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)

(Stock Code: 8199)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, 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 Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief- (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *for identification purpose only*

SUMMARY

For the year ended 31 December 2008, the turnover of Shandong Weigao Group Medical Polymer Company Limited (the "Company" and together with its subsidiaries, the "Group") was approximately RMB1,514,367,000 (2007: RMB1,095,109,000), representing an increase of 38.3% over the previous year. Net profit attributable to the shareholders of the Company was RMB482,394,000 (2007: RMB308,149,000), representing an increase of approximately 56.5% over the previous year.

During the year, the Group continued the strategy in improving the product mix and focused on the development of orthopaedic and blood purification business. The Group increased sales and marketing effort on high value-added products such as intravenous catheters, high-end infusion sets, safety auto-disable syringes, and phased out the production of certain low value-added products. The achievement was remarkable. In view of the effective product mix adjustment, the Group was able to offset the impact of increase in raw material prices and had further increased the gross profit margin to 50.1% from 45.7% in the previous year.

Market development of specialized infusion set with dosage control device and infusion sets made of a non PVC based material has made significant progress during the year. The market expansion drove the turnover of infusion sets to RMB374,337,000, representing an increase of 41.0% over the previous year. With the keen market competition for infusion sets, manufacturers with poor quality products were phased out. The Group's favourable market position in high end infusion set was further strengthened.

The market share of medical needles, in particular, intravenous catheters of the Group has been growing rapidly. For the year ended 31 December 2008, sales of medical needles amounted to approximately RMB267,136,000, representing an increase of 80.1% over the previous year. Medical needles contributed significantly to the Group's profit.

Shandong Weigao Orthopaedic Device Company Limited ("Weigao Orthopaedic"), a subsidiary of the Company, has been expanding steadily in the market. For the year ended 31 December 2008, the audited turnover of Weigao Orthopaedic was approximately RMB171,776,000 (2007: RMB111,003,000), representing an increase of approximately 54.7% over the previous year. Medtronic Weigao Orthopaedic Device Company Limited (the "Distribution JV"), a joint venture held as to 49% by the Company and 51% by Medtronic International Limited ("Medtronic International"), a wholly owned subsidiary of Medtronic, Inc. ("Medtronic"), commenced operation on 10 September 2008. Distribution JV contributed RMB8,448,000 to the Group for the period ended 31 December 2008.

The plasma segregator of Weihai Weigao Blood Purified Product Company Limited ("Weigao Blood"), a subsidiary of the Company, has been launched to the market during the year. Sales of Weigao Blood for the year ended 31 December 2008 was approximately RMB25,077,000, representing an increase of 62.5% over the previous year. In 2007, Weigao Blood invested approximately RMB105,780,000 to purchase a polymer membrane dialysis device production line. As at the date of the announcement, the production line has been put into operation and the products in blood purification is expected to be a major revenue growth driver of the Group in the future.

During the year, the Group invested in a glass tube production line for pre-filled syringes and the trial production has been successful. Pre-filled syringes are extensively used in vaccination and package injection drugs with good market potential in China. Currently, the glass tubes used for the production of pre-filled syringes rely on import. With the production of the glass tubes in-house, it resolved the bottleneck for the production of pre-filled syringes and enhanced the Group's profitability. During the year, turnover of pre-filled syringes amounted to approximately RMB40,257,000, representing an increase of 82.5% over the previous year.

Benefited from the effective product mix adjustment, sales of the Group from high value-added products (gross profit margins of over 60%) increased to 45.6% of the Group's total turnover (2007: 35.2%). The Directors believe that with the enhancement of the Group's capabilities in research and development, manufacturing and marketing, the percentage of turnover derived from high value-added products will be further increased to over 50% of the Group's turnover in the coming two years.

The Directors recommended the payment of a final dividend of RMB0.087 (2007: RMB0.059), which is subject to approval by shareholders of the Company ("Shareholders") at the forthcoming annual general meeting.

FULL YEAR RESULT

The board of Directors (the "Board") is pleased to announce the audited results of the Group for the year ended 31 December 2008, together with the comparative figures for the year ended 31 December 2007 as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTES	**2008** *RMB'000*	**2007** *RMB'000*
Revenue	3	1,514,367	1,095,109
Cost of sales		(756,134)	(594,844)
Gross profit		758,233	500,265
Other income		78,074	31,465
Distribution costs		(208,747)	(152,700)
Administrative expenses		(137,680)	(88,049)
Finance costs	5	(30,227)	(17,865)
Share of profit of a jointly controlled entity		55,981	58,958
Share of profit of an associate		8,448	—
Profit before taxation		524,082	332,074
Income tax expense	6	(38,977)	(2,732)
Profit for the year	7	485,105	329,342
Attributable to:			
Equity holders of the Company		482,394	308,149
Minority interests		2,711	21,193
		485,105	329,342
Dividends	8		
Dividends recognised as distributions		115,485	66,703
Dividends proposed		93,636	58,738
Earnings per share - basic	9	RMB0.48	RMB0.31

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2008

	NOTES	**2008** *RMB'000*	**2007** *RMB'000*
Non-current assets			
Property, plant and equipment		922,475	816,046
Investment properties		16,090	16,641
Prepaid lease payments	10	130,844	88,045
Intangible assets		27,077	30,191
Interest in a jointly controlled entity		131,020	75,039
Interest in an associate		14,070	—
Goodwill	11	202,900	28,934
Deferred tax asset		7,867	6,656
		1,452,343	1,061,552
Current assets			
Inventories	12	292,118	248,939
Trade and other receivables	13	690,766	486,961
Pledged bank deposits		75,020	87,482
Bank balances and cash		830,419	255,572
		1,888,323	1,078,954
Current liabilities			
Trade and other payables	14	646,944	410,187
Bank borrowings - repayable within one year	15	1,716	127,627
Derivative financial instrument		—	1,497
Tax payable		31,665	5,400
		680,325	544,711
Net current assets		1,207,998	534,243
		2,660,341	1,595,795

	NOTES	2008 RMB'000	2007 RMB'000
Capital and reserves			
Share capital	16	107,628	99,556
Reserves		2,369,104	1,228,206
Equity attributable to equity holders of the Company		2,476,732	1,327,762
Minority interests		8,191	57,233
Total equity		2,484,923	1,384,995
Non-current liability			
Bank borrowings - repayable after one year	15	136,692	210,800
Other payable		38,726	—
		175,418	210,800
		2,660,341	1,595,795

