山東威高集團醫用高分子製品股份有限公司

Shandong Weigao Group Medical Polymer Company Limited*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

2004

Third Quarterly Report

* For identification purposes only

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This report, for which the directors (the "Directors") of Shandong Weigao Group Medical Polymer Company Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

SUMMARY

The Company and its subsidiaries (the "Group") recorded a net profit of RMB16,089,000 and RMB44,099,000 for the three months and nine months ended 30th September 2004, representing an increase of approximately 44.4% and 33.9% respectively, over the corresponding period in the previous year. Turnover was RMB104,956,000 and RMB280,746,000, representing an increase of approximately 39.4% and 24.2% respectively, over the corresponding period in the previous year.

During the nine months ended 30th September 2004, the progress on three investment projects, namely pre-filled syringe, blood transfusion consumables and injection product and related equipment installation proceeded as scheduled. Total investment expenditures on the projects above amounted to RMB51,723,000.

As crude oil price increased to a record high in the quarter, gross margin of competing manufacturers fell and the decrease of production output posed an unprecedented opportunity to the Company. By leveraging its competitive advantages from vertical integration and product diversification, the Company devoted more efforts in market development. Significant progress was made on securing new customers. The Group secured 277 and 794 new customers during the three months and nine months ended 30th September 2004 respectively, including 122 and 304 hospitals and 42 and 108 blood centers respectively. As at 30th September 2004, the total number of customers of the Group was 4,493.

Good progress was also made on research projects. For the nine months ended 30th September 2004, 14 patent applications were made. Six new practical patents and one new invention patent were granted. Sixteen new product registration certificates were obtained, whilst nine new products are pending for registration of patent. Total expenditures on research and development amounted to RMB5,615,000.

The Directors do not recommend distribution of interim dividend for the three months ended 30th September 2004.

Unaudited Consolidated Results

The Board is pleased to announce the unaudited consolidated results of the Company for the 3 months ended 30th September 2004, and the nine months ended 30th September 2004 together with the comparative figures for the corresponding periods in 2003 as follows:

		Unaudited For the three months ended 30th September		Unaudited For the nine months ended 30th September	
		2004	2003	**2004**	2003
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Turnover	2	**104,956**	75,299	**280,746**	226,114
Operating costs		**(62,730)**	(44,602)	**(165,477)**	(133,077)
Gross profit		**42,226**	30,697	**115,269**	93,037
Other operating income		**2,036**	1,431	**6,079**	4,418
Distribution costs		**(16,972)**	(11,789)	**(44,344)**	(36,004)
Administrative expenses		**(7,870)**	(5,005)	**(18,579)**	(15,712)
Profit from operations	4	**19,420**	15,334	**58,425**	45,739
Finance costs	5	**(2,675)**	(2,994)	**(9,513)**	(8,463)
Share of loss of a jointly controlled entity		**(413)**	—	**(1,064)**	—
Share of gain of an associate		**11**	(25)	**(47)**	(41)
Profit before taxation		**16,343**	12,315	**47,801**	37,235
Taxation	6	**0**	(1,031)	**(3,031)**	(2,789)
Profit before minority interests		**16,343**	11,284	**44,770**	34,446
Minority interests		**(254)**	(143)	**(671)**	(1,523)
Net profit attributable to shareholders	7	**16,089**	11,141	**44,099**	32,923
Dividend	8	**0**	0	**6,052**	0
Earnings per share (Basic)		**RMB0.019**	RMB0.019	**RMB0.055**	RMB0.055

Notes:

1. Principal activities and basis of presentation

The Group is principally engaged in the research and development, production and sales of a wide range of polymer based single-use medical device products.

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

2. Turnover

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

3. Segment information

The Group's business is mainly engaged in production and sales of single-use aseptic polymer medical devices, the sales of which are mainly conducted in the PRC. All significant identifiable assets of the Group are situated in the mainland China. Accordingly, no segmental analysis is presented.

4. Profit from operations

Profit from operations has been arrived at after charging (crediting):

	Unaudited For the three months ended 30th September		Unaudited For the nine months ended 30th September	
	2004	2003	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Allowances for bad debts	461	156	959	1,239
Auditors' fee	—	—	—	—
Depreciation and amortisation	4,020	3,241	11,022	8,571
Net losses from securities investment	—	—	—	—
Fees and expenses incurred under operating leases	308	466	1,454	1,434
Research and development expenditure	2,099	1,506	5,615	4,522
Staff costs, including directors' remuneration				
- Retirement benefits scheme contributions	1,806	1,359	4,706	4,018
- Salaries and wages	11,646	10,729	31,884	28,448
Total staff costs	13,452	12,088	36,590	32,466
Gain on disposal of property and equipment	(10)	(1)	5	(24)
Gain on scrap sales	(483)	(213)	(595)	(489)
Interest income	(44)	(75)	(156)	(85)
Rebate of value added tax *(note)*	(1,813)	(1,210)	(5,460)	(3,877)

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

5. Finance costs

Finance costs for the nine months ended 30th September 2004 were RMB9,513,000, which mainly included interest expenses on bank and other borrowings and represented an increase of 12.4% over the corresponding period in 2003, mainly due to the increase in loan balances at the beginning of the year.

