



# Shandong Weigao Group Medical Polymer Company Limited\*

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

(Stock Code : 8199)



\* For identification purposes only

Interim Report **2006**

## Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

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Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid reports in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.

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



## SUMMARY

For the six months ended 30 June 2006, the unaudited turnover of the Company and its subsidiaries (the "Group") was approximately RMB352.51 million (2005: RMB249.69 million), representing an increase of approximately 41.2% over the first half of last financial year.

Gross profit margin improved by 3.1% as compared to the six months ended 30 June 2005. It was mainly resulted from adjustment of product mix.

Unaudited profit attributable to the shareholders for the six months ended 30 June 2006 was approximately RMB64,419,000, representing an increase of approximately 61.2% from approximately RMB39,959,000 for the corresponding period in last year.

Shandong Weigao Orthopaedic Device Company Limited ("Weigao Orthopaedic"), a subsidiary of the Company, also achieved remarkable results in the first half of the year and has driven the Group's continuous and rapid growth in revenue and net profits.

Shandong JW Medical Products System Corporations ("JW Medical"), the jointly controlled entity of the Company, achieved remarkable results in production and sales and made profit contribution to the Group.

Marketing and development of new customers continued. For the six months ended 30 June 2006, the number of customers increased by 45 (including 22 hospitals and 5 blood stations). As at 30 June 2006, the Group has a customer base of 5,425.

The board of Directors (the "Board") recommended the distribution of an interim dividend of RMB0.02 for the six months ended 30 June 2006.



## UNAUDITED CONSOLIDATED RESULTS

The Board is pleased to announce the unaudited consolidated results of the Group for the three months and six months ended 30 June 2006, together with the comparative figures for the corresponding period in 2005 as follows:

### Condensed Consolidated Income Statement

	Note	Unaudited For the six months ended 30 June		Unaudited For the three months ended 30 June	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Revenue	3	352,508	249,686	190,696	135,774
Cost of sales		(202,051)	(150,786)	(106,985)	(80,384)
Gross profit		150,457	98,900	83,711	55,390
Other income		10,633	5,156	6,324	3,052
Distribution costs		(55,647)	(39,277)	(28,618)	(23,020)
Administrative expenses		(27,202)	(15,757)	(15,353)	(7,742)
Finance costs	5	(9,940)	(7,576)	(4,785)	(3,715)
Share of results in a jointly controlled company		4,564	(470)	2,478	(529)
Profit before taxation	6	72,865	40,976	43,757	23,436
Taxation	7	(2,575)	—	(1,709)	—
Profit for the year		70,290	40,976	42,048	23,436
Profit attributable to :					
Equity holders of the Company	8	64,419	39,959	38,633	23,397
Minority interests		5,871	1,017	3,415	39
		70,290	40,976	42,048	23,436
Dividend	9	19,311	9,127	19,311	9,127
Earnings per share (Basic)	10	RMBO.067	RMBO.046	RMBO.040	RMBO.027



## Condensed Consolidated Balance Sheet

		As at 30 June 2006 RMB'000 (unaudited)	As at 31 December 2005 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	11	563,289	518,248
Prepaid lease payments - land use rights	12	54,602	55,299
Interest in a jointly controlled entity	13	15,982	11,343
		<u>633,873</u>	<u>584,890</u>
Current assets			
Inventories	14	142,323	119,369
Trade and other receivables	15	287,019	250,329
Pledged time deposits	16	6,000	6,000
Bank balances and cash	17	148,461	171,642
		<u>583,803</u>	<u>547,340</u>
Current liabilities			
Trade and other payables	18	211,626	196,309
Bank borrowings - repayable within one year	19	127,900	127,900
Tax payable		2,375	—
		<u>341,901</u>	<u>324,209</u>
Net current assets		<u>241,902</u>	<u>223,131</u>
		<u><u>875,775</u></u>	<u><u>808,021</u></u>



		As at 30 June 2006 RMB'000 (unaudited)	As at 31 December 2005 RMB'000 (audited)
Capital and reserves			
Share capital	20	96,556	96,556
Reserves	21	514,993	469,885
		<hr/>	<hr/>
Equity attributable to equity holders of the Company		611,549	566,441
Minority interests		44,226	31,580
		<hr/>	<hr/>
Total equity		655,775	598,021
Non-current liabilities			
Bank borrowings - repayable after one year	19	220,000	210,000
		<hr/>	<hr/>
		875,775	808,021
		<hr/> <hr/>	<hr/> <hr/>



## Condensed Cash Flow Statement

	Unaudited For the six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Net cash generated from operating activities	74,807	33,403
Net cash used in investing activities	(78,737)	(96,791)
Net cash outflow before financing activities	(3,930)	(63,388)
Net cash outflow from financing activities	(19,251)	(788)
Net decrease in cash and cash equivalents	(23,181)	(64,176)
Bank balances and cash as at beginning of the Period	171,642	102,821
Bank balances and cash as at ending of the period	148,461	38,645



## Consolidated Statement of Changes in Equity

	Unaudited For the six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Balance as at 1 January	566,441	368,597
Net profit during the period	64,419	39,959
Dividend paid	(19,311)	(11,238)
Share issue		
Share capital	—	4,816
Share premium	—	42,184
Balance as at 30 June	<u>611,549</u>	<u>444,318</u>





Notes:

## 1. General

The Company was incorporated 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 28 December 2000. Its ultimate holding company is Weigao Holding Company Limited ("Weigao Holding"), a company registered in the PRC with limited liability.