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	Attributable to equity holders of the Company							
	Share capital	Share premium reserve	Statutory surplus reserve	Translation reserve	Retained earnings	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000* *(Note)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	96,556	233,752	70,326	—	298,106	698,740	49,106	747,846
Profit for the year	—	—	—	—	308,149	308,149	21,193	329,342
Shares issued	3,000	384,820	—	—	—	387,820	—	387,820
Dividend paid	—	—	—	—	(66,703)	(66,703)	(2,400)	(69,103)
Appropriation	—	—	40,891	—	(40,891)	—	—	—
Exchange differences arising on translation of foreign operation	—	—	—	(244)	—	(244)	—	(244)
Capital contribution from minority interest	—	—	—	—	—	—	400	400
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	(11,066)	(11,066)
At 31 December 2007	99,556	618,572	111,217	(244)	498,661	1,327,762	57,233	1,384,995
Profit for the year	—	—	—	—	482,394	482,394	2,711	485,105
Shares issued	8,072	774,598	—	—	—	782,670	—	782,670
Dividend paid	—	—	—	—	(115,485)	(115,485)	—	(115,485)
Exchange differences arising on translation of foreign operation	—	—	—	(609)	—	(609)	—	(609)
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	(51,753)	(51,753)
At 31 December 2008	107,628	1,393,170	111,217	(853)	865,570	2,476,732	8,191	2,484,923

Note: The Articles of Association of the companies comprising the Group except Weigao International Medical Co. Limited ("Weigao International") and Weigao Medical Europe Company Limited ("Weigao Medical Europe") require the appropriation of 10% of 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 Articles of Association of the companies comprising the Group, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of its 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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 28 December 2000. Its immediate and ultimate holding company is Weigao Holding Company Limited ("Weigao Holding"), a company registered in the PRC with limited liability. The address of the registered office and principal place of business of the Company is 312 Shi Chang Road, Weihai, Shandong Province, PRC.

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

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the research and development, production and sale of single-use medical devices and orthopaedic products.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

In the current year, the Group has applied, the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) - INT 11	HKFRS 2 - Group and treasury share transactions
HK(IFRIC) - INT 12	Service concession arranagements
HK(IFRIC) - INT 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs [1]
HKAS 1 (Revised)	Presentation of financial statements [2]
HKAS 23 (Revised)	Borrowing costs [2]
HKAS 27 (Revised)	Consolidated and separate financial statements [3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation [2]
HKAS 39 (Amendment)	Eligible hedged items [3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity of associate [2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [2]
HKFRS 3 (Revised)	Business combinations [3]
HKFRS 8	Operating segments [2]
HK(IFRIC) - INT 13	Customer loyalty programmes [4]
HK(IFRIC) - INT 15	Agreements for the construction of real estate [2]
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation [5]
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners [3]
HK(IFRIC) - INT18	Transfer of assets from customers[6]

[1] Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009.

[2] Effective for annual periods beginning on or after 1st January, 2009.

[3] Effective for annual periods beginning on or after 1st July, 2009.

[4] Effective for annual periods beginning on or after 1st July, 2008.

[5] Effective for annual periods beginning on or after 1st October, 2008.

[6] Effective for transfers on or after 1st July, 2009.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of the other standards or interpretations will have no material impact on the results and the financial position of the Group.

3. REVENUE

Revenue 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

Business segments

For management purposes, the Group is currently organised into three operating divisions - single use medical products, orthopaedic products and other products. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Single use medical products	—	production and sale of single use consumables such as infusion sets, syringes, blood transfusion sets and blood bags.
Orthopaedic products	—	production and sale of orthopaedic products.
Other products	—	production and sale of other products such as blood purification consumables, medical equipment and medical PVC granules.

Segment information about these businesses is presented below:

2008

	Single use medical products	**Orthopaedic products**	**Other products**	**Eliminations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue					
External sales	1,151,005	171,776	191,586	—	1,514,367
Inter-segment sales	—	—	68,018	(68,018)	—
	1,151,005	171,776	259,604	(68,018)	1,514,367

Inter-segments sales are charged at prevailing market rates.

	Single use medical products *RMB'000*	Orthopaedic products *RMB'000*	Other products *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Result					
Segment result	393,537	83,427	11,775	(2,721)	486,018
Unallocated corporate expenses					(74,212)
Other income					78,074
Share of profit of a jointly controlled entity					55,981
Share of profit of an associate		8,448			8,448
Finance costs					(30,227)
Profit before tax					524,082
Income tax expense					(38,977)
Profit for the year					485,105

Balance sheet

	Single use medical products *RMB'000*	Orthopaedic products *RMB'000*	Other products *RMB'000*	Consolidated *RMB'000*
Assets				
Segment assets	1,595,489	464,546	206,146	2,266,181
Interest in a jointly controlled entity				131,020
Interest in an associate		14,070		14,070
Unallocated corporate assets				929,395
Consolidated total assets				3,340,666
Liabilities				
Segment liabilities	522,210	46,050	102,236	670,496
Unallocated corporate liabilities				185,247
Consolidated total liabilities				855,743

Other information

	Single use medical products RMB'000	Orthopaedic products RMB'000	Other products RMB'000	Total RMB'000
Additions to property, plant and equipment	95,513	32,918	78,887	207,318
Allowance for bad and doubtful debts	1,782	2,076	629	4,487
Release of prepaid lease payment	2,143	211	189	2,543
Amortisation of intangible assets	—	3,114	—	3,114
Depreciation of property, plant and equipment	28,959	8,562	19,065	56,586
Gain/loss on disposal of property, plant and equipment	498	(1)	—	497
Research and development expenditure	53,426	5,555	—	58,981
Government grant	(18,350)	—	—	(18,350)
VAT rebate	(14,758)	—	—	(14,758)

2007

	Single use medical products RMB'000	Orthopaedic products RMB'000	Other products RMB'000	Eliminations RMB'000	Total RMB'000
Revenue					
External sales	849,736	111,003	134,370	—	1,095,109
Inter-segment sales	—	—	43,224	(43,224)	—
	849,736	111,003	177,594	(43,224)	1,095,109

Inter-segments sales are charged at prevailing market rates.

	Single use medical products RMB'000	Orthopaedic products RMB'000	Other products RMB'000	Eliminations RMB'000	Total RMB'000
Result					
Segment result	286,170	58,271	8,012	(4,888)	347,565
Unallocated corporate expenses					(88,049)
Other income					31,465
Share of profit of a jointly controlled entity					58,958
Finance costs					(17,865)
Profit before tax					332,074
Income tax expense					(2,732)
Profit for the year					329,342

Balance sheet

	Single use medical products RMB'000	Orthopaedic products RMB'000	Other products RMB'000	Consolidated RMB'000
Assets				
Segment assets	1,334,925	237,083	150,405	1,722,413
Interest in a jointly controlled entity				75,039
Unallocated corporate assets				343,054
Consolidated total assets				2,140,506
Liabilities				
Segment liabilities	168,067	154,643	92,877	415,587
Unallocated corporate liabilities				339,924
Consolidated total liabilities				755,511

Other information

	Single use medical products *RMB'000*	Orthopaedic products *RMB'000*	Other products *RMB'000*	Total *RMB'000*
Additions to property, plant and equipment	236,249	19,721	32,732	288,702
Allowance for bad and doubtful debts	11,068	1,451	638	13,157
Release of prepaid lease payment	2,351	233	—	2,584
Amortisation of intangible assets	—	953	—	953
Depreciation of property, plant and equipment	38,122	5,501	3,460	47,083
Gain/loss on disposal of property, plant and equipment	27	—	—	27

The Group is principally operated in the PRC and most of the customers are located in PRC. All significant identifiable assets of the Group are located in the PRC. Accordingly, no geographical segment is presented.

