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)

2008 Annual Report

* For identification purposes only

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

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

Contents

DIRECTORS AND SUPERVISORS

Executive Directors

Mr. Zhang Hua Wei
Mr. Miao Yan Guo
Mr. Wang Yi
Mr. Wang Zhi Fan
Mr. Wu Chuan Ming

Non-executive Directors

Mr. Chen Xue Li
Mrs. Zhou Shu Hua
Mr. Li Bing Yung
Mr. Jean-Luc Butel

Independent non-executive Directors

Mr. Luan Jian Ping
Mr. Shi Huan
Mr. Lau Wai Kit
Mr. Li Jia Miao

Supervisors

Ms. Bi Hong Mei
Mr. Miao Hai Sheng
Ms. Chen Xiao Yun

CORPORATE INFORMATION

Registered office and principal place of business in the People's Republic of China (the "PRC")
312 Shi Chang Road
Weihai
Shandong Province
PRC

Principal place of business in Hong Kong
801, Chinachem Century Tower
178 Gloucester Road
Wanchai
Hong Kong

Company secretary
Ms. Wong Miu Ling, Phillis, ACIS

Compliance officer
Mr. Zhang Hua Wei

Audit committee
Mr. Lau Wai Kit
Mrs. Zhou Shu Hua
Mr. Luan Jian Ping
Mr. Shi Huan
Mr. Li Jia Miao

Authorised representatives
Mr. Zhang Hua Wei
Ms. Wong Miu Ling, Phillis

Auditors
Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong share registrars and transfer office
Tricor Standard Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Principal bankers
1. Agriculture Bank of China, Weihai Branch
2. Bank of China, Weihai Branch

Website of the Company
www.weigaogroup.com

Stock Code 8199

Shandong Weigao Group Medical Polymer Company Limited

Shandong Weigao Group Medical Polymer Company Limited (the "Company") and its subsidiaries (together the "Group") is principally engaged in the research and development, production and sale of single-use medical devices. The Group has a wide range of products, which includes: i) consumables (infusion set, syringes, medical needle, blood bags, dental and anaesthetic consumables, blood sampling products, and other consumables); ii) orthopedic materials; iii) blood purification consumables; iv) medical and non-medical PVC granules; and v) stent. The Company is recognised as an industrialization base to commercialise products developed by the State High-tech Research and Development (863) Program, the State High-tech Enterprise and the State Technology Center. The Group's main production facilities is situated in Weihai City in Shandong Province.

The Group is incorporated in the People's Republic of China. The Group has an extensive sales network comprising 20 sales offices, 18 customer liaison centers and over 100 municipal representative offices. It has an extensive customer base of 5,053 healthcare organizations and distributors, including 2,891 hospitals, 413 blood stations, 650 other medical units and 1,099 trading companies.

The Group produces a wide range of products and they are grouped under four major categories, namely:-

I. Single use medical consumables and materials (including infusion (transfusion) sets, syringes, blood bags and blood component segregator consumable, blood sampling products, dental and anaesthetic consumables, pre-filled syringes for drug delivery and medical needles which mainly include intravenous needles, syringe needles, intravenous catheter needles, blood sampling needles and irregular needles;

II. Orthopedic materials and instruments, including trauma products of steel plates and screws, spinal implants and artificial joints;

III. Blood purification consumables, including puncture needles, blood tapping set, dialyzers and related consumables; and

IV. Cardiovascular stent, mainly including drug eluting stent and balloon.

On behalf of the board of directors (the "Board") of Shandong Weigao Group Medical Polymer Company Limited (the "Company"), I would like to present the audited consolidated results of the Group for the year ended 31 December 2008. The Group's results in 2008 have continued to grow rapidly, with prominent effect from the adjustment to our operational structure and product mix, which laid down a foundation for our future development.

FINANCIAL SUMMARY

During the year under review, the Group recorded a turnover of approximately RMB1,514,367,000 for the year ended 31 December 2008, representing an increase of approximately 38.3% over the previous year and profit attributable to equity shareholders was approximately RMB482,394,000 and basic earning per share was approximately RMB0.48. The growth in turnover and profit attributable to shareholders have been mainly due to our strategy in improving the product mix.

FINANCIAL HIGHLIGHT

	Audited		
	2008	2007	Growth %
	RMB'000	RMB'000	
Turnover	**1,514,367**	1,095,109	38.3%
Gross profit	**758,233**	500,265	51.6%
Net profit attributable to shareholders	**482,394**	308,149	56.5%

BUSINESS REVIEW

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 this report, 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%). We 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.

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. We 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 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, we 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, we 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, we 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, we will continue to adjust product mix. We 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.

We are confident with the future development. We 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.

DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to recommend a final dividend of RMB0.087 per share (inclusive of tax). 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") to be held on 4 May 2009. 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 register of holder of H Shares of the Company will be closed from 4 April 2009 to 4 May 2009 (both days inclusive) during which no transfer of H Shares will be registered. In order to qualify for entitlement to the proposed final dividend and for attending and for voting in the forthcoming annual general meeting of the Company, all transfers of H Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's H Share Registrar, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 3 April 2009 (Friday). The final dividend will be distributed on or before 12 June 2009.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at 9:00 a.m. on Monday, 4 May 2009 at the registered office of the Company at No. 312 Shichang Road, Weihai City, Shandong Province, PRC.

ACKNOWLEDGEMENTS

The Group's various achievements as mentioned above are attributable to the continued supports of the staff, customers and business partners and shareholders. I would like to take this opportunity to express my most sincere thanks for all your contributions!

Chen Xue Li
13 March 2009

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 this report, 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 this report, 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:

		For the year ended 31 December		
Product name	Measurement unit	**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 this report, 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 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.

Report of The Supervisory Committee

To all shareholders:

For the year ended 31 December 2008, the entire members of the Supervisory Committee of the Company have complied with the Company Law of the PRC, the relevant regulations of Hong Kong and the Articles of Association of the Company (the "Relevant Regulations"), and under the principles of fidelity, have diligently and seriously discharged their duties to safeguard the benefits of the Company's shareholders and the Company.

During the year, the Supervisory Committee has provided reasonable opinions and recommendations to the Board over the business and development plans, and has performed serious and effective supervision on the Company's policies on whether they were in compliance with the Relevant Regulations and whether the interests of the Company shareholders have been protected.

The Supervisory Committee, having made inspections, considers that the audited financial report of the Company truly and fairly reflected the Company's operating results and assets situation for the year. The Supervisory Committee considers that the Report of the Board and the profits distribution plan proposal are in compliance with the Relevant Regulations. The Supervisory Committee has attended the Board meetings. The Supervisory Committee considers that the meetings were convened in compliance with the Relevant Regulations. The Supervisory Committee considers that the Company's Board members, general manager and other senior management have strictly abode with the principles of fidelity, hard working, and conscientiously performing their duties for the best benefits of the Company. None of the Directors, general manager and other senior management of the Company has been found to have abused their duties, harmed the Company's benefits or infringed the interests of the Company's shareholders and staff, and made violation of the Relevant Regulations.

The Supervisory Committee is satisfactory with the various works of the Company and the operating results obtained, and is fully confident on the future development prospects of the Company.

By Order of the Supervisory Committee
Shandong Weigao Group Medical Polymer Company Limited
Bi Hong Mei
Chairman

Weihai, Shandong Province, the PRC
13 March 2009

Corporate Governance Practices

The Board of Directors of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure its strict compliance with relevant regulatory requirements, a high level of transparency in corporate governance and an excellent performance in operation.

The Company has complied with all of the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The following summarizes the corporate governance practices of the Company:

A. Directors

Board of Directors

The Board meets at least quarterly. Regular meetings are convened once every three months. Directors can attend meetings in person or by means of electronic communication. Set out below is the number of Board meetings of the Company convened in year 2008 and the individual attendance of each Director:

Number of Board meetings held during the year 2008: 11

Details of individual attendance of each Director:

	Attendance in 2008 (%)
Executive Directors	
Mr. Zhang Hua Wei	100%
Mr. Wang Yi	100%
Mr. Miao Yan Guo	100%
Mr. Wang Zhi Fan	91%
Mr. Wu Chuan Ming	91%
Non-executive Directors	
Mr. Chen Xue Li	100%
Mrs. Zhou Shu Hua	91%
Mr. Li Bing Yung (appointed on 15 December 2008)	—
Mr. Jean-Luc Butel (appointed on 15 December 2008)	—
Independent non-executive Directors	
Mr. Shi Huan	82%
Mr. Luan Jian Ping	100%
Mr. Lau Wai Kit	100%
Mr. Li Jia Miao	100%

Notices of all regular Board meetings are issued 10 days before the meetings.

Minutes of Board/ committee meetings are recorded, and draft minutes and final version are submitted to Directors for review within reasonable time after the meetings, normally 14 days after the meetings.

Secretary of the Board assists the chairman to establish meeting agenda, and each Director may request inclusion of items in the agenda.

Matters on transactions where Directors are considered having conflict of interests or material interests will not be dealt with by way of written resolutions. The Directors concerned can express views but will not be counted in the quorum of meetings and shall abstain from voting on the relevant resolution(s).

All Directors have access to the company secretary who is responsible for ensuring that the Board procedures are complied with, and advising the Board on compliance matters.

Minutes of Board/committee meetings are kept by the company secretary and are open for inspection by Directors.