The Company's H shares have been listed on GEM of the Stock Exchange since 27 February 2004.

The Group is principally engaged in the research and development, production and sale of single-use medical device products.

The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company and all of its subsidiaries.

## 2. Basis of preparation and accounting policies

These unaudited condensed consolidated financial statements for the six months ended 30 June 2006 have been prepared in accordance with Hong Kong Accounting Standard (the "HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), Accounting Principles Generally Accepted in Hong Kong, Hong Kong Financial Reporting Standards (the "HKFRS") and the relevant disclosure requirements of the GEM Listing Rules. The accounts are prepared under the historical cost convention.

The accounting policies adopted and methods of computation used in the preparation of these unaudited consolidated financial statements are consistent with those used in the audited consolidated financial statements for the year ended 31 December 2005.



In 2004, the HKICPA issued a number of new and amended Hong Kong Financial Reporting Standards ("HKFRSs") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs had no material effect to the preparation of the results for the current accounting periods and/or previous accounting years.

All significant intra-group transactions, balances, income and expenses have been eliminated upon consolidation.

The consolidated results for the six months ended 30 June 2006 have not been audited by the Company's auditor but have been reviewed by Audit Committee of the Company.

These financial statements should be read in conjunction with the audited annual financial statements for the year ended 31 December 2005.

### 3. **Revenue**

Revenue represents the fair value of the consideration received and receivable for goods sold by the Group to external customers, less sales tax and sales returns during the period.

### 4. **Segment Information**

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

### 5. **Finance costs**

Finance costs for the three months and six months ended 30 June 2006 were approximately RMB4.79 million and RMB9.94 million respectively (corresponding period in 2005: approximately RMB3.72 million and RMB7.58 million), which mainly included interest expenses for bank and other borrowings.



## 6. Profit from operations

Profit from operations have been arrived at after charging (crediting) the following:

	Unaudited For the six months ended 30 June		Unaudited For the three months ended 30 June	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Provisions for bad debts	2,358	1,662	372	1,089
Auditors' remuneration	—	318	—	318
Depreciation and amortisation	18,635	9,859	11,107	5,316
Prepaid lease payments charged to income statement	697	632	348	330
Rental payments in respect of premises under operating leases	1,983	1,686	1,350	1,154
Research and development expenditure	5,271	4,396	2,926	2,405
Staff costs, including directors' remuneration				
- Retirement benefits scheme contributions	10,047	6,526	5,860	3,789
- Wages and salaries	38,136	27,820	21,002	16,871
Total staff costs	48,183	34,346	26,862	20,660
Gains and losses from foreign exchange	45	69	35	42
Gains on disposal of property, plant and equipment	(113)	(38)	(93)	(7)
Interest income	(323)	(287)	(215)	(170)
Rebate of value-added tax ("VAT") (Note)	(7,855)	(4,556)	(3,911)	(2,675)

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



## 7. Taxation

No provision for Hong Kong and overseas profit tax has been made as the Group has not carried out any operations in Hong Kong or other places overseas.

PRC Income tax is calculated based on the taxable amount, which is obtained by making corresponding adjustments to the accounting income for the current year based on the relevant requirements under the PRC Tax Law.

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%. Since 1 July 2004, the Company is entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% tax relief for the next three years. The tax charges provided for the six months ended 31 December 2004, the year ended 31 December 2005 and the six months ended 30 June 2006 were made after taking these tax incentives into account.

In accordance with the “Notice of Recognition of Jierui Subsidiary as a Social Welfare Entity” issued by the Civil Administration Bureau of the Shandong Province, Weihai Jierui Medical Products Company Limited (“Jierui Subsidiary”) is recognised as a “Social Welfare Entity” and is exempted from the PRC income tax.

瀋陽威高金寶商貿有限公司 (Shenyang Weigao Jinbao Trading Co., Ltd.) (“Weigao Jinbao”) is subject to PRC income tax at a tax rate of 33%. In accordance with the “Notice regarding the approval of tax reduction and exemption” issued by the State Tax Bureau of Shenyang City Shenhe Branch, Weigao Jinbao is exempted from the PRC income tax for the year ended 31 December 2005.

Weigao Orthopaedic is a foreign-invested enterprise operating in the PRC and is entitled to an exemption from PRC income tax for the two years starting from its first profit making year, followed by a 50% tax relief for the next three years. Provision for taxation for the six months ended 30 June 2006 was made after the tax privilege.

Taxation for other subsidiaries are calculated at a tax rate of 33%.



## 8. Profit attributable to equity holders of the Company

For the three months and six months ended 30 June 2006, the profits attributable to equity holders of the Company were approximately RMB38.63 million and RMB64.42 million (Corresponding period in 2005: RMB23.40 million and RMB39.96 million) respectively.