5. FINANCE COSTS

	2008 *RMB'000*	2007 *RMB'000*
Interest on bank borrowings wholly repayable within five years	35,131	21,905
Less: Amount capitalised in construction in progress	(4,904)	(4,040)
	30,227	17,865

6. INCOME TAX EXPENSE

	2008 *RMB'000*	2007 *RMB'000*
PRC income tax	40,188	9,388
Deferred taxation	(1,211)	(6,656)
	38,977	2,732

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for certain subsidiaries from 1 January 2008.

In accordance with the "Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Preferential Treatment Policies on Enterprise Income Tax", New and High Technical Enterprise was subject to income tax at a tax rate of 15%.

On 5 December 2008, the Company, Weihai Jierui Medical Products Company Limited ("Jierui Subsidiary"), Shandong Weigao Orthopaedic Device Company Limited ("Weigao Orthopaedic") and Weihai Weigao Blood Purified Product Company Limited ("Weigao Blood") were recognised as 2008 Shandong Province New and High Technical Enterprises (山東省高新技術企業).

In year 2007, the Company, Jierui subsidiary and Weigao Ortho were recognised as New and High Technical Enterprises in accordance with the then applicable enterprise income tax law of the PRC and were subject to income tax at a tax rate of 15%.

Commencing from 1 July 2004, the Company is entitled to an exemption from PRC income tax for the two years starting from its first profit-making year, followed by a 50% tax relief for the next three years. The Company commenced its first profit-making year in 2004. For the year ended 31st December, 2008, the Company is subject to income tax at a tax rate of 7.5% (2007: 7.5%).

Weihai Jierui Medical Products Company Limited ("Jierui Subsidiary") was recognised as a "Social Welfare Entity" and was exempted from PRC income tax in year 2006 and for the six months ended June, 2007 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. Pursuant to Guo Fa 2007 No. 92 issued by the State Council, with effect from 1 July 2007, Jierui Subsidiary is subject to a statutory tax rate but an amount equivalent to the total salaries paid to staff with physical disability is further deducted from the assessable profit of Jierui Subsidiary and the rebate of value added tax is exempted from the PRC income tax. Jierui Subsidiary is subject to income tax at a tax rate of 15%. The tax charge provided for the years ended 31 December 2007 and 2008 were made after taking these tax incentives into account.

Shandong Weigao Orthopaedic Device Company Limited ("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 50% tax relief for the next three years. Weigao Ortho commenced its first profit-making year in 2004. For the year ended 31st December, 2008, Weigao Ortho was subject to income tax at a tax rate of 7.5% (2007: 7.5%).

During the year ended 31 December 2008, Weigao Blood was subject to income tax at a tax rate of 15%(2007: 33%)

Taxation for other PRC subsidiaries are calculated at a tax rate of 25% (2007: 33%).

No provision of Hong Kong taxation has been made for Weigao International as it did not have assessable profit in Hong Kong during both years.

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

	2008	2007
	RMB'000	*RMB'000*
Profit before taxation	524,082	332,074
Taxation at the domestic income tax rate of 15% (2007: 15%)	78,612	49,811
Tax effect of share of profit of a jointly controlled entity	(8,397)	(8,843)
Tax effect of share of profit of an associate	(1,267)	—
PRC income tax exemption	(35,078)	(34,712)
Tax losses not recognised	261	1,651
Utilisation of estimated tax losses previously not recognised	(2,151)	—
Tax effect of expenses that are not deductible in determining taxable profit	5,457	1,491
Effect of differential tax rate on the Company	(347)	304
Others	1,887	(6,970)
Taxation	38,977	2,732

7. PROFIT FOR THE YEAR

	2008 *RMB'000*	2007 *RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Allowances for bad and doubtful debts	4,487	13,157
Amortisation of intangible assets (included in administration expenses)	3,114	953
Auditors' remuneration	1,389	1,662
Depreciation of property, plant and equipment	56,586	46,532
Depreciation of investment properties	551	551
Prepaid lease payments charged to consolidated income statement	2,543	2,584
Rental payments in respect of premises under operating leases	2,854	3,833
Research and development expenditure (including RMB9,876,000 staff costs)	58,981	16,652
Cost of inventories recognised as an expense	737,845	594,844
Staff costs, including directors' and supervisors' remuneration		
- Retirement benefits scheme contributions (note 37)	30,263	25,165
- Salaries and other allowances	129,809	103,367
Total staff costs	160,072	128,532
Net foreign exchange gain	(5,517)	(615)
Loss on disposal of property, plant and equipment	497	27
Loss on fair value changes of derivative financial instrument	429	1,497
Interest income	(3,841)	(1,704)
Rental income from investment properties	(2,335)	(2,255)
Rebate of value added tax (note a)	(31,208)	(26,677)
Government grant (note b)	(18,350)	—
Realised gain arising from establishing of an associate	(14,758)	—

Notes:

(a) As Weihai Jierui Medical Products Company Limited ("Jierui Subsidiary") was recognised as a "Social Welfare Entity", the Tax Bureau in Weihai granted a rebate of the value added tax paid by Jierui Subsidiary with effect from 1 May 1999 on the basis of "payment first then rebate". Pursuant to Guo Fa 2007 No.92 issued by the State Council, with effect from 1 July 2007, Jierui Subsidiary was granted a rebate of value added tax determined with reference to the number of staff with physical disability. For each staff with physical disability, six times of the minimum salary approved by the local government in Weihai is granted to Jierui Subsidiary as rebate of value added tax but subject to an annual maximum limit of RMB35,000 per staff with physical disability.

(b) During the year, a government grant of RMB18,350,000 was awarded to the Group for the research and development projects completed during the year.

8. DIVIDENDS

	2008	2007
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
Interim dividend paid, RMB0.057 (2007: RMB0.034) per share	56,747	33,849
Final dividend for 2007 paid, RMB0.059 (2007: for 2006 of RMB0.033) per share	58,738	32,854
	115,485	66,703
Final dividend proposed, RMB0.087 (2007: RMB0.059) per share	93,636	58,738

The final dividend of RMB0.087 (2007: RMB0.059) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to equity holders of the Company of approximately RMB482,394,000 (2007: RMB308,149,000) and on weighted average of 998,435,000 shares (2007: weighted average of 986,477,000 shares) in issue during the year.

No potential ordinary shares were outstanding either in the current or prior year. Diluted earnings per share is not presented.

10. PREPAID LEASE PAYMENTS

	2008	2007
	RMB'000	*RMB'000*
The Group's prepaid lease payments comprise:		
Leasehold land in PRC		
Medium-term lease	134,353	90,629
Analysed for reporting purposes as:		
Current portion (included in trade and other receivables)	3,509	2,584
Non-current portion	130,844	88,045
	134,353	90,629

The leasehold land in PRC are held under medium-term lease of 45-50 years.

