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)

interim report 2005

* For identification purposes only

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

SUMMARY

For the six months ended 30 June 2005, the Company and its subsidiaries (the "Group") recorded a turnover of approximately RMB249,686,000, an increase of approximately 42.0% over the corresponding period of the previous year, and recorded a net profit of approximately RMB39,959,000, an increase of approximately 42.7% over the corresponding period of the previous year.

In the first half of the year, a new transfusion consumable plant commenced operation, contributing an additional 5,538 sq. m. of production area. The registration process for pre-filled syringe was near completion, and the Company was applying for new product certificate. The needle production line project was progressing smoothly.

In the first half of the year, the Group has increased its efforts in market development, and has acheived significant progress in broadening its customer base. For the six months ended 30 June 2005, the Group had 421 newly added customers, including 237 hospitals and 26 blood stations. As at 30 June 2005, the Group's total number of customers increased to 5,043.

The Group's trademark " " was recognised as a "well-known trademark" by the State Administration For Industry and Commerce of the People's Republic of China (the "PRC") in June 2005, which was the only "well-known trademark" so far in the medical device industry in the PRC. The Directors believed that such recognition will further enhance the Group's brand-awareness and competitiveness.

The Group has devoted more efforts in research and development ("R&D") in the first half of the year and obtained encouraging results. Applications were made for 9 patents, and 4 patent certificates were obtained during the period. Applications were made for 28 new product registration certificates, and 4 product registration certificates were obtained. Total R&D expenses paid during the period amounted to RMB4,396,000.

The board of Directors (the "Board") recommended distribution of an interim dividend of RMB0.01 each per share.

UNAUDITED CONSOLIDATED RESULTS

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

Consolidated Income Statement

		Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
		2005	2004	**2005**	2004
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	2	**135,774**	94,082	**249,686**	175,790
Cost of sales		**(80,384)**	(54,310)	**(150,786)**	(102,747)
Gross profit		**55,390**	39,772	**98,900**	73,043
Other operating income		**3,052**	2,024	**5,156**	4,043
Distribution costs		**(23,020)**	(14,915)	**(39,277)**	(27,372)
Administration expenses		**(7,742)**	(5,004)	**(15,757)**	(10,709)
Profit from operations	4	**27.680**	21,877	**49,022**	39,005
Finance costs	5	**(3,715)**	(3,250)	**(7,576)**	(6,838)
Share of results in a jointly controlled company		**(529)**	(650)	**(470)**	(650)
Share of results in an associate		**—**	(1)	**—**	(59)

	Note	Unaudited For the three months ended 30 June 2005 RMB'000	Unaudited For the three months ended 30 June 2004 RMB'000	Unaudited For the six months ended 30 June 2005 RMB'000	Unaudited For the six months ended 30 June 2004 RMB'000
Profit before taxation		23,436	17,976	40,976	31,458
Taxation	6	—	(1,900)	—	(3,031)
Profit before minority interests		23,436	16,076	40,976	28,427
Minority interests		(39)	(221)	(1,017)	(417)
Net profit attributable to shareholders	7	23,397	15,855	39,959	28,010
Dividend	8	9,127	6,052	9,127	6,052
Earnings per share (Basic)	9	RMB0.027	RMB0.018	RMB0.046	RMB0.036

Consolidated Balance Sheet

	Note	As at 30 June 2005 (Unaudited) RMB'000	As at 31 December 2004 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	10	486,976	363,599
Interest in a jointly controlled entity	11	12,331	12,800
Interest in an associate	12	8,000	—
		507,307	376,399
Current Assets			
Inventories	13	95,004	68,010
Trade receivable	14	155,759	139,646
Prepayments, deposits and receivables		38,213	31,262
Pledged bank deposit		20,405	17,860
Bank balances and cash		38,645	102,821
		348,026	359,599

	Note	As at 30 June 2005 (Unaudited) RMB'000	As at 31 December 2004 (Audited) RMB'000
Current liabilities			
Trade payable and bills payable	15	96,786	84,811
Other payable and accrued expenses		41,263	18,434
Amount due to a fellow subsidiary	16	169	—
Bank and other borrowings — repayable within one year	17	95,750	105,500
Taxation		310	1,936
		234,278	210,681
Net current assets		113,748	148,918
		621,055	525,317
Capital and reserves			
Share capital	18	91,266	86,450
Reserves	19	353,052	282,147
		444,318	368,597
Minority interests		10,737	8,920
Non-current liabilities			
Bank and other borrowings — repayable after one year	17	166,000	147,800
		621,055	525,317