## 9. Dividend

	Unaudited For the six months ended 30 June		Unaudited For the three months ended 30 June	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Interim dividend, proposed, RMB0.02 per share (corresponding period in 2005: RMB0.01 per share)	<u>19,311</u>	<u>9,127</u>	<u>19,311</u>	<u>9,127</u>

The Board recommended an interim dividend of RMB0.02 per share (Corresponding period in 2005: RMB0.01). The proposed dividend is not presented as a dividend payable but will be presented as an appropriation of retained profits for the period ended 30 June 2006.

## 10. Earnings per share

For the three months and six months ended 30 June 2006, basic earnings per share were calculated based on profits attributable to equity holders of the Company of approximately RMB38.63 million and RMB64.42 million (Corresponding period in 2005: RMB23.40 million and RMB39.96 million) respectively, and on the weighted average total number of 965,560,000 shares and 965,560,000 shares (Corresponding period in 2005: 880,553,333 shares and 872,526,667 shares) respectively.

No potential ordinary shares were outstanding for the three months and six months ended 30 June 2006.

Diluted earnings per share is not presented.



## 11. Property, plant and equipment

	Construction in progress RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Moulds RMB'000	Furniture, fixtures and office equipment RMB'000	Total RMB'000
<b>The Group</b>							
<b>Cost</b>							
At 1 January 2006	33,193	317,936	180,515	10,763	2,893	31,555	576,855
Additions	50,506	295	7,576	2,397	41	3,338	64,153
Transfer	(38,281)	12,014	19,999	446	1,825	3,997	0
Disposals	—	—	(1,181)	(406)	—	—	(1,587)
At 30 June 2006	<u>45,418</u>	<u>330,245</u>	<u>206,909</u>	<u>13,200</u>	<u>4,759</u>	<u>38,890</u>	<u>639,421</u>
<b>Depreciation and amortisation</b>							
At 1 January 2006	—	19,823	18,343	3,618	1,418	15,405	58,607
Provided for the period	—	5,161	8,290	1,062	815	3,307	18,635
Eliminated on disposals	—	—	(724)	(386)	—	—	(1,110)
At 30 June 2006	<u>—</u>	<u>24,984</u>	<u>25,909</u>	<u>4,294</u>	<u>2,233</u>	<u>18,712</u>	<u>76,132</u>
<b>Net book values</b>							
At 30 June 2006	<u>45,418</u>	<u>305,261</u>	<u>181,000</u>	<u>8,906</u>	<u>2,526</u>	<u>20,178</u>	<u>563,289</u>
At 31 December 2005	<u>33,193</u>	<u>298,113</u>	<u>162,172</u>	<u>7,145</u>	<u>1,475</u>	<u>16,150</u>	<u>518,248</u>



## 12. Prepaid lease payments

	As at 30 June 2006 RMB'000 ( <i>unaudited</i> )	As at 31 December 2005 RMB'000 ( <i>audited</i> )
The Group's prepaid lease payments comprise:		
Leasehold land in PRC		
Medium-term lease	55,997	56,694
Analysed for reporting purposes as:		
Current portion (included in trade and other receivables)	1,395	1,395
Non-current portion	54,602	55,299
	<u>55,997</u>	<u>56,694</u>

## 13. Interest in a jointly controlled entity

	As at 30 June 2006 RMB'000 ( <i>unaudited</i> )	As at 31 December 2005 RMB'000 ( <i>audited</i> )
Cost of unlisted investment, at cost	13,000	13,000
Share of post-acquisition profit/(loss)	2,982	(1,657)
	<u>15,982</u>	<u>11,343</u>



Details of the Group's jointly controlled entity as at 30 June 2006 are as follows:

Name	Form of business structure	Place of incorporation or registration/ operation	Class of Shares held	Attributable equity interest directly held by the Company	Principal activities
Shandong JW Medical Products Co., Ltd.	Incorporated	PRC	Registered Capital	50%	Production and sales of drug-eluting stents

#### 14. Inventories

	As at 30 June 2006 RMB'000 (Unaudited)	As at 31 December 2005 RMB'000 (Audited)
At cost:		
Raw materials	43,001	41,673
Finished goods	99,322	77,696
	<u>142,323</u>	<u>119,369</u>

Increase in inventories of raw materials and finished goods were mainly due to the increase in inventory level to ensure supply for the increasing demand of the Group's new products of intravenous catheters, pre-filled syringes and orthopaedics products.





## 15. Trade and other receivables

	As at 30 June 2006 RMB'000 (Unaudited)	As at 31 December 2005 RMB'000 (Audited)
0 to 90 days	144,709	107,611
91 to 180 days	49,799	48,192
181 to 365 days	26,241	26,307
Over 365 days	8,286	7,114
	<hr/>	<hr/>
Trade receivables	229,035	189,224
Bills receivable	1,977	1,378
Other receivables, deposits and prepayments	56,007	59,727
	<hr/>	<hr/>
	<b>287,019</b>	<b>250,329</b>
	<hr/> <hr/>	<hr/> <hr/>

All the bills receivable are aged within 90 days. The fair value of the Group's trade and other receivables as at 30 June 2006 approximates to the corresponding carrying amount.