At 31 December 2008, the Group has pledged land use rights having a carrying value of approximately RMB61,967,000 (2007: RMB26,830,000) to banks to secure bank loans granted to the Group.

11. GOODWILL

	RMB'000
CARRYING AMOUNTS	
At 1 January 2007	—
Arising on acquisition of additional interest in a subsidiary	28,934
At 31 December 2007	28,934
Arising on acquisition of additional interest in a subsidiary	173,966
At 31 December 2008	202,900

Impairment testing on goodwill

As explained in note 4, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill has been allocated to the following cash generating units ("CGUs"). The carrying amounts of goodwill as at 31 December 2008 and 2007 and as follows:

	Goodwill	
	2008	**2007**
	RMB'000	*RMB'000*
Single use medical products	28,934	28,934
Orthopaedic products	173,966	—
	202,900	28,934

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The management considers the subsidiary represents a separate CGU for the purpose of goodwill impairment testing.

The recoverable amounts of the CGUs of single use medical products have been determined based on a value in use calculation. The recoverable amount is based on the financial budget approved by management for the next year and extrapolates cash flows for the following four years based on an estimated constant growth rate of 10%. This rate does not exceed the long-term growth rate for the relevant markets. The rate used to discount the forecast cash flows is 15%. (2007: 15%). A key assumption for the value in use calculations is the budgeted growth rate, which is determined based on past performance and management's expectations for the market development.

The recoverable amounts of the CGUs of orthopaedic products have been determined based on a value in use calculation. The recoverable amount is based on the financial budget approved by management for the next year and extrapolates cash flows for the following four years based on an estimated constant growth rate of 20%. This rate does not exceed the long-term growth rate for the relevant markets. The rate used to discount the forecast cash flows is 15%. A key assumption for the value in use calculations is the budgeted growth rate, which is determined based on past performance and management's expectations for the market development.

Management believes that any reasonably possible change in any of the assumption would not cause the aggregate carrying amount of the above CGUs to exceed the aggregate recoverable amount of the above CGUs, thus there is no impairment on goodwill.

12. INVENTORIES

	2008	2007
	RMB'000	*RMB'000*
At cost:		
Raw materials	136,681	122,861
Finished goods	155,437	126,078
	292,118	248,939

13. TRADE AND OTHER RECEIVABLES

	2008	2007
	RMB'000	*RMB'000*
Trade receivables	602,116	432,214
Less: Allowance for bad and doubtful debts	(43,735)	(38,410)
	558,381	393,804
Bills receivable	45,926	7,239
Other receivables	45,564	45,397
Deposits and prepayments	40,895	40,521
	690,766	486,961

All the bills receivable will be matured within 180 days.

The Group allows an average credit period of 90 - 180 days to its trade customers. The ageing analysis of trade receivables net of allowance for bad and doubtful debts is stated as follows:

	2008	2007
	RMB'000	*RMB'000*
0 to 90 days	330,972	237,205
91 to 180 days	121,040	90,835
181 to 365 days	73,640	48,537
Over 365 days	32,729	17,227
Trade receivables	558,381	393,804

Ageing of trade receivables which are past due but not impaired:

	2008	2007
	RMB'000	*RMB'000*
181 to 365 days	73,640	48,537
Over 365 days	32,729	17,227
	106,369	65,764

Movement in the allowance for bad and doubtful debt:

	2008	2007
	RMB'000	*RMB'000*
Balance at beginning of year	38,410	16,137
Acquisition of subsidiaries	—	10,684
Impairment losses recognised on receivables	5,359	12,003
Amounts written off as uncollectible	(34)	(414)
Balance at end of year	43,735	38,410

Other receivables are unsecured, non interest bearing and have no fixed term of repayment. The ageing analysis of other receivables net of allowance for bad and doubtful debts is stated as follows:

	2008	2007
	RMB'000	*RMB'000*
0 to 90 days	36,867	15,233
91 to 180 days	4,251	13,929
181 to 365 days	—	13,113
Over 365 days	4,446	3,122
	45,564	45,397

Movement in the allowance for bad and doubtful debt:

	2008	2007
	RMB'000	*RMB'000*
Balance at beginning of year	3,686	2,532
Impairment losses recognised on receivables	92	1,154
Impairment losses reversed	(964)	—
Balance at end of year	2,814	3,686

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

14. TRADE AND OTHER PAYABLES

The aging analysis of trade payables is stated as follows:

	2008	2007
	RMB'000	*RMB'000*
0 to 90 days	210,354	90,239
91 to 180 days	21,980	11,125
181 to 365 days	3,008	4,346
Over 365 days	7,270	9,479
Trade payables	242,612	115,189
Bills payable	171,356	159,530
Consideration payable for the acquisition of additional interest in a subsidiary	80,579	—
Other payables and accrued expenses	152,397	135,468
	646,944	410,187

All the bills payable will mature within six months.

15. BANK BORROWINGS

	2008 *RMB'000*	2007 *RMB'000*
Secured bank loans	138,408	109,227
Unsecured bank loans	—	229,200
	138,408	338,427
The loans are repayable as follows:		
On demand or within one year	1,716	127,627
More than one year but not exceeding two years	22,782	220,800
More than two years but not exceeding five years	68,346	—
More than fire years	45,564	—
	138,408	338,427
Less: Amount due within one year shown under current liabilities	(1,716)	(127,627)
Amount due after one year	136,692	210,800
Fixed-rate borrowings:		
Within one year	—	18,489
More than one year but not exceeding two years	22,786	139,800
More than two years, but exceeding five years	68,346	—
More than five year	45,564	—
	136,692	158,289
Variable-rate borrowing	1,716	180,138

As at 31 December 2008, the unsecured bank loans of the Group amounting to nil (2007: RMB229,200,000) were under the guarantee jointly provided by independent third parties.

As at 31 December 2008, the bank loans of the Group amounting to RMB136,692,000 (2007: RMB110,338,000) were secured by the pledge of buildings and land use rights.

Other loan is repayable by five installments until year 2013. No interest has been charged for the other loan. The imputed interest rate of the other loan for the year ended 31 December 2008 was 5.3% per annum.

The bank loans carry interest ranging from 5.12% to 7.43% (2007: 6.1% to 7.3%) per annum.

16. SHARE CAPITAL

	Nominal value of each share	Number of domestic shares	Number of H shares	Total number of shares	Value
	RMB	*(Note c)*	*(Note c)*		*RMB'000*
At 1 January 2007	0.1	648,160,000	317,400,000	965,560,000	96,556
Issue of H shares (Note a)	0.1	—	30,000,000	30,000,000	3,000
At 31 December 2007	0.1	648,160,000	347,400,000	995,560,000	99,556
Issue of H shares (Note b)	0.1	—	80,721,081	80,721,081	8,072
At 31 December 2008		648,160,000	428,121,081	1,076,281,081	107,628

Notes:

(a) On 19 April 2007, 30,000,000 H shares of RMB0.1 each were issued by the Company at HK$13.62 per share for cash by way of placing. The net proceeds of approximately RMB368,068,000 were used for purchase of production machinery of orthopaedics, cardiovascular stent business and blood purification products, for expansion of production capacity of single use medical products and for working capital of the Group.

