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)

2003 Annual Report

* 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

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
35 Yan Tai West Road
Weihai
Shandong Province
PRC

Principal place of business in Hong Kong
Room 1905,19th Floor
No.9 Queen's Road Central
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

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

Auditors
Deloitte Touche Tohmatsu
Certified Public Accountants

Sponsor
Polaris Securities (Hong Kong) 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

Investor Relationship Consultant
A World Consulting Co., Ltd.

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 "威高" and "威高". With an extensive sales network of 11 sales offices and 16 customer liaison centers in the PRC, the Group has developed an extensive customer base with its products sold to over 2,500 healthcare institutions such as hospitals and blood centers and over 1,000 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 62 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.

RESULTS

I am pleased to present herewith the Group's excellent operating results as at 31st December, 2003. The Group's turnover for the year amounted to RMB317,935,000, an increase of 14.26% over RMB278,247,000 in 2002. Net profit for the year amounted to RMB50,454,000, an increase of 15.92% over RMB43,526,000 in 2002.

BUSINESS REVIEW

In 2003, the Group has established business relationship with approximately 810 new customers, including approximately 541 hospitals, 40 blood centers and 215 trading companies, further expanding the Group's customer base.

The Group's research and development has also been very satisfactory. For the twelve months ended 31st December, 2003, the Group has obtained 10 new patents, and 11 patents were pending registration. There were 16 new products which have obtained Medical Device Product Registration Certificate.

Since April 2003, the Group has commenced the construction of a new infusion set workshop for expanding the production capacity of infusion set products, which is expected to start trial operation in April 2004. The Group acquired a workshop from Shandong Weigao Group Company Limited ("Weigao Holding"). In December 2003, this workshop was converted into a workshop for the production of blood transfusion consumables. Renovation and installation of equipment is expected to be completed by June 2004. Weihai Jierui Medical Products Company Limited ("Jierui Subsidiary") acquired a workshop from Weigao Holding, and converted the workshop to the production of PVC granules and plastic bags, and the production of PVC granules and plastic bags began in June 2003. At the same time, commissioning of a needle production line of Jierui Subsidiary was completed in November 2003, and commenced trial production. The measures referred to above further enhanced the vertical integrated production of the Group.

On 24th February, 2003, the Group entered into an agreement with a third party system provider for the establishment of Enterprise Resources Planning ("ERP") system, in order to improve the Group's financial and customer relation management. The first phase of the ERP system (including financial management, distribution and logistics systems) began in August 2003.

On 20th May, 2003, the Group engaged an independent professional consultant to implement a Just-In-Time production system. By implementing the Just-In-Time production system, it is expected to further improve profits and returns on investment through increasing the inventory turnover rate and reducing the production and delivery lead times, thereby further increasing the competitiveness of the Group.

FUTURE OUTLOOK

The Group's overall business objective is to become one of the largest of its kind in Asia with the most comprehensive range of sing-use medical device products. In 2004, the Group will continue to improve its research and development abilities and further strengthen its distribution network. The Group will also accelerate its pace of development through the utilization of its brand advantage.

Pre-filled syringes, high-end blood transfusion consumables and needles products are key for the Group to optimize its product mix and upgrade its products towards high-end spectrum. The Group will apply project manager responsibility system to make the selection, evaluation, design, importation, installation and testing of new production lines more effective and efficient. The Group plans to reach the production capacities and launch new products of these new projects ahead of schedule.

The Group will implement the second phase of the ERP system (including OA system and human resources management), and further roll out its Just-In-Time production system.

The Group will expand its distribution network in Southwest and Northwest China and accelerate the application of the ERP system through its sales process in South China market to improve the quality of its information management.

The Group will continue to carry out the on-going development of its existing products to upgrade its products to higher levels. In order to reduce processing costs and improve production efficiency, it intends to speed the pace of product standardization and to standardize more commonly used components and parts. The Group will also adjust the schedule of new product development to enlarge the scopes and categories of its products so as to provide new growth drives for its long-term development.

With the continued improvement in people's living standards, there is a greater demand for medical health care services, particularly for high quality medical devices, thus providing plenty of market opportunities to the Group. Just like what the Group did in the past, it will continue to take quality as its core value and to take the enhancement of health standards of the general public as its own responsibility. At the same time, the Group will continue to enhance its research and development capabilities, develop new products, increase its production and sales capabilities, so as to bring longer term and sustainable benefits to its shareholders."

ACKNOWLEDGEMENT

I would like to express on behalf of the members of the Board our gratitude to the vast investors, customers and suppliers for their full support to the Group in the past year, and our attribute to the entire staff of the Group for their hard working, loyal services and contributions during the year.

Chen Xue Li
Chairman

Weihai, Shandong, the PRC
24th March, 2004

CORPORATE DEVELOPMENT

On 24th February, 2003, the Company entered into an agreement with a third party system provider for the establishment of Enterprise Resources Planning ("ERP") system, in order to improve the Group's financial and customer relationship management. Apart from the installation of the ERP system, the system provider will also provide training and support services to the staff of the Group. The first phase of the ERP system (including financial management, distribution and logistics systems) began in August 2003.

On 20th May, 2003, the Group engaged an independent professional consultant to implement a Just-In-Time production system. By implementing the Just-In-Time production system, it is expected that profits and return on investment can be further improved as a result of reduced inventory levels (through increased inventory turnover), and shortened production and delivery lead times, thereby further increases the competitiveness of the Group.

On 20th August, 2003, the Group invested RMB4 million to establish a joint venture together with an independent third party for the production of drug eluting stent. The joint venture will further expand the Group's product range and enhance its competitiveness in the high-end product market.