## 16. Pledged time deposits

The amounts represent deposits pledged to banks to secure banking facilities granted to the Group. The amounts have been pledged to secure short-term bank loans and are therefore classified as current assets. The deposit carries fixed interest rate of 2.3% (2005: 2.3%) per annum.



## 17. Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with maturity of three months or less. The maximum interest rate for those deposits was 0.7% (2005: 0.7%) per annum. The fair value of the bank deposits at 30 June 2006 approximated to their corresponding carrying amounts.

## 18. Trade and other payables

	As at 30 June 2006 RMB'000 (unaudited)	As at 31 December 2005 RMB'000 (audited)
0 to 90 days	68,094	76,820
91 to 180 days	11,556	11,386
181 to 365 days	6,552	2,180
Over 365 days	2,454	4,911
	<hr/>	<hr/>
Trade payable	88,656	95,297
Bills payable	82,995	75,120
Other payable and accrued expense	39,975	25,892
	<hr/>	<hr/>
	211,626	196,309
	<hr/> <hr/>	<hr/> <hr/>

The increase for the trade payable and bill payable were principally due to the increase in production scale and cost of production. All the bill payable will mature within six months. The fair value of the Group's trade and other payables as at 30 June 2006 approximates to the corresponding carrying amount.



## 19. Bank borrowings

	As at 30 June 2006 RMB'000 <i>(Unaudited)</i>	As at 31 December 2005 RMB'000 <i>(Audited)</i>
Secured bank loans	100,700	106,400
Unsecured bank and other loans	247,200	231,500
	<u>347,900</u>	<u>337,900</u>
The maturity of the above bank and other loans are as follows:		
On demand or within one year	127,900	127,900
More than one year but not exceeding two years	220,000	210,000
	<u>347,900</u>	<u>337,900</u>
Less: Amount due within one year shown under current liabilities	<u>(127,900)</u>	<u>(127,900)</u>
Amount due after one year	<u>220,000</u>	<u>210,000</u>



## 20. Share capital

	Nominal value of shares RMB	Number of domestic shares	Number of H shares	Total number of shares	Value RMB'000
At 1 January 2004	0.1 per share	600,000,000	—	600,000,000	60,000
Increase due to Issue of H shares (Note a)	0.1 per share	—	264,500,000	264,500,000	26,450
At 31 December 2004	0.1 per share	600,000,000	264,500,000	864,500,000	86,450
Increase due to issue of domestic shares (Note b)	0.1 per share	48,160,000	—	48,160,000	4,816
Increase due to issue of H shares (Note c)	0.1 per share	—	52,900,000	52,900,000	5,290
At 31 December 2005	0.1 per share	<u>648,160,000</u>	<u>317,400,000</u>	<u>965,560,000</u>	<u>96,556</u>
At 30 June 2006	0.1 per share	<u>648,160,000</u>	<u>317,400,000</u>	<u>965,560,000</u>	<u>96,556</u>

*Notes a:* On 27 February 2004, 264,500,000 H Shares of RMB0.1 each were issued by the Company at HK\$0.62 per share for cash by way of placing.

*Note b:* Pursuant to an agreement entered into between Weigao Holding and the Company on 14 March 2005, the Company agreed to acquire leasehold land and buildings for a consideration of RMB47,000,000. The consideration was satisfied by issuing 48,160,000 domestic shares of RMB 0.1 each of the Company. The transaction was completed on 20 May 2005.

*Note c:* On 30 November 2005, the Company issued 52,900,000 H shares of RMB 0.1 each at HK\$1.35 per share for cash by way of placing.



## 21. Movements in reserves

	Share premium reserve	Statutory surplus reserve	Statutory public welfare fund	Retained earnings	Total
	RMB'000	RMB'000 (Note e)	RMB'000 (Note f)	RMB'000	RMB'000
<b>THE GROUP</b>					
As at 1 January 2005	126,848	19,560	9,780	125,959	282,147
Net profit for the year	—	—	—	101,200	101,200
Dividend paid	—	—	—	(20,366)	(20,366)
Premium from issue of shares	111,237	—	—	—	111,237
Share issue expenses	(4,333)	—	—	—	(4,333)
Appropriation (Note d)	—	14,733	7,367	(22,100)	—
	<u>233,752</u>	<u>34,293</u>	<u>17,147</u>	<u>184,693</u>	<u>469,885</u>
As at 31 December 2005	<u>233,752</u>	<u>34,293</u>	<u>17,147</u>	<u>184,693</u>	<u>469,885</u>
As at 1 January 2006	233,752	34,293	17,147	184,693	469,885
Net profit for the period	—	—	—	64,419	64,419
Dividend paid	—	—	—	(19,311)	(19,311)
Premium from issue of shares	—	—	—	—	—
Share issue expenses	—	—	—	—	—
Appropriation (Note d)	—	—	—	—	—
	<u>233,752</u>	<u>34,293</u>	<u>17,147</u>	<u>229,801</u>	<u>514,993</u>
As at 30 June 2006	<u>233,752</u>	<u>34,293</u>	<u>17,147</u>	<u>229,801</u>	<u>514,993</u>
Representing:					
Proposed Interim dividend for the six months ended 30 June 2006					19,311
Reserves					<u>495,682</u>