Condensed Cash Flow Statement

	Unaudited For the six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Net cash generated from operating activities	33,403	31,941
Net cash used in investing activities	(96,791)	(50,692)
Net cash outflow before financing activities	(63,388)	(18,751)
Net cash (outflow)/inflow from financing activities	(788)	141,420
Net (decrease)/increase in cash and cash equivalents	(64,176)	122,669
Bank balances and cash as at Beginning of the Period	102,821	15,571
Bank balances and cash as at ending of the period	38,645	138,240

Consolidated Statement of Changes in Equity

	Unaudited For the six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Balance as at 1 January	368,597	155,463
Net profit during the period	39,959	28,010
Dividend paid	(11,238)	—
Share issue		
Share capital	4,816	26,450
Share premium	42,184	146,012
Share issue expenses	—	(18,946)
Balance as at 30 June	444,318	336,989

Notes:

1. Principal operations and basis of reporting

The Company is a joint stock limited company incorporated in Shandong Province, the PRC on 28 December 2000 with limited liability pursuant to the approval document Lu Ti Gai Han Zi 2000 No. 39 of the Commission for Restructuring the Economic Systems of Shandong Province. Its ultimate controlling company was Shandong Weigao Group Company Limited ("Weigao Holding"), a limited liability company incorporated in the PRC.

The Company's H Shares was successfully listed on GEM on 27 February 2004 (the "Listing").

The Company is principally engaged in the research and development, manufacture and sales of single-use medical devices.

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

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

2. Turnover

Turnover represents amounts received and receivable for goods sold to external customers net of sales taxes and returns during the period.

3. Segment information

The Group is mainly engaged in the manufacturing and sales of single-use medical devices, with its major sales operations mostly conducted in the PRC. All the Group's identifiable assets are located in the PRC. Accordingly, no segmental analysis is presented.

4. Profit from operations

	Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Profit from operations have been arrived at after charging (crediting) the following:				
Provisions for bad debts	1,089	35	1,662	498
Auditors' remuneration	318	—	318	—
Depreciation and amortisation	5,646	3,624	10,491	7,002
Rental payments in respect of premises under operating leases	1,154	709	1,686	1,146
Research and development expenditure	2,405	1,899	4,396	3,516
Staff cost, including directors' remuneration				
- Retirement benefits scheme contributions	3,789	2,303	6,526	4,049
- Wages and salaries	16,871	13,060	27,820	20,238
Total staff costs	20,660	15,363	34,346	24,287
(Gains)/loss on disposal of property, plant and equipment	(7)	23	(38)	15
Interest income	(170)	(92)	(287)	(112)
Rebate of value-added tax ("VAT") (Note)	(2,675)	(1,716)	(4,556)	(3,647)

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

5. Finance costs

Finance costs for the three months and six months ended 30 June 2005 were RMB3,715,000 and RMB7,576,000 respectively (corresponding period in 2004: RMB3,250,000 and RMB6,838,000), which mainly included interest expenses for bank and other borrowings. Finance costs increased by 14.3% and 10.8% over the corresponding period of 2004, which was mainly due to the increase in bank and other borrowing balances at the beginning of the year 2005.

6. Taxation

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%). Starting from 1 July 2004, the Company is entitled to an exemption from PRC income tax for the two years starting from its first profit-making year, followed by a 50% tax relief for the next three years. Taking these tax incentives into account, no tax charge has been provided for the three months and six months ended 30 June 2005 (corresponding period in 2004: RMB1,900,000 and RMB3,031,000).

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

Weihai Weigao Blood Purified Product Co., Ltd. ("Weigao Blood") and Weihai Weigao Group Mould Co. Ltd. ("Weigao Mould") are subject to an enterprise income tax rate of 33%.

Pursuant to the approval by the State Tax Bureau of Shenyang City Shenhe Branch under document Shenhe Guo Shui Deng Zi (2005) No. 0049 "Notice regarding the approval of tax reduction and exemption", Shenyang Weigao Jinbao Trading Co., Ltd. ("Weigao Jinbao") is exempted from 2005 enterprise income tax.

7. Net profit attributable to shareholders

For the three months and six months ended 30 June 2005, net profit attributable to the Group's shareholders were RMB23,397,000 and RMB39,959,000 (Corresponding period in 2004: RMB15,855,000 and RMB28,010,000) respectively.

8. Dividend

	Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Interim, proposed, RMB0.01 per share (same period of 2004: RMB0.007 per share)	9,127	6,052	9,127	6,052

The Board proposed an interim dividend of RMB0.01 per share (Corresponding period in 2004: RMB0.007). The proposed dividend is not reflected as a dividend payable but will be reflected as an appropriation of retained profits for the period ended 30 June 2005.

