointly controlled entity is accounted for by the Company on the basis of dividends received and receivable.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

IMPAIRMENT

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

3. TURNOVER

Turnover represents the amounts received and receivable for goods sold by the Group to outside customers, less sales tax and sales returns during the year.

4. SEGMENT INFORMATION

The Group is solely engaged in the production and sales of single-use aseptic polymer medical products and operates only in the PRC. All significant identifiable assets of the Group are located in the PRC. Accordingly, no segmental analysis is presented.

5. PROFIT FROM OPERATIONS

	2004 *RMB'000*	2003 *RMB'000*
Profit from operations has been arrived at after charging (crediting):		
Allowances for bad and doubtful debts	2,853	1,856
Auditors' remuneration	531	580
Depreciation and amortisation	16,014	11,472
Rental payments in respect of premises under operating leases	2,451	1,847
Research and development expenditure	7,156	5,451
Staff costs, including directors' remuneration		
- Retirement benefits scheme contributions	7,122	4,018
- Salaries and other allowances	49,183	39,745
Total staff costs	56,305	43,763
Gain on disposals of property, plant and equipment	(127)	(13)
Interest income	(522)	(131)
Rebate of value added tax	(7,610)	(6,229)

6. FINANCE COSTS

	2004 *RMB'000*	2003 *RMB'000*
Interest on bank and other borrowings wholly repayable within five years	11,601	11,583

7. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

DIRECTORS' AND SUPERVISORS' EMOLUMENTS

	2004 *RMB'000*	2003 *RMB'000*
Fees to directors:		
Executive directors	—	—
Non-executive directors	—	—
Independent non-executive directors	64	60
	64	60
Other emoluments to executive directors and non-executive directors:		
- Retirement benefits schemes contributions	42	34
- Salaries and other allowances	510	510
	552	544
Emoluments to supervisors:		
- Retirement benefits scheme contributions	16	12
- Salaries and other allowances	127	127
	143	139
Total directors' and supervisors' emoluments	759	743

Supervisors are the members of the supervisory committee of the Company.

7. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

The emoluments of directors and supervisors during the year are analysed as follows:

	Fee RMB'000	Salaries and other allowances RMB'000	Retirement benefits schemes contributions RMB'000	2004 Total RMB'000	Fee RMB'000	Salaries and other allowances RMB'000	Retirement benefits schemes contributions RMB'000	2003 Total RMB'000
Executive directors								
Mr. Zhang Hua Wei	—	76	7	83	—	76	7	83
Mr. Miao Yan Guo	—	68	7	75	—	68	5	73
Mr. Wang Yi	—	69	7	76	—	69	5	74
Mr. Wang Zhi Fan	—	68	7	75	—	68	5	73
Mr. Wu Chuan Ming	—	72	7	79	—	72	5	77
	—	353	35	388	—	353	27	380
Non-executive directors								
Mr. Chen Xue Li	—	88	1	89	—	88	1	89
Ms. Zhou Shu Hua	—	69	6	75	—	69	6	75
	—	157	7	164	—	157	7	164
Independent non-executive directors								
Mr. Lau Wai Kit	4	—	—	4	—	—	—	—
Mr. Luan Jian Ping	30	—	—	30	30	—	—	30
Mr. Shi Huan	30	—	—	30	30	—	—	30
	64	—	—	64	60	—	—	60
Supervisors								
Ms. Bi Hong Mei	—	55	6	61	—	55	4	59
Ms. Chen Xiao Yun	—	35	5	40	—	35	4	39
Mr. Miao Hai Sheng	—	37	5	42	—	37	4	41
	—	127	16	143	—	127	12	139
	64	637	58	759	60	637	46	743

7. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments for the two years ended 31st December, 2004, were all directors of the Company, details of whose emoluments are included in the above disclosure.

During the two years ended 31st December, 2004, no emoluments or discretionary bonus were paid by the Group to the directors and supervisors as an inducement to join or upon joining the Group or as compensation for loss of office and no directors or supervisors of the Company waived or agreed to waive any emolument or discretionary bonus.