	Share premium reserve	Statutory surplus reserve	Statutory public welfare fund	Retained earnings	Total
	RMB'000	RMB'000 (Note e)	RMB'000 (Note f)	RMB'000	RMB'000
<b>THE COMPANY</b>					
As at 1 January 2005	126,848	17,308	8,653	67,957	220,766
Net profit for the year	—	—	—	69,509	69,509
Dividend paid	—	—	—	(20,366)	(20,366)
Premium on issue of shares	111,237	—	—	—	111,237
Share issue expenses	(4,333)	—	—	—	(4,333)
Appropriation (Note d)	—	10,599	5,300	(15,899)	—
	<u>233,752</u>	<u>27,907</u>	<u>13,953</u>	<u>101,201</u>	<u>376,813</u>
As at 31 December 2005	<u>233,752</u>	<u>27,907</u>	<u>13,953</u>	<u>101,201</u>	<u>376,813</u>
As at 1 January 2006	233,752	27,907	13,953	101,201	376,813
Net profit for the period	—	—	—	28,166	28,166
Dividend paid	—	—	—	(19,311)	(19,311)
Premium on issue of shares	—	—	—	—	—
Appropriation (Note d)	—	—	—	—	—
	<u>233,752</u>	<u>27,907</u>	<u>13,953</u>	<u>110,056</u>	<u>385,668</u>
As at 30 June 2006	<u>233,752</u>	<u>27,907</u>	<u>13,953</u>	<u>110,056</u>	<u>385,668</u>
Representing:					
Proposed Interim dividend for the six months ended 30 June 2006					19,311
Reserves					<u>366,357</u>



Notes:

(d) **Bases for appropriation to reserves**

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

(e) **Statutory surplus reserve**

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

(f) **Statutory public welfare fund**

According to the Company laws and regulations of PRC and the amended Articles of Association of the Company, from 1 January 2006, the companies under the Group cease to transfer from statutory public welfare fund. As at 31 December 2005, the statutory public welfare fund is part of the share capital of the Shareholders, which cannot be distributed other than for the purpose of liquidation.

According to the laws and regulations of the PRC, distributable profit of the Company was determined at the lower of such amount calculated based on the accounting principles and regulations of the PRC or the generally accepted accounting principles of Hong Kong. As at 30 June 2006, retained earnings distributable to shareholders was approximately RMB110.06 million.



## Management Discussion and Analysis

### Corporate Development

For the six months ended 30 June 2006, the unaudited turnover of the Group was approximately RMB352.51 million (2005: RMB249.69 million), an increase of approximately 41.2% over the first half of last financial year. Unaudited net profit attributable to the shareholders was approximately RMB64.42 million, representing an increase of approximately 61.2% over the first half of last financial year.

The significant revenue and earnings growth were principally driven by the change in product mix, and the contribution from new products including orthopedics. These two factors together contributed to the increase in gross margin for the six months ended 30 June 2006 by 3.1% over the same period of last financial year.

During the period under review, the Group increased resources on changing the product mix, and increased the production and marketing of valued added consumables, such as intravenous catheter needles, high-end infusion sets and CT developer sterile syringes. It further increased the proportion of high value added products. The Group also implemented stringent cost control. The Group continued to operate under the enterprises resources planning system, improving the Group's cash flow and the quality of the financial and sales management of the Group.

The change in the product/business mix was very effective.

The results for Weigao Orthopaedic for the six months ended 30 June 2006 was very encouraging and the satisfactory results will continue to drive the turnover and profit of the Group.





Shanxi Weigao Huading Medical Device Company Limited, a company established by 威海威高血液淨化製品有限公司 (Weihai Weigao Blood Purification Product Company Limited) (“Weigao Blood Purification”) and an independent third party, had obtained registration and has commenced sale of its products. Weigao Blood Purification is in the process of obtaining production registration for plasma segregator, lavage set and recombinant protein adsorption devices.

Sale of drug-eluting stent by JW Medical, which is 50% held by the Company, was very encouraging. It has rapidly expanded the sales network in the PRC. Currently, it is actively expanding its overseas market. JW Medical becomes a major source of profit growth of the Group.

The progress in developing sales and distribution network is well underway in PRC. The trial operation of production facilities was also completed.

The goal of the Group is to become a leader in manufacturing medical devices in Asia. The Group is exploring collaboration opportunities with world leading medical device companies.

## Research and Development

For the six months ended 30 June 2006, 18 new patent were registered and certificates of 9 new products were obtained and the application for registration for 19 new products are in progress. The total research and development expenses amounted to approximately RMB5.27 million for the six months ended 30 June 2006.



## Production

The Group's in-house designed and semi-automated syringes production workshop covering an area of approximately 2,400 square meter commenced operation in February 2006. The annual production capacity of the new production facilities is approximately 300 million units of single-use sterile syringes.