9. Earnings per share

In the Company's extraordinary general meeting held on 20 May 2005, 48,160,000 domestic shares were approved to be issued to Weigao Holding as consideration for the acquisition of land and properties from Weigao Holding.

For the three months and six months ended 30 June 2005, basic earnings per share were calculated based on net profits attributable to the Group's shareholders of RMB23,397,000 and RMB39,959,000 (Corresponding period in 2004: RMB15,855,000 and RMB28,010,000) respectively, and on the weighted average total number of 880,553,333 shares and 872,526,667 shares (Corresponding period in 2004: 864,500,000 shares and 776,333,333 shares) respectively.

Diluted earnings per share for the three months and six months ended 30 June 2004 and 2005 have not been presented as there were no dilutive potential ordinary shares in existence during those periods.

10. Property, plant and equipment

	Construction in progress RMB'000	Land use rights RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Moulds RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
The Group								
Cost								
At 1 January 2005	74,627	51,530	184,595	60,989	6,940	1,388	25,051	405,120
Additions	18,509	4,549	5,760	3,142	2,220	1,001	3,773	138,954
Transfer	(27,719)	—	12,658	13,404	317	52	1,288	—
Disposals	—	—	(6,234)	(13)	(426)	—	(34)	(6,707)
At 30 June 2005	165,417	56,079	196,779	77,522	9,051	2,441	30,078	537,367
Depreciation and amortisation								
At 1 January 2005	—	3,367	14,102	10,531	2,280	296	10,945	41,521
Provided for the period	—	539	3,113	3,326	715	433	2,365	10,491
Eliminated on disposals	—	—	(1,445)	(3)	(170)	—	(3)	(1,621)
At 30 June 2005	—	3,906	15,770	13,854	2,825	729	13,307	50,391
Net book values								
At 30 June 2005	165,417	52,173	181,009	63,668	6,226	1,712	16,771	486,976
At 31 December 2004	74,627	48,163	170,493	50,458	4,660	1,092	14,106	363,599

11. Interest in a jointly controlled entity

	As at 30 June 2005 *(Unaudited)* *RMB'000*	As at 31 December 2004 *(Audited)* *RMB'000*
Share of net assets	12,331	12,800

Details of the jointly controlled entity as at 30 June 2005 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%	Manufacture and sales of drug elutimg stent

12. Interest in an associate

	As at 30 June 2005 *(Unaudited)* *RMB'000*	As at 31 December 2004 *(Audited)* *RMB'000*
Share of net assets	8,000	—

Details of associate as at 30 June 2005 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 Weigao Bone Materials Co., Ltd. ("Weigao Bone")	Incorporated	PRC	Registered capital	40%	Manufacture and sales of orthopaedics products

13. Inventories

	As at 30 June 2005 (Unaudited) RMB'000	As at 31 December 2004 (Audited) RMB'000
At cost:		
Raw materials	30,381	26,670
Finished goods	61,026	41,340
Inventories	3,597	—
	95,004	68,010

Increase in raw materials was mainly attributable to the increase in reserves of raw materials by the Company in anticipation of the commencement of the production of new products and increase in production scale. Increase in finished goods was due to the increase in the number of customers and the need to carry more inventories for the Group's expanded distribution network. Inventories mainly represented trading stocks of a new trading operation started by the Group.

14. Trade receivable

The Group and the Company allow an average credit period of 90 days to 120 days to its customers. The aging analysis of trade receivables is stated as follows:

	As at 30 June 2005 *(Unaudited)* *RMB'000*	As at 31 December 2004 *(Audited)* *RMB'000*
0 to 90 days	110,273	93,940
91 to 180 days	24,081	33,140
181 to 365 days	16,025	9,987
Over 365 days	5,380	2,579
	155,759	139,646

Increase in trade receivables was mainly due to increase in turnover and number of new customers during the six months ended 30 June 2005.

The Group's trade receivable included a trade receivable from a fellow subsidiary of RMB625,000, which represented normal trade receivable and was unsecured, non-interest bearing and had no fixed term of repayment.

15. Trade payable and bills payable

The aging analysis of trade payable was stated as follows:

	As at 30 June 2005 (Unaudited) RMB'000	As at 31 December 2004 (Audited) RMB'000
0 to 90 days	45,536	38,760
91 to 180 days	9,922	9,462
181 to 365 days	1,102	3,472
Over 365 days	2,566	3,602
	59,126	55,296
Bills payable	37,660	29,515
	96,786	84,811

Increase in trade payable and bills payable were mainly due to the expansion of production scale.

The Group's trade payable and bills payable included amounts payable to a fellow subsidiary of RMB173,900, which represented normal trade payable and was unsecured, non-interest bearing and had no fixed term of repayment.