For the twelve months ended 31st December, 2003, total turnover and net profit of the Group amounted to approximately RMB317,935,000 and RMB50,454,000 respectively, representing an increase of 14.26% and 15.92% over 2002 respectively.

RESEARCH AND DEVELOPMENT

For the twelve months ended 31st December, 2003, the Group has obtained 10 new patents, and 11 patents were pending registration. There were 16 new products which have obtained Medical Device Product Registration Certificate. During the year, the overall expenditure of the Group in research and development amounted to RMB5,451,000, representing 1.71% of the total turnover.

PRODUCTION

During the period under review, the Group commenced the construction of a new infusion set workshop for expanding the production capacity of infusion set products. The Group acquired a workshop from Weigao Holding for a consideration of approximately RMB16,000,000. In December 2003, this workshop was converted into a workshop for the production of blood transfusion consumables. Renovation and installation of equipment is expected to be completed by June 2004. The Group has also renovated a warehouse of 715 sq.m. into a workshop for syringe sterilisation, increasing the sterilisation capacity.

Jierui Subsidiary acquired a workshop for a consideration of RMB20.3 million from Weigao Holding and converted the workshop to the production of PVC granules and plastic bags. The gross floor area of this workshop was approximately 6,666 sq.m.. Machineries worth of approximately RMB3.0 million were installed and the production of PVC granules and plastic bags began in June 2003. After the workshop commenced operation, the Group's capacity in producing packing materials and raw materials was increased. At the same time, the installation of a needle production line of Jierui Subsidiary was completed in November 2003, and commenced trial production. The above measures further enhanced the vertical integrated production of the Group.

PRODUCTION *(continued)*

During the year, the total investment by the Group on plant and equipment amounted to RMB133,624,000. These investments will further expand the capacity of the Group in the production of existing new products.

For the twelve months ended 31st December, 2003, increases in main product categories of the Group compared with the corresponding period of 2002 were as follows:

(1) approximately 157,100,000 sets of single-use sterile infusion (transfusion) sets, an increase of 7.3%;

(2) approximately 8,400,000 sets of single-use sterile blood transfusion products, an increase of 15.7%;

(3) approximately 222,600,000 sets of single-use sterile syringes, an increase of 28.8%;

(4) approximately 1,100,000 sets of single-use sterile dental devices, an increase of 1.1%.

In addition, the Group produced approximately 6,090 tonnes of PVC granules and approximately 38,000,000 sets of other products.

SALES NETWORK AND MARKETING

For the twelve months ended 31st December, 2003, the Group upgraded three customer liaison centers in Kunming, Harbin and Taiyuan to sales offices. The number of the Group's sales offices and customer liaison centers increased to 27. In order to promote the Group's products, the Group participated in the National Spring Medical Device Products Exhibition and National Autumn Medical Device Products Exhibition during 2003.

In 2003, the Group developed business relation with approximately 810 new customers, which included about 541 hospitals, 40 blood centers and 215 trading companies. As at 31st December, 2003, the total number of the Group's customers reached 3,660.

HUMAN RESOURCES

As at 31st December, 2003, the Company employed a total of 3,900 employees, and the breakdown by departments were as follows:

Departments	Number of employees
Research and development	88
Sales and marketing	339
Production	3,188
Purchasing	15
Quality control	35
Management	46
Finance and administration	189
Total	3,900

For the twelve months ended 31st December, 2003, the number of employees in the production department increased as a result of an enlarged in production scale. Meanwhile, the number of employees in sales and marketing department also increased due to the growth in the number of the Group's sales offices and customer liaison centers. All employees of the Group were in the PRC except the company secretary who resides in Hong Kong. During the year, total cash paid by the Group on staff salaries, welfare, and various funds amounted to RMB43,763,000.

FINANCIAL REVIEW

Liquidity and financial resources

In 2003, the Group maintained good financial position. As at 31st December, 2003, the Group has total cash of RMB28,951,000. For the twelve months ended 31st December, 2003, other than the funds generated from business operations, the Group also obtained funds for its operations through bank loans. During the period, the Group has obtained bank loans amounted to RMB193,827,000 but has also repaid bank loans for RMB80,024,000. Net loan additions amounted to RMB113,803,000. As at 31st December, 2003, the Group's short-term bank loans amounted to RMB82,183,000, and long-term bank loans amounted to RMB154,960,000. The overall interest payments made by the Group during the year amounted to RMB11,583,000.

Charges of the Group's assets

As at 31st December, 2003, net assets at an amount of RMB130,796,000 (2002: RMB84,046,000) were charged by the Group.

Gearing ratio

The Group's gearing ratio, being the ratio of total loans to total capital was 1.5 (2002: 1.067). The increase in this ratio was mainly due to the increase in investment on plants and equipment.

Contingent liabilities

Other than as disclosed in note 27 to the financial statements, the Group had no other material contingent liabilities for the two years ended 31st December, 2002 and 2003.

Capital commitments

As at 31st December, 2003, total capital commitments in acquired assets, which the Group has signed contracts for but has not been recognised in the financial statements, was RMB32,478,000.

FUTURE OUTLOOK

In 2004, the Group will solidify its competitive edges by improving its research and development abilities and optimizing its brand advantage. The Group will accelerate the pace of the introduction of new production lines to form new production capacities. The Group will also place emphasis on enhancing the technological contents of its products and further strengthening its distribution network. The Group will continue to improve on the quality of its management and expand the scale of staff training, to lay a solid foundation for the long-term development of the Group.

Pre-filled syringes, high-end blood transfusion consumables and needles products are key for the Group to optimize its product mix and upgrade its products towards high-end spectrum. The Group will apply project manager responsibility system. The project manager will select, evaluate, design, import, install and test equipments, so that the Group can reach its production capacity and launch new products ahead of schedule.