For the six months ended 30 June 2006, production volume of the Group's products as compared with the corresponding period in 2005 were as follows:

- (1) approximately 104.77 million sets of single-use sterile infusion (transfusion) sets, increased by 7.7%;
- (2) approximately 6.04 million sets of single-use sterile blood transfusion consumables, increased by 12.9%;
- (3) approximately 158.88 million sets of single-use sterile syringes, increased by 13.8%;
- (4) approximately 0.82 million sets of dental & anesthetic products, increased by 7.5%;
- (5) approximately 28.26 million sets of blood sampling products, increased by 53.7%;
- (6) approximately 4,418 metric tones of PVC granules, increased by 1.0%;
- (7) approximately 543.44 million pieces of needle products, increased by 126.5%;



- (8) approximately 0.60 million pieces of orthopaedic products; and
- (9) approximately 33.13 million sets of other products, increased by approximately 64.9%.

With the Enterprise Resource Planning System implemented since 2005, the Group has strengthened its management on production planning. It has been more effective in controlling production output and reducing working capital tied up in consumable products.

The Group increased resources on the marketing and sales of high value added consumable product while decreased the production of low margin lower end consumable products. It raised profit contribution from individual items and ultimately increasing the Group's profitability.

In view of the strong demand for new products such as intravenous catheter needles, pre-filled syringes and orthopaedic products, production output of new products and inventory reserve were also increased in order to satisfy the increasing market demand. It resulted in the increase in the balance of inventory as at 30 June 2006 compared to the balance at the beginning of the period.

The above measures has resulted in the higher rate of increase of high value added products while the rate of growth of consumable, such as sterile infusion/transfusion sets, syringes was temporary lower.



## Sales Network and Marketing

The adjustment in product mix and the implementation of the sales strategy have been very effective. During the review period, the Group placed increasing resources on marketing and sales of high value added consumables and new products in order to increase the profitability of the Group as a whole.

During the review period, the Group strengthened its sales and marketing effort on high return clients resulting an increase of the average revenue per customer by 31.2% as compared with that of the corresponding period and a decrease in the growth rate of customer numbers as compared with the corresponding period.

For the six months ended 30 June 2006, the Group has increased the number of customers by 45 (including 22 hospitals and 5 blood stations). As at the latest practicable date, the Group has a customer base of 5,425 (including 2,751 top tier hospitals, 405 blood stations, 729 medical units and 1,540 trading companies).



Comparison of the sales of various products by geographical district over the corresponding period in the previous year are set out as follows:

### Revenue by geographical segments

Region	For the six months ended 30 June				
	2006		2005		Growth
	RMB'000	%	RMB'000	%	%
Northeastern	62,730	17.8	45,708	18.3	37.2
Northern	96,005	27.2	82,072	32.9	17.0
Eastern and Central	101,734	28.9	54,262	21.7	87.5
Southwestern	18,342	5.2	10,665	4.3	72.0
Northwestern	16,659	4.7	11,755	4.7	41.7
Southern	35,592	10.1	26,568	10.6	34.0
Overseas	21,446	6.1	18,656	7.5	15.0
<b>Total</b>	<b>352,508</b>	<b>100.0</b>	<b>249,686</b>	<b>100.0</b>	<b>41.2</b>



The product mix adjustment was one of the crucial factors that enhanced the profit of the Group during the review period. In view of the intense market competition, the Group increased the sale and marketing effort of high value-added products such as orthopaedic products, intravenous catheter needles, CT developer sterile syringes and pain killing pumps. It has resulted in larger growth in high value added products, raising the overall gross margin by 3.1% to 42.7% as compared with the corresponding period of the previous year. Comparison of the growth in the sales of the principal products with that of the previous period are set out as follows:

Product category	Revenue by product		
	2006	2005	Growth
<i>Self-produced products</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Consumables			
- Infusion set	99,555	83,604	19.1 %
- Syringes	80,354	69,395	15.8 %
- Blood bags	39,465	30,351	30.0 %
- Dental and anaesthetic consumables	4,922	4,717	4.3 %
- Blood sampling products	8,232	4,195	96.2 %
- Medical needle and others	43,830	18,179	141.1 %
Subtotal for consumables	276,358	210,441	31.3 %
Orthopaedic products	31,544	N/A	N/A
Blood purification consumables	3,809	1,010	277.1 %
PVC granules	24,867	23,627	5.2 %
<i>Trading products</i>			
Medical equipment	15,289	14,122	8.3 %
Other products	641	486	31.9 %
Total	352,508	249,686	41.2 %



## HUMAN RESOURCES

As at 30 June 2006, the Group employed a total of 5,490 employees. Breakdown by department is as follows:

Departments	Number of employees
Research and development	143
Sales and marketing	645
Production	4,354
Purchasing	29
Quality control	84
Management	54
Finance and administration	181
	<hr/>
Total	5,490
	<hr/> <hr/>

Save as the qualified accountant and the company secretary, who reside in Hong Kong, all employees of the Group resided in the PRC. During the review period, total amount of staff salaries, welfare and various funds amounted to RMB48.18 million.



## Liquidity and Financial Resources

The Group has maintained a sound financial position for the six months ended 30 June 2006. As at 30 June 2006, the Group had a cash balance of approximately RMB148.46 million.