16. Amount due to a fellow subsidiary

The amount was unsecured, non-interest bearing and had no fixed term of repayment.

17. Bank and other borrowings

	As at 30 June 2005 (Unaudited) RMB'000	As at 31 December 2004 (Audited) RMB'000
Secured bank loans	100,700	105,800
Unsecured bank and other loans	161,050	147,500
	261,750	253,300
The original maturity of the above bank and other loans is as follows:		
On demand or within one year	95,750	105,500
More than one year but not exceeding two years	166,000	147,800
	261,750	253,300
less: amount due within one year shown under current liabilities	(95,750)	(105,500)
Amount due after one year	166,000	147,800

18. Share capital

	Nominal value of shares *RMB*	Number of domestic shares	Number of H shares	Total number of shares	Value *RMB'000*
At 1 January 2004	0.1	600,000,000	—	600,000,000	60,000
Issue of H shares *(Note a)*	0.1	—	264,500,000	264,500,000	26,450
At 31 December 2004	0.1	600,000,000	264,500,000	864,500,000	86,450
Increase due to issue of shares *(Note b)*	0.1	48,160,000	—	48,160,000	4,816
At 30 June 2005	0.1	648,160,000	264,500,000	912,660,000	91,266

Notes:

(a) On 27 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.

(b) A resolution was passed in the Company's extraordinary general meeting held on 20 May 2005 that 48,160,000 domestic shares were issued to Weigao Holding for the acquisition of land and properties from it. It was also approved by the Ministry of Commerce under document Shang Zi Pi [2005] No. 1268 that the registered capital of the Company be changed from the original RMB86,450,000 to RMB91,266,000.

19. Reserves

	Share premium reserve *RMB'000*	Statutory surplus reserve *RMB'000 (Note b)*	Statutory public welfare fund *RMB'000 (Note c)*	Retained earnings *RMB'000*	Total *RMB'000*
THE GROUP					
As at 1 January 2004	—	10,821	5,410	79,232	95,463
Net profit for the period	—	—	—	65,888	65,888
Dividend paid	—	—	—	(6,052)	(6,052)
Premium from issue of shares	146,012	—	—	—	146,012
Share issue expenses	(19,164)	—	—	—	(19,164)
Appropriation *(Note a)*	—	8,739	4,370	(13,109)	—
As at 31 December 2004	126,848	19,560	9,780	125,959	282,147
As at 1 January 2005	126,848	19,560	9,780	125,959	282,147
Net profit for the period	—	—	—	39,959	39,959
Dividend paid	—	—	—	(11,238)	(11,238)
Premium from issue of shares	42,184	—	—	—	42,184
As at 30 June 2005	169,032	19,560	9,780	154,680	353,052

	Share premium reserve *RMB'000*	Statutory surplus reserve *RMB'000 (Note b)*	Statutory public welfare fund *RMB'000 (Note c)*	Retained earnings *RMB'000*	Total *RMB'000*
THE COMPANY					
As at 1 January 2004	—	10,821	5,410	40,728	56,959
Net profit for the period	—	—	—	43,011	43,011
Dividend paid	—	—	—	(6,052)	(6,052)
Premium on issue of shares	146,012	—	—	—	146,012
Share issue expenses	(19,164)	—	—	—	(19,164)
Appropriation *(Note a)*	—	6,487	3,243	(9,730)	—
As at 31 December 2004	126,848	17,308	8,653	67,957	220,766
As at 1 January 2005	126,848	17,308	8,653	67,957	220,766
Net profit for the period	—	—	—	27,779	27,779
Dividend paid	—	—	—	(11,238)	(11,238)
Premium on issue of shares	42,184	—	—	—	42,184
As at 30 June 2005	169,032	17,308	8,653	84,498	279,491

Notes:

(a) Bases for appropriation to reserves

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

(b) Statutory surplus reserve

The Articles of Association of the Company requires that 10% of the profit after taxation should be transferred to the statutory surplus reserve in accordance with the PRC GAAP, until it has reached 50% of the registered capital. Pursuant to the Articles of Association, under normal circumstances, statutory surplus reserves can only be used to make up for losses, convert into share capital by way of capitalisation, and for the expansion of the Company's production and operation scope. In the event of conversion of the statutory surplus reserve into share capital by way of capitalisation, it should not result in the balance of the capital to be less than 25% of the registered capital.