The Group will expand its distribution network in Southwest and Northwest China and accelerate the application of the ERP system through its sales process in South China market to improve the quality of its information management. The Group will also recruit more sales members and provide enhanced trainings to its sales team. The Group will expand its direct sales team and set up direct sales and distribution network in core cities of Southwest and Northwest China to increase sales contributions from these regions. In addition, the Group will increase its efforts to strengthen the promotion of its new products to clinics and to further promote its brand. It will consolidate its position in existing markets and expand into new markets.

The Group will continue to carry out the on-going development of its existing products to upgrade its products to higher levels.. In order to reduce processing costs and improve production efficiency, it intends to speed the pace of product standardization and to standardize more commonly used components and parts. The Group will also adjust the schedule of new product development to enlarge the scopes and categories of its products so as to provide new growth drives for its long-term development.

The Group will integrate its human resources and implement performance basis appraisal system. It will also strengthen the staff training and recruiting processes to improve the harmony and sense of duty of the staff. Through the implementation of above methods, the group will be able to lay a sound foundation of human resources to facilitate its future development.

The Group will apply stringent internal management practices to control costs and expenses, which will effectively enhance its earning and to make its growth sustainable.

REVIEW OF BUSINESS OBJECTIVES

As this report only cover the year ended 31st December, 2003, all of the business objectives as set out in the sub-section "Implementation Plan" under the section headed "Business Objectives" in the Group's prospectus dated 20th February 2004 cover periods later than the year end date. There is no other new business objectives required to be disclosed.

To all shareholders:

For the year ended 31st December, 2003, 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 recommendations and opinions to the Board over the business and development plans, and has performed cautious 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.

Having made inspections, the Supervisory Committee 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

24th March, 2004

Directors

Executive Directors

Mr. Zhang Hua Wei, aged 40, 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 41, is an executive Director and deputy general manager 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 44, is an executive Director and deputy general manager 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 since 1992. Mr. Wang joined the Group in December 2000.

Mr. Wang Zhi Fan, aged 48, is an executive Director and deputy general manager of the Company and the manager of infusion set branch. 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 45, is an executive Director and deputy general manager of the Company and manager of blood transfusion branch. Mr. Wu joined Weigao Holding in 1988. He has been the manager of the blood transfusion branch from 1996. He joined the Group in December 2000 and has been the deputy general manager of the Company.

Non-executive Directors

Mr. Chen Xue Li, aged 52, 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.

Ms. Zhou Shu Hua, aged 47, 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 67, 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 50, 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 in September 2002.

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, business 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 40, is a supervisor of the Company and the deputy manager of syringe branch. Ms. Bi graduated from the Economic Management Faculty of Shandong Cadres Distance Learning University in 1997. She joined Weigao Holding in December 1988 and has been deputy manager of the infusion sets branch since 2001. She joined the Company in December 2000.

Mr. Miao Hai Sheng, aged 31, is a supervisor of the Company and the assistant manager of blood transfusion 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 and operating allocation officer of the blood transfusion branch. He joined the Company in December 2000.

Ms. Chen Xiao Yun, aged 30, is a supervisor of the Company and the assistant to the manager of infusion sets branch. 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. 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 31, 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 35, is secretary to the Board and the Chief Production Officer of the Group. 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. Lu Ru Ju, aged 34, is a senior engineer and manager of research and development department of the Group's infusion sets branch. Mr. Lu graduated from Shandong Building Material Industrial Institute in 1991. Mr. Lu joined Weigao Holding in 1993 and since then has worked in various departments of Weigao Holding and the Group. Mr. Lu has extensive experiences in technology development, production process management and setting standards for quality inspection. He has received 6 awards from Weihai City Invention Association. Mr. Lu joined the Group in December 2000.

Mr. Song Zhen Sheng, aged 40, is the manager of the Group's dental branch. Mr. Song joined Weigao Holding in 1992 and has taken various posts in Weigao Holding and the Group. Mr. Song is a manager of the Group's dental branch. He joined the Group in December 2000.

Mr. Zhang Yong, aged 33, is manager of the Group's import and export branch. Mr. Zhang graduated from (Shandong University) in 1995 and joined Weigao Holding in 1996. He joined the Group in December 2000.

Mr. Hu Yun Yong, aged 34, is an assistant to the general manager of the Group. Mr. Hu obtained a bachelor degree in wired communication engineering from the Navy's Electronic Engineering College in 1991, and worked for the Navy of the People's Liberation Army of the PRC for many years. He joined Weigao Holding in October 1999. From November to December 2000, he was the assistant to the general manager of Weigao Holding. He joined the Group in December 2000, and has been the assistant to the general manager of the Group since January 2001.

Mr. Zhang Xu Hui, aged 33, is an engineer and assistant to the general manager of the Group. Mr. Zhang obtained a Master degree in Business Administration from Beijing University of Science and Technology in March 2002. He joined the Group in April 2002.

The directors present their first annual report and the audited financial statements for the year ended 31st December, 2003.

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.

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

PRINCIPAL ACTIVITIES

The Company is principally engaged in the research and development, production and sale of single-use medical devices. Particulars of the Company's subsidiary and associate are set out in notes 12 and 13 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 24.

The directors do not recommend the payment of a dividend and propose that the net profit for the year be retained.

PROPERTY, PLANT AND EQUIPMENT

The Group acquired property, plant and equipment during the year at an aggregate costs of approximately RMB134 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

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 each was sub-divided into ten domestic shares of nominal value of RMB0.1 each.

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.

Details of movements during the year in the share capital of the Company are set out in note 24 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. Luan Jian Ping
Mr. Shi Huan

Each of the directors has 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), 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. Except for the service agreements between the Company and the independent non-executive directors, each service agreement is 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.