6. Taxation

Income taxes were verified and calculated on accrual basis. Income taxes are calculated on the basis of the assessable income computed in accordance with the relevant tax laws from the accounting income of this year, after making corresponding adjustment.

The Company was listed on GEM in Hong Kong on 26th February 2004. 264,500,000 H Shares were issued, representing 30.6% of the total registered capital. Upon the approval obtained from the Ministry of Commerce of the PRC in July 2004, the Company was approved as a foreign invested enterprise. According to the tax laws and regulations in the PRC, the Company was entitled to the preferential tax treatment of exemption for the first two years and 50% reduction for three years thereafter, commencing from 1st July 2004. Therefore, no income tax is payable during the year.

According to the "Notice of Recognition of Weihai Jierui Medical Products Company Limited as a Social Welfare Entity" Lu Min Han 1999 No. 25 issued by the Civil Administration Bureau of the Shangdong Province, it was confirmed that Jierui Subsidiary was entitled to the preferential tax treatment for a social welfare enterprise. Jierui Subsidiary has applied to the Torch Hi-tech Industrial Development Zone sub-bureau of Weihai Local Tax Bureau for exemption of EIT for the previous year.

7. Net profit attributable to shareholders

For the three months and nine months ended 30th September 2004, the Group's net profit attributable to shareholders was RMB16,089,000 and RMB44,099,000 respectively (corresponding period of 2003: RMB11,141,000 and RMB32,923,000 respectively).

8. Dividend

No dividend was declared by the Company for the three months ended 30th September 2004 and the corresponding period of the previous year. For the nine months ended 30th September 2003, the Company had declared an interim dividend of RMB0.007 per share.

9. Earnings per share

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

Basic earnings per share for the nine months ended 30th September 2004 was calculated based on net profit attributable to shareholders of RMB44,099,000 (2003: RMB32,923,000) and the weighted average total number of shares of 805,722,222 shares (2003: 600,000,000 shares).

Movement in Reserves

	Capital surplus reserve	Statutory surplus reserve	Statutory public welfare fund	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
THE GROUP					
At 1st January 2004	—	10,821	5,410	79,232	95,463
Net profit for the period	—	—	—	44,099	44,099
Interim dividend	—	—	—	(6,052)	(6,052)
Cash donations accepted	33	—	—	—	33
Premium on issue of shares	127,065	—	—	—	127,065
At 30th September 2004	127,098	10,821	5,410	117,279	260,608
THE COMPANY					
At 1st January 2004	—	10,821	5,410	40,728	56,959
Net profit for the period	—	—	—	26,889	26,889
Interim dividend	—	—	—	(6,052)	(6,052)
Cash donations accepted	33	—	—	—	33
Premium on issue of shares	127,065	—	—	—	127,065
At 30th September 2004	127,098	10,821	5,410	61,565	204,894

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

According to the relevant laws and regulations of the PRC, distributable profit of the Company was determined at the lower of such amount calculated based on the accounting principles and regulations of the PRC or the generally accepted accounting principles of Hong Kong. As at 30th September 2004, retained earnings distributable to sharesholders was RMB61,565,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate Development

With the change in the market development trend and continuous increase in crude oil price, more efforts were devoted by the Company to high end products. The Company focuses at high end customers in the PRC who plans to upgrade and substitute conventional products with high end standard, and to expand the research and development of products with high technology content. The "Three High" strategy to support the continuous development of the Company is, high end customers, high end conventional products and high technology products. To achieve the strategy, the Company plans to expand the customer base with conventional product, upgrade and substitute conventional products with high end standard, and promote high technology products. Income and profit contribution from each customer will be enhanced.

The Group invested RMB4 million to establish a joint venture with an independent third party for the production of drug eluting stents and the operation was officially commenced. Product certification is to be completed in November this year. Drug eluting stent will further increase the competitiveness of the Company in the high-end product market. Application for the increase of registered capital of the joint venture is in progress. The installation of saccule production line has been proceeded smoothly. Production is expected to commence in November.

Crude oil price increased to a record high in the quarter, resulting in the increase in the price of petro-chemical raw material by 37%, and significantly affected the profitability of the Company's conventional products. With the surge in material price, the Company expanded its sales of PVC granules to external parties on the one hand. This in turn transferred the pressure on material prices to its competitors, and squeezed the profit margin of its competitors. On the other hand, more efforts were devoted to upgrade and substitute products. By capitalizing on the competitive edge of the Company's products range in terms of width and depth, the Company upgrades and substitutes conventional products with product of high end standard, and transfer the risk in material price to the market.