Chairman and chief executive officer

Mr. Chen Xue Li, a non-executive Director, is the chairman of the Board, and Mr. Zhang Hua Wei, an executive Director, is the chief executive officer of the Company.

The chairman of the Board is appointed by the Board itself, who is responsible for the leadership of effective operation of the Board, and ensuring that all major and appropriate issues are discussed by the Board on a timely basis and in a constructive manner.

The chief executive officer is appointed by the Board. He is responsible for the management of daily operations of the Company and the implementation of the strategies and plans determined by the Board.

Composition of the Board

The Board comprises 13 Directors, of which four are independent non-executive Directors, four are non-executive Directors and five are executive Directors. On 15 December 2008. Mr. Li Bing Yung and Mr.Jean-Luc Butel were appointed as independent non-executive Directors. The Directors are:

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

The independent non-executive Directors are explicitly identified in all corporate communications.

Experience

The executive Directors and non-executive Directors possess administrative leadership, diversified knowledge and extensive management experience in the industry. The independent non-executive Directors possess extensive knowledge, experience and judgements in different areas.The Board will seriously consider the objective views of the independent non-executive Directors for making decisions, and regard this as an effective guidance for the Group's business direction.

Nomination, Appointment and removal of Directors

All of the non-executive Directors of the Company are appointed for a specific term of three years.

The Company has not experienced any casual vacancy for members of the Board. In the event that there is such circumstance, the Director appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after his appointment.

Each Director shall be subject to retirement by rotation at least once every three years.

The Board selects and nominates Director candidates based on whether they possess the skills and experience needed for the Group's development.

The Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the nomination of directors and assessing the independence of independent non-executive directors of the Company.

Directors' responsibility

The Board manages the business of the Company on behalf of its shareholders. The Directors consider that they are obliged to fulfill their responsibilities in a prudent, diligent and faithful manner, so as to create value for shareholders and safeguard the best interests of the Company and its shareholders.

The Company has adopted a code of conduct regarding transactions in securities by directors on no less exacting terms than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Specific enquiries have been made with all Directors of the Company and they have confirmed that they have fully complied with the required standard of dealings and the code of conduct of the Company regarding securities transactions throughout the year 2008.

B. Remuneration of Directors and Senior Management

Remuneration Committee

The Company established a remuneration committee on 12 August 2005 in accordance with the requirement of the Code. The remuneration committee comprises four independent non-executive Directors, namely Mr. Shi Huan, Mr. Luan Jian Ping, Mr. Lau Wai Kit and Mr. Li Jia Miao. The chairman of the remuneration committee is Mr. Shi Huan.

The remuneration committee has reviewed the remuneration policy, the performance and the remuneration of executive Directors and members of senior management, the existing terms of service contracts of the executive Directors. The objective of the remuneration policy is to ensure that the Company is able to attract, retain and motivate high-caliber staff, which is vital to the success of the Company.

In reviewing and determing the remuneration packages of the executive Directors and members of senior management, the remuneration committee considers their responsibilities, skills, expertise and contribution to the Group's performance and whether remuneration packages are competitive and sufficient to ensure that the Group is able to attract and retain the best available executive talent.

No Director or executive officer can determine his/her own remuneration. The remuneration of all Directors is subject to approval at shareholders' meetings.

During the year, one meeting has been held by the remuneration committee. All members of the remuneration committee attended the meeting during which the responsibilities of the remuneration committee were defined and matters such as the remuneration policy, incentive mechanism of the Directors and senior management of the Group were reviewed. The chairman of the remuneration committee reports the findings and provides recommendations to the Board after each meeting.

C. Accountability and Audit

Financial Reporting

All Directors are provided with explanations and information by the management of the Company so as to enable them to have discussions and make assessment at Board meetings.

All Directors acknowledge the responsibility for the preparation of its accounts, with the responsibility statement in respect to the financial reports made by the Directors set out in this annual report. The auditors have also made a statement about their responsibilities in the auditor's report.

The Board presents a comprehensive, balanced and understandable assessment on the position and prospects of the Group in all shareholder communications.

Internal control

Directors are responsible for reviewing the internal control and risk management system of the Company periodically to ensure its effectiveness and efficiency. With the support of the internal audit department, they will review the practices, procedures, expenditure and internal control of the Company and its subsidiaries on a regular basis. The management will regularly monitor the concerns as reported by the internal audit department to ensure appropriate remedial measures have been implemented. The Board or senior management can also request the internal audit group to review the specific scope of concerns and report the significant findings of such review to the Board and the audit committee.

The Board has conducted a review of the effectiveness of the system of internal control of the Group.