The new shares issued rank pari passu with other shares in issue in all respect.

(b) Pursuant to the terms and conditions as set out in the agreement dated 18 December 2007, 80,721,081 H shares of RMB0.1 each were issued by the Company at HK$11.138 per share on 18 December 2008 to Medtronic Holding Switzerland GmbH. The total net proceeds was approximately RMB782,670,000. The Company intends to use the net proceeds for:

(i) expanding the production of orthopaedic and blood purification products;

(ii) repaying bank loans; and

(iii) additional working capital and potential mergers and acquisitions opportunities.

(c) Domestic Shares and H Shares are all ordinary shares in the share capital of the Company. However, H Shares may only be subscribed for by, and traded in currencies other than RMB between, legal or natural persons of Hong Kong, the Macau Special Administrative Region, Taiwan or any country other than the PRC. Domestic Shares must be subscribed for and traded in RMB. All dividends in respect of H Shares are to be paid by the company in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by the Company in RMB. The Domestic Shares and the H Shares rank pari passu with each other in all other respects and in particular, rank equally for all dividends or distributions declared, paid or made.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

International collaboration

The Group is dedicated to becoming a leading medical device manufacturer in Asia.

During the year, the business collaboration of the Group with Medtronic, Inc. achieved significant progress.

On 18 December 2007, the Company entered into a sale and purchase agreement (as amended, modified and supplemented by the supplemental deed dated 22 October 2008 and the new share transfer deed dated 22 October 2008) with Weigao Holding Company Limited ("Weigao Holding"), Mr Chen Lin, Mr Zhang Hua Wei, Mr Miao Yan Guo, Mr Wang Yi, Ms Zhou Shu Hua, Mr Wang Zhi Fan, Mr Wu Chuang Ming and Mr Jiang Qiang (collectively the "Management Shareholders"), Medtronic International Limited ("Medtronic") and Medtronic Holding Switzerland GmbH ("Medtronic Switzerland"), which governed the issuance of 80,721,081 new H Shares of the Company (representing 7.5% of the enlarged issued share capital of the Company) at a price of HK$11.138 per share to Medtronic Switzerland and the sale of 80,721,081 existing Domestic Shares (representing 7.5% of the enlarged issued share capital of the Company) by Weigao Holding and the Management Shareholders to Medtronic Switzerland. The sale and purchase agreement was completed on 18 December 2008. As at the date of the announcement, the investment funds from Medtronic Switzerland were received.

On 18 December 2007, the Company signed an agreement with Medtronic International in relation to the establishment of a joint venture in the PRC (the "Distribution JV") for the distribution of orthopaedic products in the PRC. The joint venture commenced operations on 10 September 2008. The Distribution Joint Venture is held as to 49% by the Company and 51% by Medtronic International.

The international collaboration will further expand the Group's businesses, strengthen its research and development capabilities. They also lay a solid foundation for the Group to become a leader in the medical device industry in Asia by leveraging on the Group's advantages in customers' resources and manufacturing capabilities in the PRC market. The Group will also capitalise the opportunities of international collaborations to strengthen its management concept and methods, operating system, human resources, technology application, products portfolio and market positioning, and to enhance the core competitiveness of the Group.

On 9 January 2008, the Company and Biosensors International Group, Ltd. ("Biosensors") entered into a sale and purchase agreement (the "SPA"), pursuant to which Biosensors agreed to purchase and the Company agreed to sell 30% equity interest in JW Medical Systems Limited ("JW Medical"). On 9 January 2008, the Company and Biosensors also entered into the put option agreement ("Put Option Agreement") pursuant to which Biosensors agreed to grant to the Company a put option in respect of the remaining 20% equity interest in JW Medical. As the PRC government approvals required for the SPA and the Put Option Agreement to proceed have not been obtained by 30 September 2008, the SPA and the Put Option Agreement lapsed and the transactions contemplated under the SPA and the Put Option Agreement did not proceed. The Company and Biosensors will continue to explore ways of strategic collaboration.

OPTIMIZATION ADJUSTMENTS TO PRODUCT MIX

During the year, the Group continued the strategy of improving the product mix. The Group focused on the business development of orthopaedic products, blood purification products and increased the marketing and sales effort on high value-added products such as intravenous catheters, high-end infusion sets, safety auto disable syringes, and phased out the production of some low value-added products. The achievement of product mix adjustment was remarkable. The performance of the Group in four business segments was as follows:

1. Consumables: Remarkable results were achieved following the product mix adjustment on the principal products. During the year, the Group recorded turnover of RMB 1,186,254,000, representing an increase of 39.6% over the previous year.

2. Orthopaedic products: Market of Weigao Orthopaedic, a subsidiary of the Company continued to expand during the year. For the year ended 31 December 2008, Weigao Orthopaedic recorded a turnover of approximately RMB171,776,000, representing an increase of 54.7% from approximately RMB111,003,000 over the previous year.

3. Blood purification products: The plasma segregator of Weigao Blood has been launched to the market. For the year ended 31 December 2008, turnover recorded was RMB25,077,000, representing a growth of 62.5% over the previous year. During the year of 2007, Weigao Blood invested approximately RMB105,780,000 to purchase a polymer membrane dialysis device production line. As at the date of the announcement, the production line has commenced operation.

4. Drug-eluting stents products: Production and sales of drug-eluting stents produced by JW Medical, a 50% jointly owned entity of the Company was substantially affected by the Beijing Olympic Games and the economic crisis during the year. JW Medical recorded a decrease in profit compared with the previous year. During the year, profit contribution to the Group amounted to RMB55,981,000, representing a decrease of 5.0% over the previous year.

Among the products, the medical needles of the Group continued to demonstrate rapid growth. During the year, the Group recorded turnover of RMB267,136,000 for medical needles, representing an increase of 80.1% over the previous year. The Directors believe that medical needles will continue to be an important area for development.

Market development for specialised infusion sets with dosage control device and infusion sets made of a non PVC based material, has made significant progress. Sales of the Group's infusion sets recorded an increase by 41.0% over the previous year. With the keen market competition for the product of infusion sets, manufacturers with poor quality products were phased out. The Group's market position in high end infusion set was further strengthened.

During the year, the Group invested in glass tube production line for pre-filled syringes and the trial production has been successful. Pre-filled syringes are extensively used in vaccination and package injection drugs with good development prospects in the PRC. Currently, the glass tubes used for the production of pre-filled syringes in the market rely on import. With the production of the glass tubes in-house, it resolved the bottleneck for the production of pre-filled syringes and enhanced the Group's profitability. During the year, turnover of pre-filled syringes amounted to RMB40,257,000, representing an increase of 82.5% over the previous year.