8. TAXATION

	2004 *RMB'000*	2003 *RMB'000*
PRC income tax	3,040	4,572

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%). Started from 1st July, 2004, the Company is entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% tax relief for the next three years. The tax charge provided has been made after taking these tax incentives into account.

In accordance with the "Notice of Recognition of Jierui Subsidiary as a Social Welfare Entity" issued by the Civil Administration Bureau of the Shandong Province, Jierui Subsidiary is recognised as a "Social Welfare Entity" and is exempted from income tax.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2004 *RMB'000*	2003 *RMB'000*
Profit before taxation	69,867	56,802
Taxation at the domestic income tax rate of 15% (2003: 15%)	10,480	8,520
Effect of zero tax rate of Jierui subsidiary	(4,157)	(3,948)
PRC income tax exemption of the Company from July 2004	(3,283)	—
Taxation expense	3,040	4,572

There was no significant temporary differences for both years.

9. DIVIDENDS

	2004 *RMB'000*	2003 *RMB'000*
Interim dividend paid, RMB0.7 cents (2003: nil) per share	6,052	—
Final dividend proposed, RMB1.3 cents (2003: nil) per share	11,239	—
	17,291	—

The final dividend of RMB1.3 cents (2003: nil) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the net profit for the year of RMB65,888,000 (2003: RMB50,454,000) and on the weighted average of 823,195,000 (2003: 600,000,000) shares in issue during the year.

No potential shares were outstanding either in the current or prior years. Accordingly, no amount is presented for diluted earnings per share.

11. 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	Moulds RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
THE GROUP								
COST								
At 1st January, 2004	89,085	51,530	128,055	33,369	5,909	—	20,063	328,011
Additions	60,924	—	134	13,963	1,224	1,388	3,332	80,965
Transfer	(75,382)	—	57,308	15,234	76	—	2,764	—
Disposals	—	—	(902)	(1,577)	(269)	—	(1,108)	(3,856)
At 31st December, 2004	74,627	51,530	184,595	60,989	6,940	1,388	25,051	405,120
DEPRECIATION AND AMORTISATION								
At 1st January, 2004	—	2,288	9,568	6,295	1,723	—	8,082	27,956
Provided for the year	—	1,079	4,747	5,171	813	296	3,908	16,014
Eliminated on disposals	—	—	(213)	(935)	(256)	—	(1,045)	(2,449)
At 31st December, 2004	—	3,367	14,102	10,531	2,280	296	10,945	41,521
NET BOOK VALUES								
At 31st December, 2004	74,627	48,163	170,493	50,458	4,660	1,092	14,106	363,599
At 31st December, 2003	89,085	49,242	118,487	27,074	4,186	—	11,981	300,055

11. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Construction in progress RMB'000	Land use rights RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Moulds RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
THE COMPANY								
COST								
At 1st January, 2004	44,936	42,167	92,632	26,935	5,383	—	17,796	229,849
Additions	52,306	—	69	5,860	933	1,388	2,056	62,612
Transfer	(42,731)	—	37,094	2,781	76	—	2,780	—
Disposals	—	—	(902)	(960)	(269)	—	(1,107)	(3,238)
At 31st December, 2004	54,511	42,167	128,893	34,616	6,123	1,388	21,525	289,223
DEPRECIATION AND AMORTISATION								
At 1st January, 2004	—	2,211	9,142	4,551	1,612	—	7,949	25,465
Provided for the year	—	891	3,609	2,828	877	296	3,530	12,031
Eliminated on disposals	—	—	(213)	(446)	(256)	—	(1,045)	(1,960)
At 31st December, 2004	—	3,102	12,538	6,933	2,233	296	10,434	35,536
NET BOOK VALUES								
At 31st December, 2004	54,511	39,065	116,355	27,683	3,890	1,092	11,091	253,687
At 31st December, 2003	44,936	39,956	83,490	22,384	3,771	—	9,847	204,384

The land use rights and buildings of the Group are situated in the PRC and held under medium-term lease.

The construction in progress represented buildings, plant and machinery under construction which are situated in the PRC.