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, each independent non-executive director shall receive an annual service fee of RMB30,000. 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 IN SHARES

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

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

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

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

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

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the 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 and neither the directors nor any of their spouses or children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDER

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31st December, 2003, the total turnover attributable to the five largest customers and total purchases attributable to the five largest suppliers of the Group accounted for less than 30% of the Group's turnover and total purchases respectively.

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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive right under the Company's Article of Association, or the laws in the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

COMPETITION AND CONFLICT OF INTERESTS

None of the directors or the management shareholders (as defined under the Rules Governing the Listing of Securities on Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group or has any other conflict of interests with the Group.

SPONSORS' INTERESTS

Neither the sponsor, Polaris Securities (Hong Kong) Limited, 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.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

The connected transactions between the Group, Weigao Holding and its subsidiary during the year ended 31st December, 2003, and following 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") have signed a sales contract on 27th January, 2004. Under the contract, Jierui Subsidiary supplies 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.

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.

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.

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 2003 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.

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 independent non-executive directors have reviewed the connected transactions (A) to (C) 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.

CORPORATE GOVERNANCE

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since its shares have been listed on the Stock Exchange on 27th February, 2004.

AUDIT COMMITTEE

The Company set up an audit committee on 1st September, 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has three members comprising Messrs. Shi Huan and Luan Jiang Ping, both being independent non-executive directors and Ms. Zhou Shu Hua, a non-executive director.

The audit committee last met on 19th March, 2004 to review matters in relation to the annual accounts for the year ended 31st December, 2003 prior to recommending such accounts to the Board of Directors for approval.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 32 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
24th March, 2004

德勤 • 關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中 111號
永安中心 26樓

Deloitte Touche Tohmatsu

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 24 to 51 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 Society of 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, 2003 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

24th March, 2004

Consolidated Income Statement

For the year ended 31st December, 2003

	NOTES	2003 RMB'000	2002 RMB'000
Turnover	3	317,935	278,247
Cost of sales		(185,338)	(171,894)
Gross profit		132,597	106,353
Other operating income		6,950	5,491
Distribution costs		(49,128)	(36,850)
Administrative expenses		(21,983)	(21,380)
Profit from operations	5	68,436	53,614
Finance costs	6	(11,583)	(2,545)
Share of loss of an associate		(51)	(342)
Profit before taxation		56,802	50,727
Taxation	8	(4,572)	(5,295)
Profit before minority interests		52,230	45,432
Minority interests		(1,776)	(1,906)
Net profit for the year		50,454	43,526
Dividend	9	—	9,000
Earnings per share	10	RMB8 cents	RMB7 cents

As 31st December, 2003

	NOTES	2003 *RMB'000*	2002 *RMB'000*
Non-current assets			
Property, plant and equipment	11	300,055	180,049
Interest in an associate	13	5,204	5,255
Interest in a jointly controlled entity	14	4,000	—
		309,259	185,304
Current assets			
Inventories	15	57,066	43,326
Trade receivable	16	95,539	71,796
Prepayments, deposits and other receivable		26,772	20,168
Amount due from ultimate holding company	17	—	8,488
Amounts due from fellow subsidiaries	18	—	1,049
Bank balances and cash		28,951	14,543
		208,328	159,370
Current liabilities			
Trade payable and bills payable	20	97,739	67,650
Other payable and accrued expenses		23,813	30,713
Amount due to a fellow subsidiary	21	—	7
Amount due to an associate	22	—	6
Bank and other borrowings - repayable within one year	23	82,183	18,750
Taxation		688	4,755
		204,423	121,881
Net current assets		3,905	37,489
		313,164	222,793
Capital and reserves			
Share capital	24	60,000	60,000
Reserves	25	95,463	54,009
		155,463	114,009
Minority interests		2,741	4,194
Non-current liabilities			
Bank and other borrowings - repayable after one year	23	154,960	104,590
		313,164	222,793

The financial statements on pages 24 to 51 were approved by the Board of Directors on 24th March, 2004 and are signed on its behalf by:

Chen Xue Li
DIRECTOR

Zhang Hua Wei
DIRECTOR

Balance Sheet

As 31st December, 2003

	NOTES	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	11	204,384	145,321
Investment in a subsidiary	12	23,823	20,594
Interest in a jointly controlled entity	14	4,000	—
		232,207	165,915
Current assets			
Inventories	15	53,292	44,877
Trade receivable	16	88,587	69,401
Prepayments, deposits and other receivable		26,679	19,409
Amount due from ultimate holding company	17	—	8,020
Amounts due from fellow subsidiaries	18	—	1,049
Amount due from a subsidiary	19	41,688	164
Bank balances and cash		18,406	12,262
		228,652	155,182
Current liabilities			
Trade payable and bills payable	20	87,340	67,586
Other payable and accrued expenses		20,529	27,170
Amount due to a fellow subsidiary	21	—	7
Amount due to an associate	22	—	6
Bank and other borrowings - repayable within one year	23	80,383	16,950
Taxation		688	4,755
		188,940	116,474
Net current assets		39,712	38,708
		271,919	204,623
Capital and reserves			
Share capital	24	60,000	60,000
Reserves	25	56,959	40,033
		116,959	100,033
Non-current liabilities			
Bank and other borrowings - repayable after one year	23	154,960	104,590
		271,919	204,623

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2003

	Total equity *RMB'000*
At 1st January, 2002	70,483
Net profit for the year	43,526
At 1st January, 2003	**114,009**
Net profit for the year	50,454
Dividend paid	(9,000)
At 31st December, 2003	**155,463**