Audit committee

The audit committee of the Company comprises independent non-executive Directors, namely Mr. Lau Wai Kit, Mr. Shi Huan, Mr. Luan Jian Ping and Mr. Li Jia Miao and a non-executive Director, Mrs. Zhou Shu Hua. The chairman is Mr. Lau Wai Kit.

The terms of reference of the audit committee have been clearly defined. Its principal responsibilities include:

➢ To serve as a focal point for communication amongst Directors and auditors in respect of the duties relating to financial and other reporting, internal control, external and internal auditors and such other matters as the Board determines from time to time.

➢ To assist the Board in fulfilling its responsibilities by providing independent reviews and supervising financial reporting, by satisfying themselves as to the effectiveness of the internal control of the Group and the adequacy of the external and internal audits.

- To review the scope and findings of internal audit procedures, to ensure coordination between internal and external auditors, and to ensure that the preparation of the financial reportings complied with the applicable accounting standards and requirements.
- To review the appointment of the external auditors on an annual basis, including a review on the scope of audit and approval of audit fees.
- To review annual, quarterly and interim financial statements prior to their approval by the Board, and to recommend application of accounting policies and changes to financial reporting requirements.
- To ensure the objectivity and independence of succession auditors.

During the year of 2008, the audit committee has convened four meetings, at which, they have primarily discussed and reviewed the quarterly, interim and annual results and have discussed and considered the internal control procedures of the Group. The attendance of each Director is set out below:

	Attendance in 2008 (%)
Independent non-executive Directors	
Mr. Lau Wai Kit	100%
Mr. Shi Huan	100%
Mr. Luan Jian Ping	100%
Mr. Li Jia Miao	100%
Non-executive Director	
Mrs. Zhou Shu Hua	100%

The scope of responsibilities of the audit committee is available for inspection upon request.

There was no disagreement between the audit committee and the Board in respect of the selection, appointment, resignation or removal of external auditors during the year of 2008.

The audit committee can consult independent professional advice in accordance with stated procedures at the expense of the Company.

In 2008, the audit fees paid to the external auditors by the Company was approximately RMB1,817,000.

D. Mandate Granted to the Board

The Board should assume the responsibility for the leadership and monitoring of the Company, and is collectively responsible for promoting the success of the Company. The responsibilities of the Board are defined explicitly in the articles of association of the Company.

(1) to be responsible for convening shareholders' meetings and report on its work at shareholders' meetings;

(2) to implement the resolutions passed at shareholders' meetings;

(3) to determine the business plans and investment plans of the Company;

(4) to formulate the annual fiscal budgets and final accounts of the Company;

(5) to formulate profit distribution proposals and loss recovery proposals of the Company;

(6) to formulate proposals for increasing or reducing of the registered capital of the Company and proposals for issue of debentures of the Company;

(7) to draft proposals for the merger, division and dissolution of the Company;

(8) to determine the establishment of the internal management bodies of the Company;

(9) to appoint or dismiss the general manager of the Company, and to appoint or dismiss the deputy general manager and other senior management, including the person in charge of finance, pursuant to the recommendations of the general manager, as well as to determine their compensations;

(10) to formulate the basic management system of the Company;

(11) to formulate proposals for amendments to the articles of association of the Company; and

(12) to exercise other functions as stipulated by the articles of association or granted by the shareholders' meetings.

The Board has granted authority to the chief executive officer to implement the following strategies and to be responsible for the day-to-day operation:

(1) to be in charge of the management of production and operation and to organize the implementation of the resolutions of the Board;

(2) to organize the implementation of the annual business plans and investment plans of the Company;

(3) to draft proposals for the establishment of internal management bodies of the Company;

(4) to draft the basis management system of the Company;

(5) to formulate the basic rules and regulations of the Company;

(6) to propose the appointment or removal of the deputy general manager and other senior management, including the person in charge of finance, of the Company;

(7) to appoint or dismiss the management personnel other than those required to be appointed or dismissed by the Board; and

(8) to exercise other functions granted by the articles of association and the Board.

The chief executive officer grants authorisation to chief financial officers, and senior management within his terms of reference.

The Board is supported by two committees, namely the audit committee and the remuneration committee. Each of the committees has its defined terms of reference covering its duties, rights and functions. The chairmen of the respective committees report to the Board regularly and make recommendations on matters discussed as appropriate.

E. Communications with shareholders

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Director.

The shareholders' meeting provides an effective forum for shareholders to exchange views with the Board. The chairman, together with the chairmen or members of the audit committee and the remuneration committee are available to answer shareholders' questions.

The procedures demanding for a poll and the rights of shareholders to demand for a poll are included in the notice of shareholders' meeting and the accompanying circular. The relevant procedures are explained at the shareholders' meetings.

The external auditor has been appointed as the scrutineer to ensure the votes cast are properly counted and recorded.