(c) Statutory public welfare fund

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

According to the relevant laws and regulations of the PRC, distributable profit of the Company was determined at the lower of such amount calculated based on the accounting principles and regulations of the PRC or the generally accepted accounting principles of Hong Kong. As at 30 June 2005, retained earnings distributable to sharesholders was RMB84,498,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate development

For the six months ended 30 June 2005, the Group's turnover and net profit were approximately RMB249,686,000 and RMB39,959,000 respectively, representing an increase of 42.0% and 42.7% over the corresponding period in 2004 respectively.

The consolidated gross profit margin in the second quarter of 2005 was 40.8%, down slightly from the corresponding period in 2004. This was partly due to the Group's attention in growing its export sales of conventional products to expand its overseas market share. Exports in the quarter, with average gross profit margin of 7.9%, increased substantially by doubling the revenue recorded in the corresponding period in the last year. Secondly, due to the surge in the crude oil prices in the international market, the prices of petrochemical materials had increased, which ultimately affected the Group's gross profit margin. In the second quarter, the Group had devoted more efforts in restructuring and streamlining its product mix, leading to a 2.6% increase in the gross profit margin compared with the first quarter. It is anticipated that the proportion of sales of high value-added products will further increase in the future and the Group's consolidated gross profit margin will be enhanced.

The joint venture established by the Group and an independent third party for the manufacturing of drug eluting stent was operating as usual, and the newly added production line for catheters has also commenced operation. Currently, the Group has obtained satisfactory results in the production and overseas sales of its products. Positive feedbacks have been received in the international market which also add to the Company's ability to compete in the high-end markets.

Weigao Jinbao, a 51% owned subsidiary of the Group, which was established with an independent third party, has contributed positive results to the Group. Demands for its kidney dialysis equipment and consumables have proved to be strong in the domestic market. By leveraging on the Group's sales network resource, Weigao Jingbao has established its foothold in certain key markets in the Northeast China, setting down a foundation for its further expansion to other cities in the PRC.

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

Weigao Bone, which was invested and established by the Group and an independent third party in the second quarter of 2005, is a sino-foreign joint venture in which the Company has 40% interest. Weigao Bone is principally engaged in the research and development, production and sales of technologically advanced and high value-added products such as medulla nail series, steel plate series and bone connecting screw series and spine fixing series. Relevant pre-operating work and procedures have basically been completed. Procurement and installation of machinery and equipment are expected to be finished by August 2005. It is anticipated that the product registration process will be completed in the third quarter of 2005 and major products can be ready for launch in the fourth quarter. Orthopedic products are expected to be a new source that will drive the growth of the profitability of the Group.

Weigao Mould, a 90% owned subsidiary of the Company, was established by the Company with an independent third party, and is mainly engaged in the manufacture and sales of moulds. On the other hand, it can also satisfy the need within the Group to enhance the precision level and product quality of the moulds manufactured for the Group's equipment. It also helps lowering the Group's manufacturing cost and enhances its overall research and development capabilities. Preparation work for setting the business is still underway and Weigao Mould is also in the progress of procuring the relevant equipment and machinery. As the pre-operating activities were progressing smoothly, it is anticipated that the operation may commence in the third quarter of 2005.

The Group's trademark "威高" was recognised as a "well-known trademark" by the State Administration For Industry and Commerce in the PRC in June 2005, which was the only "well-known trademark" so far in the medical device industry in the PRC. The award served to enhance the Group's brand-awareness, and strengthen its competitiveness both in the domestic and international markets to a very significant extent.

Research and development

For the six months ended 30 June 2005, 9 patent applications were filed, and 4 patent certificates were obtained, whilst 28 new product registration certificate applications were made and 4 product registration certificates were obtained. During the period, total research and development expenses amounted to RMB4,396,000.

Production

The Group has expanded its production facility for blood transfusion consumables by 5,538 sq. m., increasing production capacity of high-end blood transfusion device by 16 million sets annually. Adjustment to the product mix increased the production capacity of the Group for high-end products and enhanced its industrial competitiveness.

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

(1) approximately 97,297,000 sets of single-use sterile infusion (transfusion) sets, increased by 26%;

(2) approximately 5,349,000 sets of single-use sterile blood transfusion consumables, increased by 24.4%;

(3) approximately 139,648,000 sets of single-use sterile syringes, increased by 16.4%;

(4) approximately 4,373.3 tonnes of PVC granules, increased by 22.1%;

(5) approximately 763,000 sets of dental & anaesthetic products, increased by 93.2%;

(6) approximately 239,947,000 pieces of needle products, increased by 103.5%;

(7) approximately 18,382,000 sets of blood sampling products, increased by 185.5%;

(8) approximately 20,090,000 sets of other products, increased by approximately 110.7%.