At 31st December, 2004, the Group has pledged land use rights and buildings having a net book value of approximately RMB164,991,000 to banks to secure bank loans granted to the Group.

At 31st December, 2003, the Group has pledged land use rights and buildings having a net book value of approximately RMB130,796,000 to banks to secure bank loans grant to the Company.

12. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	RMB'000	*RMB'000*
Unlisted equity investments, at cost	49,583	23,823

Details of the Company's subsidiaries as at 31st December, 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
Jierui Subsidiary	Incorporated	PRC	Registered capital	96%	Manufacturing of medical PVC granules, plastic packing bags and carton boxes
威海威高血液淨化製品有限公司	Incorporated	PRC	Registered capital	70%	Inactive
潘陽威高金寶商貿有限公司	Incorporated	PRC	Registered capital	51%	Inactive

13. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2004	2003
	RMB'000	*RMB'000*
Share of net assets	—	5,204

On 30th June, 2004, the associate was disposed of to an independent third party at net assets value at the date of disposal.

14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted equity investments, at cost	—	—	13,000	4,000
Share of net assets	12,800	4,000	—	—
	12,800	4,000	13,000	4,000

Details of the Group's jointly controlled entity as at 31st December, 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 medical products

15. INVENTORIES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At cost:				
Raw materials	26,670	17,899	15,717	15,612
Finished goods	41,340	39,167	37,210	37,680
	68,010	57,066	52,927	53,292

16. TRADE RECEIVABLE

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

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	93,940	64,267	90,350	63,721
91 to 180 days	33,140	20,813	30,179	15,136
181 to 365 days	9,987	9,270	9,349	8,830
Over 365 days	2,579	1,189	1,999	900
	139,646	95,539	131,877	88,587

The trade receivable of the Group and Company include trade receivable of approximately RMB203,000 (2003: nil) due from fellow subsidiaries.

17. AMOUNT DUE FROM A SUBSIDIARY

THE COMPANY

The amount was unsecured and non interest bearing.

On 1st January, 2004, the Company and Jierui Subsidiary entered into a loan agreement, pursuant to which the Company confirmed to provide a loan of approximately RMB41,688,000 to Jierui Subsidiary. The loan was fully repaid on 30th June, 2004.

18. TRADE PAYABLE AND BILLS PAYABLE

The aged analysis of trade payable is stated as follows:

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	38,760	33,725	32,639	51,887
91 to 180 days	9,462	14,357	8,960	13,686
181 to 365 days	3,472	1,214	3,086	1,048
Over 365 days	3,602	4,401	2,775	4,137
	55,296	53,697	47,460	70,758
Bills payable	29,515	44,042	18,048	16,582
	84,811	97,739	65,508	87,340

All the bills payable will mature within one year.

At 31st December, 2003, the trade payable of the Company includes trade payable of approximately RMB1,026,000, RMB125,000 and RMB25,520,000 due to fellow subsidiaries, an associate and a subsidiary, respectively. At 31st December, 2003, the trade payable of the Group includes trade payable of approximately RMB1,026,000 and RMB125,000 due to fellow subsidiaries and an associate, respectively.

19. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loans	105,800	90,243	95,800	90,243
Unsecured bank and other loans	147,500	146,900	132,500	145,100
	253,300	237,143	228,300	235,343
The original maturity of the above bank and other loans is as follows:				
On demand or within one year	105,500	82,183	105,500	80,383
More than one year but not exceeding two years	147,800	147,360	122,800	147,360
More than two years but not exceeding five years	—	7,600	—	7,600
	253,300	237,143	228,300	235,343
Less: Amount due within one year shown under liabilities	(105,500)	(82,183)	(105,500)	(80,383)
Amount due after one year	147,800	154,960	122,800	154,960

As at 31st December, 2004, the bank loans of the Group amounting to RMB20,000,000 (2003: RMB28,700,000) were under the guarantee jointly provided by the ultimate holding company and certain unrelated companies. These loans bear interest on an average of 5.3% per annum and will mature in 2006.