During the year, the Group benefited from the above effective product mix adjustment. The percentage of turnover from high value-added products (gross profit margins of over 60%) to the total turnover of the Group increased to 45.6% (2007: 35.2%). The Directors believe that with the enhancement of the Group's capabilities in research and development, manufacturing and marketing, the percentage of turnover derived from high value-added products will be further increased to over 50% in the coming two years.

RESEARCH AND DEVELOPMENT

For the twelve months ended 31 December 2008, the Group obtained 25 new patents and is applying for 20 new patents. Product registration certificates for 18 new products were obtained. Research and development were completed for 16 products and application for product registration certificates are underway. By placing strong emphasis on research and development, it enhances the Group's competitiveness and allows the Group to leverage on its customer base and provides the Group with new growth drivers.

For the twelve months ended 31 December 2008, the Group had over 160 product registration certificates and over 140 patents, of which 13 were patents on invention.

During the year, the Group and Dalian Chemistry-Physics Research Institute of the Chinese Academy of Sciences jointly developed polysulfone membrane synthetic dialyzer. The project has been awarded by National Development and Reform Commission and was recognized as "National High Tech Exemplary Asset and Engineering Project". The project is highly supported by the State government. The product breaks the dominance by overseas players in the market. The development enhances the innovative capabilities of medical enterprises and promotes adjustment to product mix in the industry. It also drives the development and growth of biomedical engineering related business. It is a significant achievement in the Group's blood purification product series.

In view of the need for the strategic adjustments to product mix, the Group continued to increase investments in the research and development in a number of areas, so as to further improve product series and expand product range. The Group continued to maintain its leading position in research and development capability in China. For the twelve months ended 31 December 2008, the total research and development expenses amounted to approximately RMB58,981,000 (2007: RMB16,652,000), representing 3.9% of the total turnover of the Group.

Production

For the year ended 31 December 2008, production volumes of the Group's products as compared with the previous year were as follow:

Product name	Measurement unit	For the year ended 31 December 2008	2007	Increase (%)
Infusion (transfusion) sets	1,000 set	288,908	241,938	19.4
Transfusion consumables	1,000 pieces	15,401	13,246	16.3
Syringes	1,000 sets	526,160	455,385	15.5
Needle products	1,000 sets	2,076,655	1,866,346	11.3
Dental and anesthetic products	1,000 pieces	3,007	2,561	17.4
Pre-filled syringes	1,000 sets	13,900	7,680	81.0
Blood sampling products	1,000 sets	137,290	93,116	47.4
Orthopaedic products	1,000 pieces	2,427	1,160	109.2
PVC granules	Tones	11,805	11,800	0.04
Others	1,000 pieces	209,243	152,368	37.3

The Group increased the proportion of producing high value-added products and decreased the production of low value-added products. The adjustment has raised profit contribution from individual items and ultimately increased the Group's overall profitability.

Sales and Marketing

The Group's trademark of "Jierui" was accredited as "China Top Brand" by China Promotion Committee for Top Brand Strategy. The Group is the first enterprise in the medical device industry in the PRC to possess both "China Reputable Brand" and "China Top Brand".

The Group continued to integrate its sales channels and to adjust the product mix and the results have been remarkable.

During the year, the Group strengthened its sales management system, strengthened developing direct sales, integrated customers resources and phased out low profitability customers. For the twelve months ended 31 December 2008, the Group has newly secured new customers of 86 hospitals and 1 blood station. The Group transferred a number of community medical units to be covered by distributors and some distributors of less competitiveness were being phased out or merged and become the second tier distributors, thereby reducing other medical units by 47 and corporate customers by 13. Following the establishment of Distribution JV with Medtronic International, the 397 customers Weigao Orthopaedic were transferred to the Distribution JV. As at the date of the announcement, the Group has a customer base of 5,053 (including 2,891 hospitals, 413 blood stations, 650 other medical units and 1,099 trading companies).

Revenue by geographical segments

Region	**2008**		**2007**		**Growth**
	RMB'000	*%*	*RMB'000*	*%*	*%*
Eastern and Central	537,503	35.5	387,171	35.4	38.8
Northern	356,376	23.5	255,257	23.3	39.6
Northeast	222,951	14.7	167,180	15.3	33.4
Southern	163,215	10.8	119,233	10.8	36.9
Southwest	113,069	7.5	60,322	5.5	87.4
Northwest	51,379	3.4	40,349	3.7	27.3
Overseas	69,874	4.6	65,597	6.0	6.5
Total	1,514,367	100.0	1,095,109	100.0	38.3

Integration of channels has strengthened the Group's market penetration and the customer relationship with direct sales to high-end customers. It enhanced contribution rate of a single customer significantly and reduced selling expenses. The average turnover of single customer was increased by approximately 48.4% over the previous year. The Group continued to enhance product penetration with high-end customers to promote revenue growth and to reduce selling expenses.

REVENUE BY PRODUCTS

Product category	For the twelve months ended 31 December 2008	2007	Growth
	RMB'000	*RMB'000*	*%*
Self-produced product consumables			
— Infusion sets	374,337	265,559	41.0
— Medical needle products	267,136	148,336	80.1
— Syringes	264,563	215,490	22.8
— Blood bags	119,186	104,019	14.6
— Pre-filled syringes	40,257	22,053	82.5
— Blood sampling products	37,169	24,334	52.7
— Dental and anesthetic products	18,457	14,218	29.8
Other consumables	65,149	55,727	16.9
Sub-total of consumables	**1,186,254**	**849,736**	**39.6**
Orthopaedic products	171,776	111,003	54.7
Blood purification consumables	25,077	15,435	62.5
PVC granules	70,179	73,509	(4.5)
Trading products			
— Medical instruments	44,988	38,136	18.0
— Other products	16,093	7,290	120.8
Total	**1,514,367**	**1,095,109**	**38.3**

HUMAN RESOURCES

As at 31 December 2008, the Group employed a total of 6,723 employees. Breakdown by departments is as follows:

Departments	2008	2007
Production	4,882	4,057
Sales and marketing	732	702
Research and development	685	211
Finance and administration	219	196
Quality control	118	98
Management	61	56
Purchasing	26	26
Total	6,723	5,346

The Group increased its investment in research and development and integrated the research and development resources of different business segments of the Group. The Group established engineering centre and research and development centre and therefore the number of employees in the research and development departments was increased by 474 during the year.

Except for the two employees (including the company secretary) who reside in Hong Kong, all employees of the Group reside in the PRC. During the year, total amount of staff salaries, welfare and various funds amounted to approximately RMB160,072,000 (2007:RMB 128,532,000).

REMUNERATION SYSTEM

The Group's remuneration policy has been determined based on its performance, changes in the local consumption level and the competition in the human resources market. The remuneration policy so determined has become the basis of determining the salary levels of employees recruited for different positions. The salary of each employee is determined according to the employee's performance, ability, employment conditions and the salary standards set by the Company. Remuneration of Directors is determined by the Remuneration Committee with reference to the operating results of the Company, personal performance of the Director and market competition. The proposed remuneration of Directors requires approval by shareholders at annual general meeting.