Consolidated Cash Flow Statement

For the year ended 31st December, 2003

	2003 *RMB'000*	2002 *RMB'000*
OPERATING ACTIVITIES		
Profit before taxation	56,802	50,727
Adjustments for:		
Interest income	(131)	(5)
Interest expenses	11,583	2,545
Depreciation and amortisation	11,472	8,693
Allowances for bad and doubtful debts	1,856	2,430
Share of loss of an associate	51	342
Gain on disposal of property, plant and equipment	(13)	(75)
Net realised loss on investment securities	—	83
Operating profit before working capital changes	81,620	64,740
Increase in trade receivable	(25,599)	(6,850)
(Increase) decrease in inventories	(13,740)	7,847
Decrease in other payable and accrued expenses	(6,900)	(47,325)
(Increase) decrease in prepayments, deposits and other receivable	(6,604)	13,897
Decrease in amounts due to fellow subsidiaries	(7)	(991)
(Decrease) increase in amount due to an associate	(6)	6
Increase in trade payable and bills payable	30,089	27,853
Decrease (increase) in amount due from ultimate holding company	8,488	(6,612)
Decrease (increase) in amounts due from fellow subsidiaries	1,049	(302)
Net cash generated from operations	68,390	52,263
PRC income tax paid	(8,639)	(2,390)
NET CASH GENERATED FROM OPERATING ACTIVITIES	59,751	49,873

For the year ended 31st December, 2003

	NOTES	2003 RMB'000	2002 RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(133,624)	(52,109)
Capital contribution to a jointly controlled entity		(4,000)	—
Acquisition of a further 6% equity interest in Jierui Subsidiary		(3,229)	—
Proceeds from disposal of property, plant and equipment		2,159	7,364
Interest received		131	5
Acquisition of a 90% equity interest in Weihai Jierui Medical Products Company Limited ("Jierui Subsidiary") (net of cash and cash equivalents acquired)	26	—	(20,407)
Purchase of investment securities		—	(200)
Proceeds from disposal of investment securities		—	1,770
NET CASH USED IN INVESTING ACTIVITIES		(138,563)	(63,577)
FINANCING ACTIVITIES			
New borrowings raised		193,827	115,960
Repayments of borrowings		(80,024)	(8,000)
Interest paid		(11,583)	(2,545)
Dividend paid		(9,000)	—
Repayment of loan raised from ultimate holding company		—	(79,000)
NET CASH GENERATED FROM FINANCING ACTIVITIES		93,220	26,415
NET INCREASED IN CASH AND CASH EQUIVALENTS		14,408	12,711
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		14,543	1,832
CASH AND CASH EQUIVALENTS AT END OF YEAR		28,951	14,543
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		28,951	14,543

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 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 subsidiary and associate are set out in notes 12 and 13 respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with the accounting policies set out below which conform with accounting principles generally accepted in Hong Kong.

Basis of consolidation

The consolidated financial statements incorporated the financial statements of the Company and its subsidiary made up to the balance sheet date each year. The results of subsidiary 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 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 and 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%
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.

Investment in a subsidiary

Investment in a subsidiary is 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.

The results of the associate is accounted for by the Company on the basis of dividend received and receivable during the year. In the Company's balance sheet, investment in associate is stated at cost, as reduced by any identified impairment loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest in a jointly controlled entity

Interest in a jointly controlled entity is accounted for using the equity method in the consolidated financial statements, whereby the interest is initially recorded at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits and losses of the jointly controlled entity, distributions received from the jointly controlled entity and other necessary alternations in the Group's proportionate interest in the jointly controlled entity arising from changes in the equity of the jointly controlled entity that has not been included in the income statement and less any accumulated impairment losses. The Group's share of post-acquisition results of jointly controlled entity is included in the consolidated income statement.

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.

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

	2003 RMB'000	2002 RMB'000
Profit from operations has been arrived at after charging (crediting):		
Allowances for bad and doubtful debts	1,856	2,430
Auditors' remuneration	580	380
Depreciation and amortisation	11,472	8,693
Net realised loss on investment securities	—	83
Rental payments in respect of premises under operating leases	1,847	1,290
Research and development expenditure	5,451	5,318
Staff costs, including directors' remuneration		
- Retirement benefits scheme contributions	4,018	1,584
- Salaries and other allowances	39,745	32,871
Total staff costs	43,763	34,455
Gain on disposal of property, plant and equipment	(13)	(75)
Interest income	(131)	(5)
Rebate of value added tax	(6,229)	(5,003)

6. FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Interest on bank and other borrowings wholly repayable within five years	11,583	2,545

7. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

Directors' and supervisors' emoluments

	2003 *RMB'000*	2002 *RMB'000*
Fees to directors:		
Executive directors	—	—
Non-executive directors	—	—
Independent non-executive directors	60	40
	60	40
Other emoluments to executive directors and non-executive directors:		
- retirement benefits schemes contributions	34	21
- salaries and other allowances	510	498
	544	519
Emoluments to supervisors:		
- retirement benefits scheme contributions	12	7
- salaries and other allowances	127	145
	139	152
Total directors' and supervisors' emoluments	743	711

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:

	2003 *RMB'000*	2002 *RMB'000*
Director A	89	79
Director B	83	73
Director C	73	64
Director D	74	93
Director E	77	63
Director F	75	66
Director G	73	81
Director H	30	20
Director I	30	20
Supervisor A	59	77
Supervisor B	39	40
Supervisor C	41	35
	743	711

Employees' emoluments

The five individuals with the highest emoluments for the two years ended 31st December, 2003, were all directors and supervisors of the Company, details of whose emoluments are included in the above disclosure.

During the two years ended 31st December, 2003, 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

	2003 RMB'000	2002 RMB'000
PRC income tax	4,572	5,295

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% (2002: 15%).