As at 31st December, 2004, the bank loans of the Group and the Company amounting to RMB127,500,000 (2003: RMB136,200,000) and RMB112,500,000 (2003: RMB134,400,000) respectively were under the guarantee provided by the ultimate holding company. These loans bear interest on an average of 5.5% per annum and will mature in 2006 and 2005 respectively.

As at 31st December, 2004, the secured bank loans of the Group and the Company amounting to RMB4,750,000 (2003: RMB7,283,000) were secured by the property, plant and equipment provided by the ultimate holding company. This loan bears interest on an average of 5.7% and will mature in 2005.

20. SHARE CAPITAL

	Nominal value of shares *RMB*	Number of domestic shares	Number of H shares	Total number of shares	Value *RMB'000*
At 1st January, 2003	1.0	60,000,000	—	60,000,000	60,000
Increase due to share subdivision (note a)		540,000,000	—	540,000,000	—
At 31st December, 2003	0.1	600,000,000	—	600,000,000	60,000
Issue of H shares (note b)	0.1	—	264,500,000	264,500,000	26,450
At 31st December, 2004	0.1	600,000,000	264,500,000	864,500,000	86,450

Note a: Pursuant to the resolution of the shareholders' meeting held on 18th April, 2002 and the approval dated 8th December, 2003 issued by the China Securities Regulatory Commission, each domestic share of nominal value of RMB1.0 was sub-divided into ten domestic shares of nominal value of RMB0.1 each.

Note b: On 27th February, 2004, 264,500,000 H shares of RMB0.1 each were issued by the Company at HK$0.62 per share for cash by way of placing.

21. 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					
At 1st January, 2003	—	5,806	2,903	45,300	54,009
Net profit for the year	—	—	—	50,454	50,454
Dividend paid	—	—	—	(9,000)	(9,000)
Appropriation *(note a)*	—	5,015	2,507	(7,522)	—
At 1st January, 2004	—	10,821	5,410	79,232	95,463
Premium on issue of shares	146,012	—	—	—	146,012
Share issue expenses	(19,164)	—	—	—	(19,164)
Net profit for the year	—	—	—	65,888	65,888
Dividend paid	—	—	—	(6,052)	(6,052)
Appropriation *(note a)*	—	8,739	4,370	(13,109)	—
At 31st December, 2004	126,848	19,560	9,780	125,959	282,147
THE COMPANY					
At 1st January, 2003	—	5,806	2,903	31,324	40,033
Net profit for the year	—	—	—	25,926	25,926
Dividend paid	—	—	—	(9,000)	(9,000)
Appropriation *(note a)*	—	5,015	2,507	(7,522)	—
At 1st January, 2004	—	10,821	5,410	40,728	56,959
Premium on issue of shares	146,012	—	—	—	146,012
Share issue expenses	(19,164)	—	—	—	(19,164)
Net profit for the year	—	—	—	43,011	43,011
Dividend paid	—	—	—	(6,052)	(6,052)
Appropriation *(note a)*	—	6,487	3,243	(9,730)	—
At 31st December, 2004	126,848	17,308	8,653	67,957	220,766

21. RESERVES *(Continued)*

Notes:

(a) Basis of appropriations to reserves

The transfers to statutory surplus reserve and statutory public welfare fund are based on the net profit in the financial statements prepared under the generally accepted accounting principles in the PRC.

(b) Statutory surplus reserves

The Company's Articles of Association requires the appropriation of 10% of its profit after taxation (prepared under the generally accepted accounting principles in the PRC) each year to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provisions of the Company's Articles of Association, in normal circumstances, the statutory surplus reserve shall 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

Pursuant to the PRC Company Law, the Company shall make allocation from its profit after taxation (prepared under the generally accepted accounting principles in the PRC) at the rate of 5% to 10% to the statutory public welfare fund. The statutory public welfare fund can only be utilised on the capital items for employees collective welfare. Individual employees only have the right to use these facilities, the titles to which will remain with the Company. The statutory public welfare fund forms part of the shareholders' equity but is non-distributable other than in liquidation.