FINANCIAL REVIEW

During the year under review, the Group overcame various unfavorable factors such as the significant increase in cost of raw materials, energy and labour, and continued to achieve growth in gross profit margin. The Group also recorded significant growth in both turnover and net profit attributable to shareholders.

For the year ended 31 December 2008, turnover of the Group recorded an amount of RMB1,514,367,000, representing an increase of 38.3% over the previous year and net profit attributable to shareholders of the Group was RMB482,394,000, representing an increase of 56.5% over the previous year.

The significant growth in turnover and profit was mainly due to the Group's adjustments to the business and product mix, enhancement in the operation efficiency and efforts in exploring new businesses.

Financial Summary

	Audited		
	2008	**2007**	**Growth %**
	RMB'000	*RMB'000*	
	(audited)	*(audited)*	
Turnover	1,514,367	1,095,109	38.3
Gross profit	758,233	500,265	51.6
Profit before interest, tax, depreciation and amortization.	550,131	397,975	38.2
Net profit attributable to shareholders	482,394	308,149	56.5

Liquidity and Financial Resources

The Group has maintained a sound financial position during the year ended 31 December 2008. As at 31 December 2008, the Group's cash and bank balance amounted to approximately RMB830,419,000. For the year ended 31 December 2008, net cash flow from operating activities of the Group amounted to approximately RMB437,482,000, the Group has maintained a sound cash flow position.

During the year under review, the Group obtained bank borrowings of RMB 485,397,000 and repaid bank borrowings of RMB685,416,000. As at 31 December 2008, the total amount of bank and other borrowings payable within one year was approximately RMB 1,716,000 (2007: RMB 127,627,000) and the total amount of bank and other borrowings payable after one year amounted to RMB 136,692,000 (2007: RMB 210,800,000).

Total interest expense of the Group for the year ended 31 December 2008 was RMB30,227,000 (2007: RMB17,865,000).

Gearing Ratio

As at 31 December 2008, the total net cash of the Group amounted to RMB 692,011,000 (2007 : gearing ratio was 0.06). The increase in total net cash was due to the increase in the Group's reserves during the year and fund raised from the issue of new H Shares to Medtronic Switzerland.

Foreign Exchange Risks

The Group's purchases and sales are mainly conducted in the PRC. Its assets, liabilities and transactions are mainly denominated in RMB. For the year ended 31 December 2008, the Group has not encountered any material difficulty due to currency fluctuation nor shortage of operating funds. For the twelve months ended 31 December 2008, the Group had no significant exposure to foreign exchange fluctuation or hedging for such risk.

At the beginning of the year, the Company draw down a long term loan from the International Finance Corporation in the amount of US$20 million. Due to the change in exchange rates, foreign exchange gain equivalent to approximately RMB5,517,000 for the year ended 31 December 2008 was recognised.

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2008.

Material Investments in subsidiaries/ Future material investment plans

On 18 December 2007, the Company acquired 22% and 25% equity interests in Weigao Orthopaedic from Weihai Fumaite Trading Company and Howell (Hong Kong) Limited at a consideration of RMB110,000,000 and RMB125,000,000 respectively. Following the acquisition, the Company holds 100% equity interest in Weigao Orthopaedic.

During the year, the Distribution JV was established and it was owned as to 49% by the Company and 51% by Medtronic International. It is principally engaged in orthopaedic distribution and has been in operation since September 2008. The sale and issue of shares to Medtronic was completed in December 2008.

Save for the above material investment plans, the Group had no material capital commitments or any future plans of significant investments or capital assets acquisition as at 31 December 2008, and there were no material acquisition and disposal in any other subsidiary and associate during the period.

Capital Commitments

As at 31 December 2008, the capital commitments of the Group contracted but not provided for in respect of the acquisition of property, plant and equipment amounted to approximately RMB41,924,000 (2007: RMB119,182,000). The Group will pay the amount from the internal resources of the Group.

Pledge of the Group's Assets

As at 31 December 2008, the Group had pledged land use rights and buildings with a net book value of approximately RMB196,744,000 (2007: RMB112,945,000) and pledged bank deposits of RMB75,020,000 (2007: RMB87,482,000) to secure bills and banking facilities of the Group.

Reserves and Distributable Reserves

As at 31 December 2008, the total reserves of the Group amounted to RMB2,369,104,000 (2007: 1,228,206,000).

Under the PRC laws and regulations, the Company's distributable reserves will be based on the lower of the amount calculated according to the PRC accounting principles and rules and the amount calculated according to the Hong Kong generally accepted accounting principles. As at 31 December 2008, the distributable reserves of the Company were RMB292,506,000 (2007: RMB186,411,000).

Outlook

During the year of 2008, raw materials prices fluctuated significantly due to the global economic changes. The average prices of major raw materials reached all time high during the history of the Group. The significant increase in raw material cost added pressure on the operational difficulty on the conventional single use consumables manufacturers in the industry and resulted in losses on majority of the conventional products. With the economic crisis continued to unfold, the increase in the severity on the impact on the economy and consumer confidence was felt, in particular during the fourth quarter of the year. There was serious and general delay in settlement of accounts from the principal customers. This posted serious challenge to the credit risk control of the Group. With the down turn in the economy, it slowed down the growth in products for chronic illnesses, such as cardiovascular stents and joint products. It posed unprecedented challenge to the Group in moving to high end products.

For JW Medical, sales for the year were affected by the twofold impacts from Beijing Olympic and macro economic crisis. Profit dropped compared to prior year for the first time since the product was launched. The fall in profit signified the risk of reliance on single product line. The Group will continue to place more resources on research and development to enrich the cardiovascular product line in order to drive the profit growth with innovative technology and product porfolio.

Despite facing various unfavorable factors, the Group thrived from its product range and product line diversification. The Group focused on adjusting the product mix to increase the sales of high valued added product lines, including intravenous catheter, minimal dosage, light proof and TPE based high end infusion sets. While maintaining basic supply to the market, it lowered the supply of conventional products in infusion sets and syringes. This has been effective in shifting the pressure from high raw materials prices. Management made prompt action in dealing with the delay in settlement from customers and counteract the risk in extending credit. It lowered the supply of conventional and low gross margin products while extending credit in promoting high value added products. This has further strengthened the Group's leading position in high value added consumables and laid a strong foundation for further product mix adjustment.

Looking ahead, the Directors expect that with the increase in awareness in health care, various level of governments' huge stimulus plans and gradual implementation of universal health care coverage, it will drive continuous, steady and rapid growth of the single-use medical devices in the China market. At the same time, the Directors anticipate that process of restructuring of the medical device industry in the PRC will continue and deepen providing opportunities in a regulated operating environment and fair competition in the market. Affected by the downturn of export sales and macro economic environment, the profitability of increasing number of conventional consumable manufacturers is going to be very thin and or they may even make losses. This will further lead to tightened market supply and provide opportunities in consolidation in the industry. At the same time, with the regulatory bodies on medical product registration strengthening the control on new product registration and production process, it protects the system in raising the entry barrier. With this external factors becoming favorable, the Group's strong financials and management team, it offers the Group favorable opportunities in industry consolidation.