The results of the poll have been posted on the website of the GEM on the business day following the meeting.

Furthermore, the Company continues to enhance the ongoing communications amongst the shareholders, investors and analysts, including:

- ➢ establishing specialized bodies and employing staff to serve investors and analysts and answer their relevant questions;
- ➢ arranging site visits to the production bases of the Company in order to keep them abreast of the operations and the latest developments of the Company;
- ➢ collecting and analyzing, in a timely manner, the respective opinions and recommendations on the operations of the Company given by securities analysts and investors and compiling them into reports periodically, and selectively adopting them in the operations of the Company;
- ➢ providing relevant information, including introduction to the Company, the Board and corporate governance, results of the Company, financial summary, marketing materials of the Company and press releases on the website of the Company; and
- ➢ taking the initiative to communicate with various parties, particularly following the announcement of interim, annual results and substantial investment decisions, organizing briefings, press conferences and one-on-one interviews with investment institutions. Besides, the Company also regularly communicates with investors on a one-on-one basis.

Directors

Executive Directors

Mr. Zhang Hua Wei, age 45, is the vice chairman and general manager of the Company and vice chairman of Weigao Holding. Mr. Zhang studied politics and economics at the Weihai Campus of Shandong University from 1996 to 1998. Mr. Zhang was the deputy factory director of Weigao Holding from 1988 to 1998, and has been the general manager of Weigao Holding since 1998. Mr. Zhang joined the Company in December 2000.

Mr. Miao Yan Guo, age 46, is an executive Director and deputy general manager of research and development of the Company. Mr. Miao studied Business Administration at the Weihai Campus of Shandong University from 1999 to 2001. Mr. Miao joined Weigao Holding in 1988 and was sales director from 1988 to 1991, operating manager from 1991 to 1993 and head of the No. 1 branch of Weigao Holding from 1993 to 1998. He was a deputy general manager of Weigao Holding from 1998 to 2000. Mr. Miao joined the Company in December 2000.

Mr. Wang Yi, age 49, is an executive Director and deputy general manager of general affairs of the Company. Mr. Wang studied Business Administration at the Shandong Cadres Distance Learning University from 1994 to 1997. He joined Weigao Holding in 1988 and was production director from 1988 to 1989, head of the No. 2 branch of Weigao Holding from 1989 to 1992 and manager of the No. 3 branch of Weigao Holding from 1992 to 2004 of sales. Mr. Wang joined the Company in December 2000.

Mr. Wang Zhi Fan, age 53, is an executive Director and deputy general manager of sales of the Company. He joined Weigao Holding in 1988 and was the production head and the manager of foreign trade of Weigao Holding. Mr. Wang joined the Group in December 2000.

Mr. Wu Chuan Ming, age 50, is an executive Director and deputy general manager of production of the Company. Mr. Wu joined Weigao Holding in 1988. He has been the manager of the blood transfusion branch from 1996 to 2004. He joined the Group in December 2000.

Non-executive Directors

Mr. Chen Xue Li, age 57, is the Chairman of both the Company and Weigao Holding. Mr. Chen founded Weigao Holding in 1988, and was the head of it from 1988 to 1998, Mr. Chen has been elected as the chairman of the Company since December 2000. He received the award of Entrepreneur of Weihai Economy Development in June 2003.

Mrs. Zhou Shu Hua, age 52, is a non-executive Director of the Company and financial deputy general manager of Weigao Holding. Mrs. Zhou studied Business Administration at the Weihai Campus of Shandong University from 1999 to 2001. Mrs. Zhou joined Weigao Holding in 1989 and held a number of positions such as head of the finance division in the finance department, manager of the finance department and deputy general manager of Weigao Holding.

Mr. Li Bing Yung, age 59, is and has been the President of Medtronic's operations in the Greater China region since February 2007. Prior to his current position, Mr. Li served as vice president of the commercial operations section of Medtronic's operations in the greater China region. Mr. Li has extensive experience in management in the Asia Pacific region. From 1996 to 2005, Mr. Li was with Johnson & Johnson Medical (China) Co. Ltd. where he held a number of executive positions and he was subsequently promoted to International Vice President in North Asia. Mr. Li graduated with a bachelor degree in Social Sciences from the University of Hong Kong in 1976 and obtained a master degree in Business Administration from Henley Management School of the United Kingdom in 1989. Mr. Li was appointed as a non-executive Director of the Company on 15 December 2008.