Sales network and marketing

In the second quarter of 2005, the results from the adjustment to the product mix and implementation of its market development strategies have improved further. With successful implementation of its market development strategy and product mix adjustment strategy, the Group strengthened its market development. More efforts were devoted to increase the sales of non-conventional products through promotion meetings and exhibitions. Detailed assessment on the performance of sales personnel were carried out. Remarkable success was achieved in the sales of non-conventional and high value-added products.

The Company's sales network can be distinguished into overseas and seven domestic sales regions for the direct sales of goods. For the six months ended 30 June 2005, the Group established business relationship with 421 new customers, including 237 hospitals and 26 blood stations. So far, the Group's total number of customers has reached 5,043, including 2,610 hospitals, 391 blood stations, 660 other medical units and 1,382 dealers.

Reforms to the sales system have substantially enhanced the results in the second quarter. Comparision of the sales of various products by geographical areas over the corresponding period in the previous year are set out as follows:

Turnover by geographical segments

	For the six months ended 30 June				
Region	2005		2004		Growth
	RMB'000	%	*RMB'000*	%	%
Northeast	45,708	18.3%	36,478	20.8%	25.3%
Northern	82,072	32.9%	59,915	34.0%	37.0%
Eastern and Central	54,262	21.7%	37,887	21.5%	43.2%
Southwestern	10,665	4.3%	7,873	4.5%	35.5%
Northwestern	11,755	4.7%	8,432	4.8%	39.4%
Southern	26,568	10.6%	19,119	10.9%	39.0%
Overseas	18,656	7.5%	6,086	3.5%	206.5%
Total	249,686	100.0%	175,790	100.0%	42.0%

In addition, the product mix adjustment was another important factor that enhanced the results in the second quarter of 2005. As the market became increasingly competitive, sales of various key products have shown relatively more remarkable growth. Comparison of the growth in the sales of various key products over those of the previous year are set out as follows:

Turnover by category segments

	For the six months ended 30 June				
Product category	2005		2004		Growth
	RMB'000	*%*	*RMB'000*	*%*	
Infusion sets	83,604	33.5%	68,927	39.2%	21.3%
Syringes	69,395	27.8%	58,335	33.2%	19.0%
Blood bags	30,351	12.2%	17,553	10.0%	72.9%
PVC granules	23,627	9.5%	15,375	8.7%	53.7%
Dental & anaesthetic products	4,717	1.9%	3,417	1.9%	38.1%
Medical instruments	14,122	5.7%	473	0.3%	2,885.6%
Catheters	262	0.1%	107	0.1%	144.9%
Blood sampling pipes and needles	4,195	1.7%	1,333	0.8%	214.7%
Others	19,413	7.6%	10,270	5.8%	89.0%
Total	249,686	100.0%	175,790	100.0%	42.0%

HUMAN RESOURCES

As at 30 June 2005, the Group employed a total of 5,060 employees. Breakdown by departments is as follows:

Departments	Number of employees
Research and development	95
Sales and marketing	496
Production *(note)*	4,160
Purchasing	23
Quality control	50
Management	51
Finance and administration	185
Total	5,060

Note: The number of production staff were similar to the first quarter despite the expansion of production scale. This was mainly due to the acquisition and installation of new equipment and implementation of technological innovation, which enhanced the level of automation in production and productivity of workers.

Save as the company secretary, who resides in Hong Kong, all employees of the Group resided in the PRC. For the six months ended 30 June 2005, total amount of staff salaries and welfare amounted to RMB34,346,000.

FINANCIAL REVIEW

Liquidity and financial resources

The Group has maintained a sound financial position for the six months ended 30 June 2005. As at 30 June 2005, the Group's working capital amounted to RMB113,748,000. For the six months ended 30 June 2005, the Group has generated a net cash-inflow from operating activities of RMB33,403,000.

During the period, the Group adjusted its borrowing portfolio, so as to satisfy the capital requirements for the expansion of operations, equipment investments and technological innovations. For the six months ended 30 June 2005, the Group has obtained bank loans of RMB93,450,000 and repaid RMB85,000,000 resulting an increase of RMB8,450,000 in net borrowings. As at 30 June 2005, the Group's short-term bank and other borrowings amounted to RMB95,750,000 and long-term bank and other borrowings was RMB166,000,000.

Interests paid by the Group during the period was RMB7,576,000.

Gearing ratio

The Group's gearing ratio, being the ratio of total borrowings to total equity was 0.59 (corresponding period in 2004: 0.67). Decrease in gearing ratio was mainly due to the shares issued to Weigao Holding and the increase in retained profit during the period.