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:

	2003		2002	
	RMB'000	%	RMB'000	%
Profit before taxation	56,802		50,727	
Taxation at the domestic income tax rate of 15%	8,520	15.0	7,609	15.0
Effect of zero tax rate of Jierui subsidiary	(3,948)	(7.0)	(2,314)	(4.6)
Taxation expense and effective rate for the year	4,572	8.0	5,295	10.4

There was no significant temporary differences for the year.

9. DIVIDEND

	2003 RMB'000	2002 RMB'000
Final dividend proposed, nil (2002: RMB0.15 per domestic share (note))	—	9,000

No dividend was paid or proposed during the year ended 31st December, 2003, nor has any dividend been proposed since the balance sheet date.

Note: The number of domestic shares in issue for the year ended 31st December, 2002 was 60,000,000. Details of the sub-division of one domestic share into ten domestic shares are set out in note 24.

10. EARNINGS PER SHARE

The calculation of earnings per share for the year is based on the net profit for the year of RMB50,454,000 (2002: RMB43,526,000) and on 600,000,000 (2002: 600,000,000) shares.

The average number of ordinary shares for the purpose of calculating the earnings per share has been adjusted for the share sub-division on 8th December, 2003.

11. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Land use rights	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and office equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
THE GROUP							
COST							
At 1st January, 2003	13,389	31,627	104,328	28,333	3,599	15,969	197,245
Additions	98,577	19,903	3,965	4,425	2,468	4,286	133,624
Transfer	(22,407)	—	19,946	1,532	872	57	—
Disposals	(474)	—	(184)	(921)	(1,030)	(249)	(2,858)
At 31st December, 2003	89,085	51,530	128,055	33,369	5,909	20,063	328,011
DEPRECIATION AND AMORTISATION							
At 1st January, 2003	—	1,493	6,139	3,314	1,170	5,080	17,196
Provided for the year	—	795	3,472	3,305	657	3,243	11,472
Eliminated on disposals	—	—	(43)	(324)	(104)	(241)	(712)
At 31st December, 2003	—	2,288	9,568	6,295	1,723	8,082	27,956
NET BOOK VALUES							
At 31st December, 2003	89,085	49,242	118,487	27,074	4,186	11,981	300,055
At 31st December, 2002	13,389	30,134	98,189	25,019	2,429	10,889	180,049

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

	Construction in progress	Land use rights	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and office equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
THE COMPANY							
COST							
At 1st January, 2003	3,338	26,383	88,854	24,627	3,074	15,744	162,020
Additions	44,665	18,725	3,773	1,519	2,132	2,593	73,407
Transfer	(2,611)	—	189	1,497	872	53	—
Disposals	(456)	(2,941)	(184)	(708)	(695)	(594)	(5,578)
At 31st December, 2003	44,936	42,167	92,632	26,935	5,383	17,796	229,849
DEPRECIATION AND AMORTISATION							
At 1st January, 2003	—	1,493	6,167	2,363	1,123	5,553	16,699
Provided for the year	—	718	3,018	2,458	593	2,982	9,769
Eliminated on disposals	—	—	(43)	(270)	(104)	(586)	(1,003)
At 31st December, 2003	—	2,211	9,142	4,551	1,612	7,949	25,465
NET BOOK VALUES							
At 31st December, 2003	44,936	39,956	83,490	22,384	3,771	9,847	204,384
At 31st December, 2002	3,338	24,890	82,687	22,264	1,951	10,191	145,321

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

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

During the year ended 31st December, 2003, the Company disposed of certain land use rights to its subsidiary at net book value of approximately RMB2,941,000 (2002: nil).

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

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 granted to the Company.

At 31st December, 2002, the Group had pledged land use rights and buildings having a net book value of approximately RMB84,046,000 to banks to secure bank loans granted to the Company and the ultimate holding company. The pledge of the Group's land use rights and buildings to secure bank loans granted to the ultimate holding company was released in 2003.

12. INVESTMENT IN A SUBSIDIARY

	THE COMPANY	
	2003	2002
	RMB'000	*RMB'000*
Unlisted equity investments, at cost	23,823	20,594

Details of the Company's subsidiary as at 31st December, 2003 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

13. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2003	2002
	RMB'000	*RMB'000*
Share of net assets	5,204	5,255

Details of the Group's associate as at 31st December, 2003 are as follows:

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

14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted equity investments, at cost	—	—	4,000	—
Share of net assets	4,000	—	—	—
	4,000	—	4,000	—

Details of the Group's jointly controlled entity as at 31st December, 2003 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%	Inactive

15. INVENTORIES

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At cost:				
Raw materials	17,899	17,348	15,612	16,631
Finished goods	39,167	25,978	37,680	28,246
	57,066	43,326	53,292	44,877

16. TRADE RECEIVABLE

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

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	64,267	53,158	63,721	52,721
91 to 180 days	20,813	11,395	15,136	9,902
181 to 365 days	9,270	4,475	8,830	4,346
Over 365 days	1,189	2,768	900	2,432
	95,539	71,796	88,587	69,401

At 31st December, 2003, the trade receivable of the Group and the Company does not have amounts due from related companies.

At 31st December, 2002, the trade receivable of the Group includes trade receivable of approximately RMB703,000 and RMB6,000 due from fellow subsidiaries and an associate, respectively. The trade receivable of the Company includes trade receivable of RMB312,000 due from a fellow subsidiary.

17. AMOUNTS DUE FROM THE ULTIMATE HOLDING COMPANY

THE GROUP AND THE COMPANY

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

18. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

THE GROUP AND THE COMPANY

The amounts were unsecured, non-interest bearing and had no fixed repayment terms.

19. 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 is unsecured, non-interest bearing and is repayable on 30th June, 2004.