During the period under review, the Group raised additional bank borrowing of RMB 155.10 million while repaying banking borrowing of RMB 145.10 million. As at 30 June 2006, the total amount of short term loans was approximately RMB127.90 million and the total amount of long-term loans was approximately RMB220.00 million.

Interests paid by the Group during the period was approximately RMB9.94 million.

## Gearing Ratio

As at 30 June 2006, the Group's gearing ratio was 0.33 (2005: 0.59), calculated on the basis of the Group's net borrowings (after deducting cash and bank balances) over shareholders' funds. Decrease in gearing ratio was mainly due to the H shares issued by the Company in November 2005 and the net profits recorded by the Group during the period.

## Contingent Liabilities

The Group did not have any material contingent liabilities as at 30 June 2006.





## Capital Commitments

As at 30 June 2006, the capital commitments of the Group not provided for in respect of the acquisition of property, plant and equipment amounted to approximately RMB 8.33 million. The amounts will be paid by the Group out of the proceeds from the issue of shares and the internal resources of the Group.

## Material Investments and Future Plans for Material Investments

For the six months ended 30 June 2006, the Group did not have any material investments. During the period, the Group did not carry out any material acquisition or disposal of subsidiaries or associates.

Saved as disclosed above, there are no material capital commitments or any plans of significant investments or capital assets in the near future as at 30 June 2006.

## Foreign Exchange Risks

The Group's purchases and sales are mainly conducted in the PRC. All assets, liabilities and transactions are denominated in RMB. During the review period, the Group has not encountered any material difficulty due to currency fluctuation nor shortage of operating funds. For the six months ended 30 June 2006, the Group had no significant exposure to foreign exchange fluctuation or hedging for such risk.



## OUTLOOK

During the six months ended 30 June 2006, the Group's turnover and net profit increased significantly. In view of the ever changing operating environment and increasingly competitive market, the Group actively devised counter measures and strategies to counteract any negative impact. The Group strives to achieve its goal and maximize shareholder value by the following measures:-

1. Speed up product mix adjustment, maintain and cement its position in current market, speed up development of new business/product, through various channels exploring collaboration opportunities with world leading medical device companies.
2. Increase in resource allocation on changing the product mix, focusing on the developing the market of high value added products including IV catheters, stent, orthopaedic products, CT developer sterile syringe, increase the contribution of each product type to the Group's profit.
3. Adjusting the sale channel. Gradually by each quarter reduce the customers with high maintenance cost and low return and shifting these customers over to be covered by distributors.
4. Strengthen on developing new customers and existing customers, increase in marketing activities and expand sales team, develop a strong sales network to increase sales and continue the growth momentum.
5. Speed up obtaining the product registration certificates for plasma separator, lavage set and recombinant protein adsorption devices, increase the competitiveness of the Group in the high end consumable market.
6. Improvement in the manufacturing process and through budget management and Manufacturing Resources Planning, absorbing the pressure from increase in raw material cost by better manage production and cost control.



## Comparison of the Business objectives with the Actual Business Progress

Statements of business objectives as set out in the 2004 prospectus	Actual business progress from 1 January 2006 to 30 June 2006
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### Production

- |  |  |
|--|--|
| 1. To set up production facilities in Southwest China  | The continuing increase in raw materials cost affects the profitability of medical device companies in the PRC and creates opportunities for market consolidation. The Group is exploring merger and acquisition opportunities and the plan of building the production facilities in Southwest China is on hold. |
| 2. To commence production of single-use deleucocyte infusion sets, irregular needles and wound diverting systems | Production for the three types of products commenced and products were launched to the market  |



## Research and Development

To invest RMB 1,200,000 in the research and development of new products

During the review period, 18 new patents were registered and certificates of 9 new products were obtained and the registration for 19 new products are in the process of application. The total research and development expenses amounted to approximately RMB5.27 million for the six months ended 30 June 2006, one of which RMB1.2 million were from the proceeds raised in the placement in 2004

## Sales and Marketing

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### 1. Marketing

The Company participated in domestic and overseas medical device exhibitions and regional exhibitions, and held various forums and promotion meetings. The Group also sponsored several medical and scientific meetings organised by the Chinese Nursing Association

### 2. To set up 5 additional sales offices and customer liaison centres

The number of the Group's sales branches and offices have been increased to 17, and customer liaison centres to 21. Number of cities with sales representatives deployed has been increased to 106



3. To expand the sales team to around 520 persons

The Company's sales team continued to expand and the total number of sale staff and sales management staff increased to 645 persons
4. To participate in tenders held by local health administration departments

During the period, the Group participated in tenders organized by local health administration department and hospitals. The Group won in all the tenders of participation
5. To set up sales representative offices in Europe

The Company is in the process of setting up overseas sales representative office
6. To secure 300 new customers

During the review period, customers under direct sales category with high maintaining cost were shifted to distributors, with 45 new customers added and the total number of customers reached 5,425
7. To place advertisements in professional journals

Advertisements were placed in professional journals



Statements of use of proceeds from the 2005 placing as set out in the announcement of the Company dated 17 November 2005

Actual business progress from 1 January 2006 to 30 June 2006

- |   |   |
|---|---|
| 1. To apply RMB 34,800,000 from the proceeds of the 2005 placing for purchase of production machinery and equipment for Weigao Bone | Investments of approximately RMB 34.80 million have been made |
| 2. To apply RMB 24,880,000 from the proceeds of 2005 placing for purchase of production machinery and equipment for Weigao Blood    | Investments of approximately RMB 21.64 million have been made |



## DIVIDEND

The Board recommended to distribute an interim dividend of RMB0.02 per share, or a total of approximately RMB19.31 million for the six months ended 30 June 2006. Dividends payable to shareholders in the PRC will be paid in RMB, and dividends payable to holders of H Shares will be paid in Hong Kong dollars.