In the opinion of the directors, the reserves available for distribution to the shareholders at 31st December, 2004 was RMB67,957,000 (2003: RMB40,728,000), which is computed based on the lower of the aggregate amount of profit after taxation for the year and retained profits brought forward determined under generally accepted accounting principles in the PRC and that determined under generally accepted accounting principles in Hong Kong after deduction of the current year's appropriations to the statutory surplus reserve and statutory public welfare fund.

22 CONTINGENT LIABILITIES

The Group and the Company had no material contingent liabilities as at 31st December, 2003 and 2004.

23. PLEDGED TIME DEPOSIT

The amount represent deposits pledged to banks to secure banking facilities granted to the Group and the Company. Deposits amounting to RMB9,000,000 (2003: RMBnil) have been pledged to secure short-term bank loans and are therefore classified as current assets.

24. LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had the following future minimum payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	675	751	675	588
In the second to fifth year inclusive	143	332	143	170
	818	1,083	818	758

Operating lease payments represent rentals payable by the Group and the Company for its branch office premises, staff quarters and warehouses. Leases are mainly negotiated for an average term of two years and rentals are fixed for an average of two years.

25. CAPITAL COMMITMENTS

At 31st December, 2004, the Group and the Company had commitments for acquisition of property, plant and equipment which were contracted for but not provided in the financial statements amounting to approximately RMB40,016,000 (2003: RMB32,478,000) and RMB35,533,000 (2003: RMB23,997,000) respectively.

26. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related parties and guarantee from ultimate holding company as disclosed in notes 16, 18 and 19 respectively, the Group and the Company had the following related party transactions during the two years ended 31st December, 2004:

		THE GROUP	
		2004	2003
	Notes	*RMB'000*	*RMB'000*
Sales to fellow subsidiaries	(a)	1,306	674
Sales to an associate	(a)	18	45
Purchases from fellow subsidiaries	(b)	3,186	3,663
Purchase from an associate	(b)	407	815
Purchases of property, plant and equipment	(c)	—	40,564
Rental payments to ultimate holding company in respect of land use rights and buildings	(d)	162	362
Rental payments to fellow subsidiaries in respect of land use rights and buildings	(d)	192	230

Notes:

(a) The goods were sold to the fellow subsidiaries and the associate at market price.

(b) The raw materials were purchased from the fellow subsidiaries and the associate at market price.

(c) The property, plant and equipment were acquired from the ultimate holding company at net book value.

(d) The land use rights and buildings rented by the Group and the Company were determined in accordance to the tenancy agreements entered between the Group and the ultimate holding company/the fellow subsidiaries.

In addition to the above transactions with related companies, the Group and the Company also had the following related party transactions:

(i) For the year ended 31st December, 2004, the ultimate holding company executed guarantees amounting to approximately RMB29,515,000 (2003: RMB21,582,000) in favour of a bank for acceptance of bills payable issued by the Group and the Company.

(ii) For the year ended 31st December, 2003, the Company acquired an additional 6% interest in Jierui Subsidiary from the ultimate holding company at a consideration of approximately RMB3,229,000.

The directors have represented that the above related party transactions were carried out in the usual course of business and under normal commercial terms of the Group and the Company.

27. RETIREMENT BENEFITS SCHEMES

The Group has established different benefit schemes for its full-time employees according to the relevant PRC regulations and rules, including provision of housing provident fund, medical insurance, retirement insurance, unemployment insurance, labour injury insurance and pregnancy insurance. Pursuant to the existing schemes the Group contributes 8%, 8%, 18%, 2%, 0.6% and 1% of the basic salary of its employees to the housing provident fund, medical insurance, retirement insurance unemployment insurance, labour injury insurance and pregnancy insurance, respectively.

28. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted theses new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

29. POST BALANCE SHEET EVENTS

On 10th January, 2005, the Company entered into an agreement with the ultimate holding company to acquire a building located in the PRC and land use rights of that property at a consideration of RMB9,000,000. The agreement entered into between the Company and the ultimate holding company constituted a connected transaction under Chapter 20 of the GEM Listing Rules.