Contingent liabilities

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

Capital commitments

As at 30 June 2005, the Group has commitments for the acquisition of assets which were contracted but not provided for in the financial statements amounting to RMB19,173,000 in total. The above amounts will be paid by the Group out of the proceeds from the Listing and internal resources.

Pledge of the Group's assets

As at 30 June 2005, net assets of RMB187,028,000 (corresponding period in 2004: RMB130,245,000) were pledged by the Group.

OUTLOOK

Adjustment to the Group's product mix and organisational structure have achieved satisfactory results, and have set up a firm platform for future development. In the future, the Group will focus on consolidating the existing foundation, seeking for development, and promoting the "Jierui" brand-name.

1. More efforts will be devoted in R&D and enhancement of R&D team. The Group will adopt a market-oriented approach in the R&D of its new products;

2. Develop and implement production resources management system "MRPII", conduct a planned management to the production system, and decide production and material requirements in accordance with market demands, so as to reduce production and purchase costs, speed up capital turnover, and reduce tie-up of capital;

3. Speed up technological renovations and integration of production equipment. Aim at cost management and capacity enhancement so as to reasonably deploy production resources, thereby eliminating impact of external factors on the production costs;

4. Testing of the two needle production lines are near completion, and operation is planned to commence in the third quarter of 2005. Annual capacity of various syringe needles and infusion needles are anticipated to be 1.5 billion pieces, which can fully satisfy the Group's demands for needle products;

5. In the second quarter of 2005, non-conventional products such as precision light-proof infusion sets, deleucocyte blood bags and intravenous catheters obtained satisfactory operating results. In the third quarter of 2005, the Group will continue to increase sales efforts in non-conventional products, and gradually expand the proportion of high value-added products.

COMPARISON OF THE BUSINESS OBJECTIVES WITH THE ACTUAL BUSINESS PROGRESS

Statements of business objectives as set out in the prospectus	Actual business progress
Production	
1. To apply RMB13,000,000 in the production of pre-filled syringe products and irregular needles	Actual invested amount was RMB11,351,000. Payable settlement of the purchased equipment for production of blood transfusion consumables was behind schedule and was made in current period. The pre-filled syringe equipment is under testing and it is anticipated that the pre-filled syringe products can be ready for market launch in the fourth quarter of 2005. Testing of two newly-added irregular needle production lines is near completion. Production will commence in the third quarter of 2005. See "Statement on the use of proceeds" for details of the payments.

Statements of business objectives as set out in the prospectus	Actual business progress
2. The 5 product items such as single-use nutritional infusion bag, single-use machine use light-proof syringe, single-use pre-filled syringe are planned to be put into production	Product certificate for single-use pre-filled syringe is being processed. It is anticipated that the certificate will be obtained in the third quarter of 2005, and the product will be launched to the market in the fourth quarter. Other products have already been launched to the market.
3. To conduct feasibility studies for the establishment of production facilities in Southwest China	The Group is in the progress of assessing the feasility of setting up production facilities in Southwest China through acquisition of suitable production plants.
Research and development	
To invest RMB1,500,000 in the R&D of new products	The Company has applied for patent certificates on 9 products, and obtained certificates for 4 products; applied for new product registration certificates for 28 products, and obtained certificates for 4 products. Total R&D expenses paid amounted to RMB4,396,000.

Sales and marketing

1. To apply RMB2 million from the proceeds of the Listing in marketing	The Company participated in numerous domestic and overseas medical device exhibitions, organised nationwide promotion meetings among counterparts, actively participated in medical sponsored activities and strengthened marketing with outstanding results achieved. Proceeds from the Listing have been applied as schedule.
2. To set up 9 sales offices and customer liaison centres	After the adjustment to the sales structure, 7 sales regions were set up to take charge of the various sales offices and implementing direct sales of goods to ensure rapid delivery to customers with the lowest cost and highest efficiency. The Group's sales branches and offices have increased to 13, and customer contact centers increased to 20. Number of cities with sales representatives deployed have increased to 91.

3.	To recruit 40 persons and expand the sales team to 420 persons	The Company's sales team continued to grow. In order to enhance the overall working spirit of the sales team, the Company implemented an elimination system, recruited 161 persons and dismissed 10 sales persons in the first half of the year 2005 as a result of their unsatisfactory work performance. The total number of sales staff reached 496 persons.
4.	To participate in tenders	The Company won all government tenders it had participated during the first half of year 2005.
5.	To export products from the Northwest China production plant to Central Asia	During the first half of year 2005, the Group had exported its products to customers in Europe, the United States of America and Asia.