Mr. Jean-Luc Butel, age 52, is senior vice president of Medtronic, Inc. ("Medtronic") and the President of Medtronic International Limited. Mr. Butel is responsible for all of Medtronic's operations outside of the United States. Prior to holding his current position, Mr. Butel served as President of Medtronic in Asia Pacific region and he was responsible for managing and driving all business activities for Medtronic in the Asia Pacific region. Prior to joining Medtronic, he was the president of Independence Technology, a Johnson & Johnson company, where he focused on providing mobility systems for the movement impaired. From 1991 till 1999, he worked for Becton Dickinson, initially as the general manager of its microbiology business in Japan and then as President of Nippon Becton Dickinson. From 1985 to 1991, Mr. Butel was with Johnson & Johnson and served multiple roles including general manager of Fiji, China project manager and marketing director of Johnson & Johnson's ophthalmic business in Southeast Asia. Mr. Butel has a bachelor degree in International Affairs from George Washington University and a master degree in Business and Administration from American Graduate School of International Management (Thunderbird). Mr. Butel was appointed as a non-executive Director of the Company on 15 December 2008.

Independent non-executive Directors

Mr. Shi Huan, age 72, is an independent non-executive Director. Mr. Shi is the president of China Pharmaceutical Association of Plant Engineering, a senior engineer and a former deputy head of State Pharmaceutical Administrative Bureau. He was appointed as an independent non-executive Director in September 2002.

Mr. Luan Jian Ping, age 55, is an independent non-executive Director. Mr. Luan studied philosophy and logic at the People's University of China from 1979 to 1986. He also studied Business Administration at the Aston University in the United Kingdom from 1992 to 1994. He obtained a PRC Lawyer's License issued by the Ministry of Justice of the PRC in October 1996 and is currently a partner of Beijing De Run Law Firm. He was appointed as an independent non-executive Director of the Company in September 2002.

Mr. Lau Wai Kit, age 45, holds a Bachelor of Law degree and a Postgraduate Certificate in Law from the University of Hong Kong. Mr. Lau is a partner of Gobi Partners, Inc. He was appointed as the financial director and financial controller of two private companies, responsible for the financial management of these companies from 1998 to 2001. Mr. Lau has over sixteen years of experience in practising law, and is a solicitor of the High Court of Hong Kong, an attorney and counselor at law of the Supreme Court of the State of California. Mr. Lau is also the Chairman of Diamondlite Group, a jewelry manufacturer headquartered in Hong Kong. He is also an independent non-executive director of Tianjin Development Holdings Limited and China Insurance International Holdings Company Limited. He sits on the Small Entrepreneur Research Assistance Programme Project Assessment Panel of the Government of the Hong Kong Special Administrative Region. He was appointed as an independent non-executive Director of the Company in November 2004.

Mr. Li Jia Miao, age 69, is an independent non-executive Director. Mr. Li is a senior economist and obtained a degree in economics and management in Hohai University in 1998. Mr. Li has over 30 years of pharmaceutical related management experiences and has been an assistant general manager and a general manager in Nanjing Pharmaceutical Company since he joined NPC in 1965. Prior to the retirement of Mr. Li in 2005, he was the chairman of Nanjing Pharmaceutical Company Limited since 2000. He was appointed as an independent non-executive director of the Company on 28 February 2007.

Supervisors

The Company has a committee of Supervisors whose primary duty is to supervise the senior management of the Company, including the Board, Directors, managers and other senior officers. The function of the committee of Supervisors is to ensure that the senior management of the Company acts in the interests of the Company, and does not violate the rights of the Company's shareholders and employees. The committee of Supervisors reports to the shareholders in general meetings. The articles of association provides that the committee of Supervisors has the right to investigate the Group's financial affairs; to supervise the directors, general manager and other senior officers of the Company in the event that they contravene any laws, administrative regulations or the articles of association in the performance of their duties; to require the Directors, general manager and other senior management to rectify any activities committed by them that is harmful to the interests of the Company; to examine financial reports, result reports, profit distribution plans and other financial documents prepared by the Board to be submitted to shareholders in general meeting, and in appropriate cases, to appoint certified accountants or certified practising auditors in the name of the Company to assist in such review; to propose the convening of extraordinary general meetings of shareholders; to represent the Company during negotiations with the Directors or to initiate legal proceedings against the Directors; and other functions and powers given by the shareholders in general meeting. The committee of Supervisors currently comprises the following three members:

Ms. Bi Hong Mei, age 45, is a supervisor of the Company and the director of the purchase department. Ms. Bi graduated from the Economic Management Department of Shandong Cadres Distance Learning University in 1997. She joined Weigao Holding in December 1988 and has been the head of the finance division and the deputy manager of the infusion sets branch from 2001 to 2004. She joined the Company in December 2000.

Mr. Miao Hai Sheng, age 36, is a supervisor of the Company and the project manager of auxiliary pre-filled syringe branch. Mr. Miao graduated from the Weihai Campus of Shandong University in 1997, majoring in operation management. He joined Weigao Holding in 1991 and has been the accountant, finance director, the labour and management officer of Weigao Holding. He joined the Company in December 2000.