With the general fall in raw material prices in fourth quarter of 2008, the Directors expect that the pressure on costs will be significantly reduced and the Group's profitability on conventional consumables may be improved and increased.

Taking into account changes in market condition, the Group will continue to adjust product mix. The Directors continues to adopt the strategic plan of product and business mix adjustments and will focus its operation in the following aspects:

1. With the foundation of the existing engineering centers, and research and development centers, the Group plans to consolidate the domestic research resources, including research institutions, universities and hospitals, through extensive collaborations; focus on high margin and high value single use consumables to substitute imported products from international medical device players. This will strengthen the Group's leading position in high end consumables market. With local market experience and sound financial position, through distribution arrangements, mergers and acquisitions and licensing arrangements to seek technologies from overseas, raising the Group's research and development capability so as to minimize the gap in the technology with players of developed countries.

2. The Group will continue to adopt prudent approach. Through mergers and acquisitions, expand the capacity in conventional consumables penetrating the fastest growth medical market in counties in China. The Group will continue to build and maintain its leadership position in single use consumables market in China and to better serve the China market.

3. The Group will explore strategic collaboration opportunities with overseas hospital sourcing groups under the principles of mutual trust, win win situation and long term relationship. The Group aims to expand the export opportunities of its own branded single use consumables and to participate in the international medical device industry.

4. The Group will continue to work closely with Medtronic in the area of orthopaedic, striving for Weigao Ortho and the joint venture company to become major suppliers in orthopaedic in the China market. It will continue to raise the orthopaedic instrument design and manufacturing capability so as to compete in the global orthopaedic instrument market.

5. The Group will continue to improve the trial production of blood purification products and will gradually expand the production capacity of dialysers. The Group aims to become a major integrated supplier of dialyser related consumables in China.

6. The Group will continue to recruit and to provide training to dedicated employees and to retain a team of professional, talented and energetic management team to provide administratve support on industry consolidation.

7. The Group will continue to assess the breath and depth of the impact on the real economy from the financial crisis, and to assess the ways and the forms of impact on different products. The will provide guidance in the Group's operational and investment strategies, turning the crisis into opportunities, and to achieve strong business growth.

The Directors are confident with the future development. The Group will continue to strengthen its professional management team. With in depth knowledge of the local market and application of advanced technology, the Group and of its employees are confidence in facing new challenges.

BREAKDOWN ON THE USE OF PROCEEDS

Statement of business objective, as set out in the announcement for the issue of new H Shares in 2008 ("2008 New Issue")

Project	**Actual business progress as of 31 December 2008**
1. To apply approximately RMB88,190,000 of the proceeds from the 2008 New Issue for the purchase of machinery and equipment for Weigao Orthopaedic	Actual invested amount as at 31 December 2008 was approximately RMB32,918,000
2. To apply approximately RMB70,552,000 of the proceeds from the 2008 New Issue for the purchase of machinery and equipment for blood purification products	Actual invested amount as at 31 December 2008 was approximately RMB58,200,000
3. To apply approximately RMB220,475,000 of the proceeds from the 2008 New Issue for the repayment of bank borrowing	Repayment as at 31 December 2008 was approximately RMB220,475,000
4. To apply approximately RMB401,617,000 of the proceeds from the 2008 New Issue for general working capital	RMB401,617,000 has been used as general working capital

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Since the commencement of dealings in the H shares of the Company on GEM on 27 February 2004, except for the placing of 52,900,000 new H Shares of the Company on 30 November 2005, the placing of 30,000,000 new H shares of the Company on 19 April 2007 and the issue of 80,721,081 new H shares of the Company on 18 December 2008, the Company and its subsidiaries did not purchase, sell or redeem any listed shares of the Company.

BOARD PRACTICES AND PROCEDURES

The Code on Corporate Governance Practices (the "CCGP") contained in the GEM Listing Rules which set out the principles of good corporate governance and the Company is required to comply with the code provisions of the CCGP. The Company fully admitted that good corporate governance, as part of the Company's culture, can create values to the Group and the Shareholders. The Board is committed to continuing to enhance the standards of corporate governance within the Group and to ensure that the Group conducts its businesses in an honest and responsible manner. The Group has adopted practices which meets the code provisions of the CCGP.

AUDIT COMMITTEE

The Company set up an audit committee on 1 September 2002 with terms of reference in compliance with 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 Company. The audit committee has five members comprising Mr. Shi Huan, Mr Luan Jian Ping, Mr. Lau Wai Kit and Mr Li Jia Miao, being independent non-executive directors and Mrs. Zhou Shu Hua, a non-executive director.

During the year, the audit committee held four meetings and the committee had reviewed and approved the annual report for the year ended 31 December 2007 and the first three quarterly reports of the year 2008. On 12 March 2009, the audit committee had reviewed and approved the financial statements for the year ended 31 December 2008.

The unaudited quarterly and interim results and audited annual results for the year ended 31 December 2008 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

PRE-EMPTIVE RIGHTS

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE GEM LISTING RULES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with he code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2008.

DIVIDENDS

The Board has resolved to recommend a final dividend of RMB0.087 per share. The total amount of dividends to be distributed shall be approximately RMB93,636,000, of which dividends paid to non-resident corporate shareholders will be subject to the corporate tax applicable on the PRC sourced income pursuant to the PRC Corporate Income Tax Law and the Regulations on the Implementation of the PRC Corporate Income Tax Law that became effective on 1 January 2008 and the applicable tax rate is 10%. The listed issuer will be responsible for withholding the relevant amount of tax from the dividend payment and the dividends to be received by the non-resident corporate shareholders will be net of withholding tax. The proposal to declare and pay this final dividend will be submitted to the shareholders of the Company at the forthcoming annual general meeting ("AGM"). Final dividend for Domestic Shares will be distributed and paid in RMB whereas dividend for H Shares will be declared in RMB and paid in Hong Kong dollars. The date of the AGM will be disclosed in the notice of AGM and the annual report.

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

Weihai, Shandong Province, the PRC
13 March 2009

As at the date of this announcement, the Board comprises:

Mr. Zhang Hua Wei *(Executive Director)*
Mr. Miao Yan Guo *(Executive Director)*
Mr. Wang Yi *(Executive Director)*
Mr. Wang Zhi Fan *(Executive Director)*
Mr. Wu Chuan Ming *(Executive Director)*
Mr. Chen Xue Li *(Non-executive Director)*
Mrs. Zhou Shu Hua *(Non-executive Director)*
Mr. Jean-Luc Butel *(Non-executive Director)*
Mr. Li Bing Yung (Non-executive Director)
Mr. Shi Huan *(Independent non-executive Director)*
Mr. Luan Jian Ping *(Independent non-executive Director)*
Mr. Lau Wai Kit *(Independent non-executive Director)*
Mr. Li Jia Miao *(Independent non-executive Director)*

This announcement will remain on the GEM website at on the "Latest Company Announcement" page for at least seven days from the date of its posting.

** For identification purpose only*