STATEMENT ON THE USE OF PROCEEDS

For the six months ended 30 June 2005

Project	As set out in the prospectus *RMB'000*	Actual situation *RMB'000*
Production		
- Blood transfusion consumables *(note 1)*	—	1,512,000
- Pre-filled syringe *(note 2)*	4,000,000	3,535,000
- Irregular needles *(note 3)*	9,000,000	6,304,000
Sub-total	13,000,000	11,351,000
Research and development		
- New medical devices *(note 4)*	1,500,000	4,396,000
Sales		
- Expansion of sales network and marketing activities *(note 5)*	2,000,000	3,376,000
Total	16,500,000	19,123,000

Note 1: The production plant of blood transfusion consumables is at testing stage at the moment. Payable settlement of the purchased equipment was behind schedule.

Note 2: Pre-filled syringe equipment has been purchased. Over one half of the testing work has been completed. Settlement of equipment purchase was behind schedule.

Note 3: Installation of the two additional irregular needle production lines have been completed. Testing is near completion. Settlement of major equipment purchase was ahead of schedule and already made in 2004.

Note 4: To accelerate the adjustment to the product mix of the Group, the Group has increased its investment in the R&D of new products.

Note 5: The Group has increased its marketing efforts in the promotion of new products in the market, leading to increase in the relevant expenditures.

DIVIDENDS

The Board proposed to distribute an interim dividend of RMB0.01 per share, or a total of approximately RMB9,127,000 for the six months ended 30 June 2005. Dividends payable to shareholders in the PRC will be paid in Renminbi, and dividends payable to holders of H Shares will be paid in Hong Kong dollars.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 31 August 2005 to 30 September 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Standard Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 30 August 2005. Dividend warrants will be despatched on or before 31 October 2005 to shareholders whose names appear on the Company's register of members on 30 September 2005.

DIRECTORS' INTERESTS AND LONG POSITIONS IN SHARES

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

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

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

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

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

Name of Directors	Capacity	Amount of registered capital	Approximate percentage of the registered capital of Weigao Holding
Mr. Chen Xue Li	Beneficial owner	36,600,000	30.00%
Mr. Zhang Hua Wei	Beneficial owner	29,280,000	24.00%
Mr. Miao Yan Guo	Beneficial owner	7,320,000	6.00%
Mr. Wang Yi	Beneficial owner	7,320,000	6.00%
Mr. Wang Zhi Fan	Beneficial owner	2,610,800	2.14%
Mr. Wu Chuan Ming	Beneficial owner	2,257,000	1.85%
Mrs. Zhou Shu Hua	Beneficial owner	14,579,000	11.95%

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

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the period was the Company, its ultimate holding company or any subsidiaries of its ultimate holding company, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and no directors nor any of their spouse or children under 18 has the right to subscribe for the shares in the Company, or has exercised such right.

SUBSTANTIAL SHAREHOLDER

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

For the six months ended 30 June 2005, purchases attributable to the Group's five largest suppliers and the turnover attributable to the five largest customers represented approximately 34% and 4.8% of the Group's total purchases and total turnover respectively.

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

SPONSORS' INTERESTS

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

Neither Goldbond nor its directors or employees or associates (as referred to in the Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

Save and except the following deviation from the code provisions set out in the Code on Corporate Governance Practice as contained in Appendix 15 to the GEM Listing Rules (the "CCGP"), the Company had, during the period under review, complied with the CCGP:

Code provision set out in the CCGP	Reason for deviations
B1 Remuneration committee has not yet been set up by the Company	The Company was in the progress of forming its remuneration committee during the period, which was subsequently set up on 12 August 2005.

The Board was also in the progress of assessing the effect of the implementation of the CCGP on the Company's operation. Save as disclosed, the Company has met the code provisions set out in the CCGP throughout the six months ended 30 June 2005.

AUDIT COMMITTEE

The Company set up an Audit Committee (the "Committee") on 1 September 2002 with written terms of reference in compliance with rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. The Committee comprised Messrs. Luan Jian Ping, Mr. Shi Huan, Mr. Lau Wai Kit, being independent non-executive directors and Mrs. Zhou Shu Hua, a non-executive director. Mr. Lau Wai Kit has been appointed as a member of the Committee with effect from 17 November 2004.

The Company's financial statements for the six months ended 30 June 2005 have been reviewed by the Committee. The Committee considered that the relevant financial statements have been prepared in compliance with the applicable accounting principles and requirements of the Stock Exchange and other laws, and disclosures have been fully made.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive right under the Articles of Association and the laws of the PRC, the place of jurisdiction where the Company was established, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

COMPETING INTERESTS

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD PRACTICES AND PROCEDURES

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

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

Weihai, Shandong, the PRC
12 August 2005

As at the date of this report, 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. Wu Chuan 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.