Ms. Chen Xiao Yun, age 35, is a supervisor of the Company and the manager of marketing and finance department. Ms. Chen studied financial accounting at the Shandong Broadcast and Television University from 1994 to 1998. She joined Weigao Holding in July 1991 and was the head of the finance division in finance department and the assistant to the manager of infusion sets branch. She joined the Company in December 2000.

Senior Management

Mr. Jiang Qiang, age 36, is the deputy general manager of the Company. Mr. Jiang obtained a Master degree in Accounting from Northeast University of Finance and Economics in the PRC in 1998. He is a certified public accountant and has extensive experience in accounting and financial management. Mr. Jiang joined the Company in June 2002.

Mr. Li Yi, age 44, is the head of production department of the Company and a senior engineer. Mr. Li was graduated from Wuhan Academy of Iron and Steel, major in industrial automation, and has a bachelor degree in engineering. He joined Weigao Holding in 1993 and has been the head of the No.1 Branch Factory of Weigao Holding (from 1993 to 1995), deputy manager, manager of the syringe branch company of Weigao Holding (from 1995 to 2005). Mr. Li joined the Company in December 2000.

Mr. Song Xiu Shan, age 45, is the head of sales department of the Company. Mr. Song was graduated from Shandong University, major in corporate administration in 2001, and studied in an advanced business administration program administered by the People University of China from 2002 to 2004. Mr. Song joined Weigao Holding in June 1992, and has been the manager of the Beijing sales branch of Weigao Holding, marketing manager of infusion device branch of Weigao Holding, and has extensive experience in corporate marketing. He joined the Company in December 2000.

Ms. Chan Yuk Ying, Phyllis, age 48, is a chartered accountant with the Institute of Chartered Accountants in Australia and joined the Company in May 2006. Ms. Chan has over 20 years of experience in accounting and corporate finance.

Ms. Wong Miu Ling, Phillis, age 40, is the company secretary of the Company. Ms. Wong joined the Company in May 2006. She is an associate member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Ms. Wong has over 12 years of experience in corporate finance and management.

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2008.

The Company was established and registered as a joint stock company with limited liability in the PRC under the Company Law of the PRC on 28 December 2000. The shares of the Company were listed on GEM board of the Stock Exchange of Hong Kong Limited on 27 February 2004.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the research and development, production and sale of single-use medical devices. The Group has a wide range of products, which includes: i) consumables (infusion set, syringes, medical needle, blood bags, dental and anaesthetic consumables, blood sampling products, and other consumables); ii) orthopedic materials; iii) blood purification consumables; iv) medical and non-medical PVC granules; and v) stent.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 49 of this annual report.

An interim dividend of RMB0.057 per share amounting to approximately RMB56,747,000 was paid during the year. The Directors now recommend the payment of a final dividend of RMB0.087 per shares to the shareholders on the register of members on Monday, 4 May 2009 amounting to approximately RMB93,636,000 and the retention of the remaining profit for the year of approximately RMB388,758,000.

PROPERTY, PLANT AND EQUIPMENT

The Group acquired property, plant and equipment during the year of 2008 at an aggregate cost of approximately RMB172,757,000 (including RMB5,854,000 being the deposit for acquisition of property) in order to enhance its production capacity. Details of movements in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL

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 (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 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.

The aggregate total investment by Medtronic Switzerland in respect of the Subscription Shares and Sale Shares was approximately HK$1,726,000,000 while the net proceeds to the Company in respect of the Subscription Shares will be approximately HK$885,400,000 after deduction of half of the expenses for the transaction.

The changes in share capital of the Company is set out in note 31 to the Financial Statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2008, an amount of approximately RMB292,506,000 (2007: RMB186,411,000) standing to the credit of the Company's reserve account, which is computed based on the lower of , (i) in accordance with the PRC accounting standards and regulation, the aggregate amount of profit after taxation for the year and (ii) in accordance with Hong Kong accounting standards and regulation, the retained profit brought forward after deduction of the current year's appropriation to the statutory surplus reserve and statutory public welfare fund.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year were:

EXECUTIVE DIRECTORS:

Mr. Zhang Hua Wei
Mr. Miao Yan Guo
Mr. Wang Yi
Mr. Wang Zhi Fan
Mr. Wu Chuan Ming

NON-EXECUTIVE DIRECTORS

Mr. Chen Xue Li
Mrs. Zhou Shu Hua
Mr. Li Bing Yung
Mr. Jean-Luc Butel

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Wai Kit
Mr. Luan Jian Ping
Mr. Shi Huan
Mr. Li Jia Miao

Each of the executive and non-executive directors entered into service agreements with the Company. The service contracts were signed for an initial term of three years, unless and until terminated by either party by giving notice to the other party with three months' notice in writing. In accordance with the Company's articles of association, the service agreements of all directors are renewable for successive three-year terms upon expiry.