With the opportunities of the decreases output from competitors, more efforts were devoted to secure new customers. Good results were achieved from significant increase in the sales income and net profit of conventional products. Growth in net profit was achieved through increase in sales income. The effect of surge in material prices on net profit was controlled. A solid customer base is thus established for the Company's development in future.

The Company has set up a supervisory team to monitor the progress of the investment projects. Currently, installation of equipment for blood transfusion consumables and procurement of equipment for pre-filled syringes have been going smoothly. Contract for equipment acquisition for phase II of the injection product has been entered into. For the nine months ended 30th September 2004, total sum paid on the investment project amounted to RMB51,723,000.

By fully capitalizing on the advantages of market resources, the Group enhanced its competitiveness in the high end market. During this quarter, the Company acted as agent of overseas high end products with a view to improve income and profit contribution from each customers. The Company has established an equity joint venture for the distribution of medical equipment with a professional independent third party. The Company will have 51% interests in the equity joint venture. It has also acquired the distribution right of hemodialysis equipment and consumables of Jinbao company for the three provinces of Northeastern PRC, and required statutory procedures are in progress.

BUSINESS REVIEW

For the three months ended 30th September 2004, total turnover and net profit of the Group were RMB104,956,000 and RMB16,089,000, respectively, representing an increase of approximately 39.4% and 44.4% respectively, over the corresponding period in 2003. Changes in sales income of various major product categories were as follows:

	For the three months ended 30th September			For the nine months ended 30th September		
Product category	2004 *RMB*	2003 *RMB*	*% increase*	2004 *RMB*	2003 *RMB*	*% increase*
Infusion sets	36,391,000	29,596,000	23.0%	105,318,000	93,950,000	12.1%
Blood transfusion consumables	11,832,000	9,137,000	29.5%	29,385,000	25,311,000	16.1%
Syringes	31,869,000	23,656,000	34.7%	90,204,000	75,170,000	20.0%
Dental devices	761,000	520,000	46.3%	1,858,000	1,365,000	36.1%
PVC granules	9,704,000	5,482,000	77.0%	25,079,000	13,451,000	86.4%
Other products	14,399,000	6,908,000	108.4%	28,902,000	16,867,000	71.4%
Total	104,956,000	75,299,000	39.4%	280,746,000	226,114,000	24.2%

During this quarter, significant growth was recorded in the sales income of various product categories, which was mainly attributable to the effective marketing strategies.

During this quarter, the Company continued to substitute and upgrade products in established market in southern and northern PRC. Remarkable results was achieved from securing new customers in southern, southwestern and northwestern PRC. Growth in income of various areas was as follows:

	For the three months ended 30th September			For the nine months ended 30th September		
Region	2004	2003	% increase	2004	2003	% increase
Northeastern	19,372	14,870	30.3%	55,851	45,104	23.8%
Northern	22,249	15,905	39.9%	82,164	72,028	14.1%
Eastern and Central	40,607	34,409	18.0%	78,493	67,502	16.3%
Southwestern	5,560	4,787	16.1%	13,433	12,150	10.6%
Northwestern	1,531	838	82.7%	9,963	8,915	11.8%
Southern	13,457	3,107	333.1%	32,576	13,105	148.6%
Overseas	2,180	1,383	57.6%	8,266	7,310	13.1%
Total	104,956	75,299	39.4%	280,746	226,114	24.2%

Research and development

For the nine months ended 30th September 2004, 14 patent applications were made. Six new practical patents and one new invention patent were granted. Sixteen new product registration certificates were obtained, whilst nine new products are still pending for registration. For the nine months ended 30th September 2004 total expenditures on research and development amounted to RMB5,615,000.

Production

For the nine months ended 30th September 2004, output for the Group's six categories of products compared with the corresponding period of 2003 was as follows:

(1) approximately 124,337,000 sets of single-use sterile infusion (transfusion) sets, increased by 11.0%;

(2) approximately 6,405,000 sets of single-use sterile blood transfusion products, increased by 16.1%;

(3) approximately 190,545,000 sets of single-use sterile syringes, increased by 13.8%;

(4) approximately 1,136,000 sets of single-use sterile dental devices, increased by 47.0%;

(5) approximately 5,561 tonnes of PVC granules, increased by 34.7%; and

(6) approximately 140,361,000 sets of other products, increased by 303.4%.

Sales Network and Marketing

With successful implementation of its market development strategy and product structure adjustment strategy of the Group, the Group strengthened the development of markets in the southern and western markets in the PRC. More efforts were devoted to increase the sales of non-conventional products through promotion meetings and exhibitions. Detailed assessment on the performance of sales personnel were carried out. Remarkable success was achieved in the sales of non-conventional and high value-added products.