20. TRADE PAYABLE AND BILLS PAYABLE

The aged analysis of trade payable is stated as follows:

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	33,725	30,673	51,887	36,596
91 to 180 days	14,357	10,979	13,686	10,318
181 to 365 days	1,214	2,527	1,048	1,639
Over 365 days	4,401	5,471	4,137	5,033
	53,697	49,650	70,758	53,586
Bills payable	44,042	18,000	16,582	14,000
	97,739	67,650	87,340	67,586

All the bills payable will mature within one year.

At 31st December, 2003, the trade payable of the Group includes trade payable of approximately RMB1,026,000 (2002: RMB880,000) and RMB125,000 (2002: RMB10,000) due to fellow subsidiaries and an associate, respectively. The trade payable of the Company includes trade payable of approximately RMB1,026,000 (2002: RMB880,000), RMB125,000 (2002: RMB10,000) and RMB25,520,000 (2002: RMB10,786,000) due to fellow subsidiaries, an associate and a subsidiary, respectively.

21. AMOUNT DUE TO A FELLOW SUBSIDIARY

THE GROUP AND THE COMPANY

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

22. AMOUNT DUE TO AN ASSOCIATE

THE GROUP AND THE COMPANY

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

23. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loans	90,243	59,410	90,243	59,410
Unsecured bank and other loans	146,900	63,930	145,100	62,130
	237,143	123,340	235,343	121,540
The original maturity of the above bank and other loans is as follows:				
On demand or within one year	82,183	18,750	80,383	16,950
More than one year but not exceeding two years	147,360	51,630	147,360	51,630
More than two years but not exceeding five years	7,600	52,960	7,600	52,960
	237,143	123,340	235,343	121,540
Less: Amount due within one year shown under liabilities	(82,183)	(18,750)	(80,383)	(16,950)
Amount due after one year	154,960	104,590	154,960	104,590

As at 31st December, 2003, the bank loans of the Group and the Company amounting to RMB28,700,000 (2002: RMB23,700,000) were under the guarantee jointly provided by the ultimate holding company and unrelated companies. These loans bear interest in average of 3% per annum and will mature in 2004.

As at 31st December, 2003, the bank loans of the Group amounting to RMB136,200,000 (2002: RMB36,900,000) were under the guarantee provided by the ultimate holding company. These loans bear interest on average of 5.5% per annum and will mature in 2004.

As at 31st December, 2003, the bank loans of the Group and the Company amounting to RMB7,283,000 (2002: RMB1,450,000) were secured by the property, plant and equipment provided by the ultimate holding company.

As at 31st December, 2003, the bank loans of the Company amounting to RMB134,400,000 (2002: RMB35,100,000) were under the guarantee provided by the ultimate holding company. These loans bear interest on average of 5.5% per annum and will mature in 2004.

24. SHARE CAPITAL

	Nominal value of domestic shares	Number of domestic shares	Value
			RMB'000
At 1st January, 2002 and at 1st January, 2003	1.0 each	60,000,000	60,000
Increase due to share subdivision *(note)*		540,000,000	—
At 31st December, 2003	0.1 each	600,000,000	60,000

Note: 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.

Changes in the share capital of the Company subsequent to 31st December, 2003 are set out in note 32.

25. RESERVES

	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, 2002	1,048	524	8,911	10,483
Net profit for the year	—	—	43,526	43,526
Appropriations *(note a)*	4,758	2,379	(7,137)	—
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 31st December, 2003	10,821	5,410	79,232	95,463
THE COMPANY				
At 1st January, 2002	1,048	524	8,911	10,483
Net profit for the year	—	—	29,550	29,550
Appropriations *(note a)*	4,758	2,379	(7,137)	—
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 31st December, 2003	10,821	5,410	40,728	56,959

25. 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, 2003 was 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.

26. ACQUISITION OF A SUBSIDIARY

On 19th April, 2002, the Company acquired a 90% equity interest in Jierui Subsidiary from the ultimate holding company and a fellow subsidiary for a consideration of approximately RMB20,594,000. The consideration was determined based on the net assets value of Jierui Subsidiary as at 19th April, 2002.

	2003 *RMB'000*	2002 *RMB'000*
Net assets acquired:		
Property, plant and equipment	—	13,225
Investment in an associate	—	5,597
Investment securities	—	1,653
Inventories	—	2,138
Trade receivables	—	14,094
Prepayments, deposits and other receivables	—	12,921
Bank balances and cash	—	187
Trade payables	—	(887)
Other payables and accrued expenses	—	(24,246)
Bank and other borrowings - repayable within one year	—	(1,800)
Minority interests	—	(2,288)
Total consideration	—	20,594
Satisfied by:		
Cash	—	20,594
Net cash outflow arising on acquisition:		
Cash consideration	—	20,594
Bank balances and cash acquired	—	(187)
	—	20,407

The subsidiary acquired during the year ended 31st December, 2002 contributed to the Group's turnover and profit from operations by RMB12,124,000 and RMB15,881,000 respectively.

27. CONTINGENT LIABILITIES

Pursuant to an agreement date 6th March, 2001 made among the Industry and Commerce Bank of China, Harbin Xinyang Branch ("ICBC") and Jierui Subsidiary, Jierui Subsidiary agreed to act as a guarantor with respect to loans of no more than RMB6,000,000 in the aggregate provided by ICBC to Haribin Red Cross Center Hospital between 15th March, 2001 and 14th March, 2004. The guarantee was released on 8th August, 2003.

The Company had no material contingent liabilities as at 31st December, 2002 and 2003.

28. 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	
	2003	2002	2003	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	751	558	588	538
In the second to fifth year inclusive	332	711	170	633
	1,083	1,269	758	1,171

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.