### Closure of Register of Members

The Register of Members of the company will be closed from 30 August 2006 to 29 September 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Standard Registrars Limited at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 29 August 2006. Dividend warrants will be despatched on or before 29 October 2006 to shareholders whose names appear on the Company's register of members on 29 September 2006.



## Disclosure of interests

### Directors' Interests and Long Positions in Shares

As at 30 June 2006, 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 maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(1) Long positions in domestic shares of RMB0.10 each of the Company:

Name of director	Capacity	Number of domestic shares	Approximate percentage of the Company's issued share capital
Mr. Zhang Hua Wei	Beneficial owner	10,800,000	1.12%
Mr. Miao Yan Guo	Beneficial owner	7,800,000	0.81%
Mr. Wang Yi	Beneficial owner	7,800,000	0.81%
Mr. Wang Zhi Fan	Beneficial owner	2,700,000	0.28%
Mr. Wu Chuan Ming	Beneficial owner	2,400,000	0.25%
Mrs. Zhou Shu Hua	Beneficial owner	5,100,000	0.53%





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

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

Save as disclosed above, as at the date of this report, 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.



## SUBSTANTIAL SHAREHOLDER

As at 30 June 2006, save for the interests of the Directors as disclosed above, the following shareholder had notified the Company that their interests in the issued share capital of the domestic shares of the Company, which were recorded in the register of interests of the substantial shareholder required to be kept by the Company pursuant to Section 336 of the SFO.

Name of shareholder	Capacity	Number of domestic shares	Approximate percentage of the Company's issued share capital
Weigao Holding	Beneficial owner	578,160,000	59.88%

On 20 March 2006, Weigao Holding and the Deputy General Manager of the Company Mr. Jiang Qiang entered into an equity transfer agreement, pursuant to which 10,000,000 domestic shares of the Company held by Weigao Holding were transferred to Mr. Jiang Qiang, resulting the equity interest of Weigao Holding in the Company changed from 588,160,000 shares to 578,160,000 shares.

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



## MAJOR CUSTOMERS AND SUPPLIERS

For the six months ended 30 June 2006, the largest supplier of the Group and the next four largest suppliers accounted for about 7.9% and 21.5% respectively of the Group's total purchases.

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

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

## SPONSORS' INTERESTS

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

As at 30 June 2006, neither Goldbond nor its directors or employees or associates (as referred to note 3 of the rule 6.35 of the GEM Listing Rules) had any interest in the Company and other companies of the Group.



## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since the commencement of dealings in the H shares of the Company on GEM on 27 February 2004, the Company and its subsidiaries did not purchase, sell or redeem any listed shares of the Company, except for the placing of 52,900,000 new H shares of the Company on 30 November 2005.

## CORPORATE GOVERNANCE

The Company is dedicated to maintain a high standard of corporate governance. The Board believes that this is the commitment necessary to balance the interests among the shareholders, customers and the employees, as well as maintaining accountability and transparency.

The Board considers that the Company has complied with all the provisions as set out in the Code on Corporate Governance Practices in Appendix 15 of the GEM Listing Rules during the period.

### Audit Committee

The Company set up an Audit Committee (the "Committee") on 1 September 2002 with written terms of reference in compliance with rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Company. The Committee comprises Messrs. Luan Jian Ping, Mr. Shi Huan, Mr. Lau Wai Kit ("Mr. Lau"), being independent non-executive Director and Mrs. Zhou Shu Hua, a non-executive Director. Mr. Lau is the Chairman of the Committee.



The Company's financial statements for the six months ended 30 June 2006 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 made.

### Pre-Emptive Rights

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

### Arrangements to Purchase Shares or Debentures

At no time during the period was the Company, its ultimate holding company or any subsidiaries of its ultimate holding company, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## COMPETING INTERESTS

So far as the Directors are aware, as at 30 June 2006, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates has an interest in a business which competes or may compete with the business of the Group, or has any other conflicts of interest with the Group.



## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2006, 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 Xue Li**

*Chairman*

Weihai, Shandong, the PRC

14 August 2006

*As at the date of this report, the Board comprises Mr. Zhang Hua Wei, Mr. Miao Yan Guo, Mr. Wang Yi, Mr. Wang Zhi Fan and Mr. Wu Chuan Ming as the executive Directors, Mr. Chen Xue Li and Mrs. Zhou Shu Hua as the non-executive Directors, and Mr. Shi Huan, Mr. Luan Jian Ping and Mr. Lau Wai Kit as the independent non-executive Directors.*