For the nine months ended 30th September 2004, the Group established business relationship with 794 new customers. New customers, including 304 hospitals and 108 blood centers. As at 30th September 2004, the Group's total number of customers reached 4,493, including 2,295 hospitals, 356 blood centers, 596 hospital units, and 1,246 dealers.

HUMAN RESOURCES

As at 30th September 2004, the Group employed a total of 4,343 employees. Breakdown by departments is as follows:

Departments	Number of employees
Research and development	88
Sales and marketing	326
Production	3,643
Purchasing	15
Quality control	35
Management	49
Finance and administration	187
Total	4,343

Save as the company secretary, who resides in Hong Kong, all employees of the Group were resided in the PRC. For the first nine months of the year, total amount of staff salaries, welfare, and various funds amounted to RMB36,590,000.

FINANCIAL REVIEW

Liquidity and financial resources

The Group maintained sound financial position for the nine months ended 30th September 2004. As at 30th September 2004, the Group had total cash of RMB83,329,000.

During the period, the Group adjusted its borrowing portfolio. Interests rate of borrowings was generally decreased through obtaining low interest rate loans to repay high interest rate loans. Total bank loans raised amounted to RMB162,350,000. The Group repaid bank loans of RMB194,860,000. The Group's net loan reduced by RMB32,510,000. As at 30th September 2004, the Group's short-term bank loans amounted to RMB54,673,000 and long-term bank loans was RMB149,960,000.

Interests paid by the Group as a whole for the nine months ended 30th September was RMB9,513,000.

Gearing ratio

The Group's gearing ratio, being the ratio of total borrowings to total equity was 0.59 (the corresponding period in 2003: 1.74). Decrease in gearing ratio was mainly due to proceeds from listing of the Group and the increase in retained earnings.

Contingent liabilities

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

Capital commitments

As at 30th September 2004, the Group has commitments for the acquisition of assets which were contracted but not provided in the financial statements amounting to RMB41,305,000. The above amounts will be paid by the Group out of the proceeds from the Listing and internal resources.

OUTLOOK

The Group recorded satisfactory performance for the nine months ended 30th September 2004. Various activities have been proceeded smoothly. Significant growth was recorded for both sales income and profit. Going forward, the Group will devote more efforts to create further benefits.

1. Tracking progress and implementing investment projects will accelerate so as to ensure that investment projects will be completed as scheduled.

2. The application procedures for the research and development projects will be accelerated, so as to ensure that various projects under research will obtain certification as scheduled. This will prepare for their formal launch into the market in the next year.

3. Management will allocate more resources to visit customers and consolidate customer relationship. More resources will be allocated to tender activities. Promotional activities will commence. This will lay a good foundation for the sales of new products.

4. With respect to the surge in prices of raw materials, the Company will continue to devote efforts in securing existing customers and explore new products selling for customers. It will continue to promote sales growth as well as product upgrade and substitution, so as to prepare for the successful completion of work plan for the fourth quarter and the full year.

5. The fourth quarter is the peak season every year. Various business divisions will cooperate and consolidate output and sales, so as to ensure timely supply of goods to promote sale growth and profitability.

DIRECTORS' INTERESTS AND LONG POSITIONS IN SHARES

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

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

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

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

SUBSTANTIAL SHAREHOLDER

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

	Capacity	Number of domestic shares	Approximate percentage of the Company's issued share capital
Shandong Weigao Group Company Limited ("Weigao Holding")	Beneficial owner	540,000,000	62.46%

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

Long positions in the registered capital of Weigao Holding, the Company's associated corporation, as the controlling shareholder of the Company:

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

SPONSORS' INTERESTS

Pursuant to the agreement entered into between the Company and Goldbond Capital (Asia) Limited ("Goldbond") on 24th July 2004, Goldbond would act as the Company's sponsor and would be responsible for providing sponsor services to the Company for the term with respect to the financial year ending 31st December 2004 and two subsequent financial years.

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

CORPORATE GOVERNANCE

The Board considers that the Company has complied with the board practices and procedures as set our in Rules 5.34 to 5.45 of the GEM Listing Rules during the period.

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 1st September 2002 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. The Committee has three members comprising Messrs. Shi Huan and Luan Jian Ping, both being independent non-executive directors and Mrs. Zhou Shu Hua, a non-executive director.

The Company's financial statements for the nine months ended 30th September 2004 have been reviewed by the Committee. The Committee considered that the relevant financial statements have been prepared in compliance with the applicable accounting principles and requirements of the Stock Exchange and other laws, and disclosures have been fully made.

PRE-EMPTIVE RIGHTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

COMPETING INTERESTS

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2004, the Company had adopted a code of conduct regarding securities transaction by directors on terms no less exacting than the required standard of dealings. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

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

Weihai, Shandong, the PRC
12 November 2004

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