Financial Summary

	As at 31st December,			
	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS				
Turnover	**407,823**	317,935	278,247	210,277
Profit from operations	**81,715**	68,436	53,614	13,349
Finance costs	**(11,601)**	(11,583)	(2,545)	(1,016)
Share of results of a jointly controlled entity	**(200)**	—	—	—
Share of results of an associate	**(47)**	(51)	(342)	—
Profit before taxation	**69,867**	56,802	50,727	12,333
Taxation	**(3,040)**	(4,572)	(5,295)	(1,850)
Profit before minority interests	**66,827**	52,230	45,432	10,483
Minority interests	**(939)**	(1,776)	(1,906)	—
Net profit for the year	**65,888**	50,454	43,526	10,483
ASSETS AND LIABILITIES				
Total assets	**735,998**	517,587	344,674	252,554
Total liabilities	**(358,481)**	(359,383)	(226,471)	(182,071)
Minority interests	**(8,920)**	(2,741)	(4,194)	—
	368,597	155,463	114,009	70,483

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting ("AGM") of Shandong Weigao Group Medical Polymer Company Limited (the "Company") will be held at the Company's registered office located at No. 312 Shichang Road, Weihai, Shandong Province, PRC on Friday, 20th May, 2005 at 8:30 a.m. for the following purposes:

1. To consider and approve the audited financial statement of the Group (including the Company and its subsidiaries) for the year ended 31st December, 2004;

2. To consider and approve the report of the Board of Directors (the "Board") of the Company for the year 2004;

3. To consider and approve the report of the Supervisory Committee of the Company for the year 2004;

4. To consider and approve the profit distribution plan of the Company for the year 2004;

5. To consider and approve the proposal for the appointment of Deloitte Touche Tohmatsu as the auditor of the Company for the year 2005, and to authorise the Board to determine its remuneration; and

6. To pass the following resolution as a special resolution of the Company;

Special Resolution

"THAT:

a) subject to paragraphs (c), (d) and (e) below, the exercise by the board of directors of the Company during the Relevant Period (as hereinafter defined in paragraph (f)) of all the powers of the Company to allot, issue and deal with Domestic Shares and/or H Shares severally or jointly;

b) the approval in paragraph (a) above shall authorize the board of directors during the Relevant Period to make or grant offers, agreement and options which would or might require the exercise of such powers to allot and issue Domestic Shares and/or H Shares during the Relevant Period or after the end of the Relevant Period;

c) the aggregate nominal amount of Domestic Shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the board of directors pursuant to paragraphs (a) and (b) above, otherwise than pursuant to (i) Rights Issue (as hereinafter defined in paragraph (f)); (ii) upon the exercise of rights of conversion pursuant to any term under any securities which are convertible into Shares; (iii) upon the exercise of rights of subscription pursuant to any term under any warrants issued by the Company; or (iv) any scrip dividend plan or other similar arrangement in lieu of the whole or part of a dividend on Shares allotted pursuant to the Company's Articles of Association, shall not exceed 20% of the aggregate nominal amount of the Domestic Shares in issue on the date of this resolution;

d) the aggregate nominal amount of H Shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the board of directors pursuant to paragraphs (a) and (b) above, otherwise than pursuant to (i) Rights Issue (as hereinafter defined in paragraph (f)); (ii) upon the exercise of rights of conversion pursuant to any term under any securities which are convertible into Shares; (iii) upon the exercise of rights of subscription pursuant to any term under any warrants issued by the Company; or (iv) any scrip dividend plan or other similar arrangement in lieu of the whole or part of a dividend on Shares allotted pursuant to the Company's Articles of Association, shall not exceed 20% of the aggregate nominal amount of the H Shares in issue on the date of this resolution;

e) the approval referred to in paragraph (a) above is conditional upon the Company obtaining the approval from China Securities Regulatory Commission and/or other necessary approvals (if any);

f) for the purpose of this resolution:

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

i) the conclusion of next annual general meeting of the Company after the passing of this resolution;

ii) the expiration of the period within the twelve month period after the passing of this resolution; or

iii) the revocation or variation of the authority given under this resolution by the shareholders of the Company in a general meeting.