29. CAPITAL COMMITMENTS

At 31st December, 2003, the Group had commitments for acquisition of property, plant and equipment which were contracted for but not provided in the financial statements amounting to approximately RMB32,478,000 (2002: RMB7,404,000).

At 31st December, 2003, 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 RMB23,997,000 (2002: RMB7,404,000).

30. RELATED PARTY TRANSACTIONS

Apart from the amounts due from and to related parties as disclosed in notes 11, 16, 17, 18, 19, 20, 21, 22, 23 and 26 respectively, the Group and the Company had the following related party transactions during the two years ended 31st December, 2003:

		THE GROUP		THE COMPANY	
		2003	2002	2003	2002
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Sales	(a)	719	3,840	181	3,137
Purchases	(b)	4,478	17,913	4,452	17,913
Purchases of property, plant and equipment	(c)	40,564	23,376	20,401	7,093
Disposal of property, plant and equipment	(d)	—	6,220	—	5,867
Rental payments in respect of land use rights and buildings	(e)	592	402	162	162

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 and the fellow subsidiaries at net book value.

(d) The property, plant and equipment were sold to the ultimate holding company and the fellow subsidiaries at net book value.

(e) The land use rights and building 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, 2003, the ultimate holding company executed guarantees amounting to approximately 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.

(iii) For the year ended 31st December, 2002, the Group and the Company disposed of investments to the ultimate holding company and a fellow subsidiary for approximately RMB79,000 and RMB1,541,000, respectively. The net realised loss on disposal of investment securities amounted to approximately RMB83,000.

(iv) For the year ended 31st December, 2002, the ultimate holding company executed guarantees amounting to approximately RMB14,800,000 in favour of certain banks for acceptance of bills payable issued by the Group and the Company.

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.

31. 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.

32. POST BALANCE SHEET EVENTS

On 4th February, 2004, the ultimate holding company and the Company entered into an option agreement in which the ultimate holding company granted an option to the Company to acquire its 50% interest in an equity joint venture company, Weigao Biosensors Medical Products Manufacturing Co., Ltd.

On 4th February, 2004, the ultimate holding company and the Company entered into an option agreement in which the ultimate holding company granted an option to the Company to acquire its 51% interest in Weihai Weigao Medical Materials Co., Ltd.

On 26th 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. The Group intended to use the net proceeds of approximately HK$125 million for expansion and as general working capital of the Group.

The Company's shares have been listed on the Growth Enterprise Market of the Stock Exchange since 27th February, 2004.

	THE GROUP Year ended 31st December,		THE COMPANY Year ended 31st December,
	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*
RESULTS			
Turnover	**317,935**	278,247	210,277
Profit from operations	**68,436**	53,614	13,349
Finance costs	**(11,583)**	(2,545)	(1,016)
Share of loss of an associate	**(51)**	(342)	—
Profit before taxation	**56,802**	50,727	12,333
Taxation	**(4,572)**	(5,295)	(1,850)
Profit before minority interests	**52,230**	45,432	10,483
Minority interests	**(1,776)**	(1,906)	—
Net profit for the year	**50,454**	43,526	10,483

	THE GROUP As at 31st December,		THE COMPANY As at 31st December,
	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES			
Total assets	**517,587**	344,674	252,554
Total liabilities	**(359,383)**	(226,471)	(182,071)
Minority interests	**(2,741)**	(4,194)	—
	155,463	114,009	70,483

Note: The results of the Company for the year ended 31st December, 2001 and the assets and liabilities of the Company as at 31st December, 2001 are extracted from the Company's prospectus dated 20th February, 2004.

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting ("AGM") of Shandong Weigao Group Medical Polymer Company Limited (the "Company") will be held at at the Company's 5th Floor Conference Room at 35 Yan Tai West Road, Weihai, Shandong Province, the PRC on Friday, 14th May, 2004 at 9:00 a.m. for the following purposes:

1. To consider and approve the report of the Board of Directors (the "Board") of the Company for the year 2003;

2. To consider and approve the report of the Supervisory Committee of the Company for the year 2003;

3. To consider and approve the audited financial statement for the year ended 31st December, 2003;

4. To consider and approve the profit distribution plan of the Company for the year 2003;

5. To consider and approve the proposal for the appointment of Deloitte Touche Tohmatsu as the auditor of the Company for the year 2004, and to authorise the Board to determine its remuneration;

6. To consider and approve any proposal submitted by any shareholder holding Shares with voting rights of 5% or above in the meeting.

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

Weihai, Shandong, the PRC
24th March, 2004

Notes:

1. 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.

2. 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, 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 registered address (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.

3. For individual shareholders appointing a proxy to attend the meeting, such proxy must indicate their power of attorney and its own identity. For legal persons appointing proxies to attend the meeting, such proxies must indicate their own identities and evidence as legal representative or duly notarized copy of resolution for appointing such proxies by the board of such legal person shareholder or other decisive authorities.

4. The Company's register of members for H Shares will be closed from Wednesday 14th April, 2004 to Friday 14th May, 2004 (both days inclusive).

5. Shareholders whose names have been included in the register of members on Wednesday 14th April, 2004 will be entitled to attend the meeting and to vote in the meeting.

6. Shareholders who intend to attend the AGM must complete the reply slip enclosed for use at the AGM, and return to the Company's legal address at at 35 Yan Tai West Road, Weihai, Shandong Province, the PRC before Saturday 24th April, 2004. The reply slip may be returned to the Company by hand, and can also be returned by post, telegram or facsimile.

7. 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.

8. The particulars of the registered office and the secretary office of the Board of the Company are as follow:

   35 Yan Tai West Road
   Weihai
   Shandong Province
   PRC
   For the attention of Secretary of Board
   Telephone number: 0086-631-5622418
   Facsimile number: 0086-631-5622419
   Zip Code: 264209