"Rights Issue" means an offer of shares to holders of shares on the Company's register and (where appropriate) other holders in the equity securities of the Company that are entitled to accept such offer on a fixed record date in proportion to their then holdings of such shares or such equity securities (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in under the laws of, or the requirements of, any recognized regulatory body or any stock exchange in relevant jurisdiction); and

g) authorize the board of directors to take such further action as it may in its sole and absolution discretion thinks fit for and on behalf of the Company to implement and effect the matters mentioned herein, including any amendment of the Articles of Association of the Company where necessary, so as to increase the registered capital of the Company, and to reflect the new capital structure upon the granting of approval for the allotment or issue of the shares in the Company pursuant to paragraph (a) above.

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

Weihai, Shandong, the PRC
22nd March, 2005

As as the date of this notice, the board of directors of the Company comprises Mr. Zhang Hua Wei, Mr. Miao Yan Guo, Mr. Wang Yi, Mr. Wang Zhi Fan and Mr. Chan Ming as the executive directors, Mr. Chen Xue Li and Mrs. Zhou Shu Hua as the non-executive directors, and Mr. Shi Huan, Mr. Luan Jian Ping and Mr. Lau Wai Kit as the Independent non-executive directors.

Registered address in the PRC:

No. 312 Shichang Road
Weihai
Shandong Province
PRC

Notes:

(i) A shareholder who has the right to attend and vote at the AGM is entitled to appoint one proxy (or more) in writing to attend the AGM and vote on his behalf in accordance with the Company's Articles of Association. The proxy need not be a shareholder of the Company. Enclosed herewith a form of proxy for use in the general meeting. In the case of joint registered holders, the proxy form may be signed by any joint registered holder. In the case that any one of such joint registered holders is present at any meeting personally or by proxy, then one of such joint registered holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

(ii) To be valid, a form of proxy together with a power of attorney or other authority, if any, under which it is signed or certified by a notary or an official copy of that power of attorney or authority, must be delivered at the Company's H Share Registrars in Hong Kong, Standard Registrars Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong (in respect of the H Shareholders of the Company) and the Company's principal place of business at No. 312 Shichang Road, Weihai, Shandong Province, PRC (in respect of domestic Shares holders) not less than 24 hours before the time appointed for holding the AGM 24 hours before the time designated for voting.

(iii) Shareholders and their proxies attending the annual general meeting shall produce their proof of identification.

Notes of the Annual General Meeting

(iv) The register of members in Hong Kong will be closed from 20th April, 2005 (Wednesday) to 20th May, 2005 (Friday), both days inclusive, during which no transfer of shares will be effected. In order to be eligible to attend the annual general meeting and to vote thereat as shareholders, all transfers of shares together with the relevant share certificates must be delivered at the Company's H Share Registrar, Standard Registrar Limited at G/F. Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 pm on 19th April, 2005 (Tuesday).

(v) The holders of the Company's H Shares who intend to attend the annual general meeting should return the reply slip to Company's H Share Registrar, Standard Registrar Limited at G/F. Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 30th April, 2005 (Saturday) by hand, by post, by telegraph or by fax to (852) 25283158.

(vi) The holders of the Company's Domestic Shares who intend to attend the annual general meeting should return the reply slip to Company's registered address Limited at No. 312 Shichang Road, Weihai, Shandong Province, PRC no later than 30th April, 2005 (Saturday) by hand, by post, by telegraph or by fax to (86) 631 5622419.

(vii) The AGM is expected not to exceed half a day, and all shareholders and proxies shall be responsible for their own travelling and accommodation expenses.

(viii) Pursuant to Article 80 of the Company's Articles of Association, a poll may be demanded by the following persons:

(a) the chairman of the meeting;

(b) at least two shareholders entitled to vote present in person or by proxy;

(c) one or more shareholders present in person or by proxy representing more than 10% of all shares carrying the voting rights at the meeting.

(ix) Any enquiry about this notice and the annual general meeting shall be sent for the attention of Mr. Yuan Yongxiang at No. 312 Shichang Road, Weihai, Shandong Province, PRC (Te1. (86) 631 5622418).