The service agreements for executive and non-executive directors do not stipulate for any amount of remuneration or bonus payment to be paid for services provided. The executive directors are paid with a fixed sum of annual salaries for holding positions in the Company and entitled to welfare benefits (including retirement benefits and medical insurance) in accordance with the relevant laws and regulations in the PRC. All four non-executive directors waived their directors' remuneration for the year ended 31 December 2008 and accepted a nominal annual fee of RMB1.00.

According to the respective service agreements entered into between the Company and each of the three independent non-executive directors, Mr. Luan Jian Ping, Mr. Li Jia Miao and Mr. Shi Huan who receive annual fee of RMB30,000. Mr. Lau Wai Kit, another independent non-executive director, is also a partner of Gobi Partners, Inc. ("Gobi"), a China-based venture capital firm. He waived his director's remuneration of RMB 48,000 for the year ended 31 December 2008 and accepted a nominal fee of RMB1.00 for the year of 2008 to comply with Gobi's internal compliance requirements.

Apart from the foregoing, no directors have a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

No director, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND LONG POSITIONS IN SHARES

As at 31 December 2008, the interests of the directors in the share capital of the Company and their associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the registered required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of Rule 5.46 of the GEM Listing Rules, were as follows:

(i) Long positions of Domestic Shares of RMB0.10 each of the Company

Name of Director	Types of interests	Capacity	Total number of Domestic Shares	Approximate percentage of the issued share capital of the Company
Mr. Zhang Hua Wei	Personal	Beneficial owner	8,100,000	0.75%
Mr. Miao Yan Guo	Personal	Beneficial owner	5,850,000	0.54%
Mr. Wang Yi	Personal	Beneficial owner	5,850,000	0.54%
Ms. Zhou Shu Hua	Personal	Beneficial owner	3,825,000	0.36%
Mr. Wang Zhi Fan	Personal	Beneficial owner	2,025,000	0.19%
Mr. Wu Chuan Ming	Personal	Beneficial owner	1,800,000	0.17%

In addition, Mr. Chen Lin, son of Mr. Chen Xue Li is holder of the Company's 50,000 Domestic Shares, representing 0.005% of the issue share capital of the Company.

(ii) 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%
Mrs. Zhou Shu Hua	Beneficial owner	14,579,000	11.95%
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%

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debenture of the Company granted to any directors or their respective associates or were any such rights exercised by them; or was the Company, its ultimate holding company or any subsidiaries of its ultimate holding company or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire such rights in the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO recorded that other than the interests disclosed above in respect of certain Directors, the following shareholder had notified the Company of relevant interest in the issued share capital of the Company.

Name of Shareholder	Capacity	Number of Domestic shares	Number of H Shares	Percentage of issued Domestic Shares	Percentage of total issued share capital
Weigao Holding	Beneficial owner	532,438,919	—	82.1%	49.5%
Medtronic Inc.	Beneficial owner	80,721,081	80,121,081	12.5%	15.0%

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2007.

Name of substantial shareholder	Number of shares interested	% of issued share capital
Medtronic, Inc.	80,721,081(L)	23.24(L)
Atlantis Investment Management Ltd	58,876,000(L)	16.95(L)
FIL Limited	33,991,172(L)	7.94(L)
JPMorgan Chase & Co.	28,291,100(L)	6.61(L)
	48,000(S)	0.01(S)
	28,243,100(P)	6.60(P)
Martin Currie China Hedge Fund Limited	18,856,000(L)	5.94(L)
New-Alliance Asset Management (Asia) Limited	18,692,000(L)	5.89(L)
FMR LLC	21,986,000(L)	5.14(L)
Genesis Asset Managers, LLP	17,571,000(L)	5.06(L)
UBS AG	15,917,000(L)	5.01(L)

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 6.8% of the total sales for the year and sales to the largest customer included therein accounted for 4.2% of the total sales of the year. Purchases from the Group's five largest suppliers accounted for 28.2% of the total purchases for the year and purchases to the largest supplier included therein accounted for 9.5% of the total sales of the year. During the year, none of the directors of the Company or any of their associates or any shareholders (which to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the top five customers and suppliers of the Group.

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.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or the management shareholders as defined under the "GEM Listing Rules" of the Company or their respective associates has any interest in a business which competes or may compete with the business of the Group or has any other conflict of interests with the Group.

CONNECTED TRANSACTIONS

The connected transactions between the Company, Weigao Holding and their subsidiaries during the year under review.

NON-EXEMPT CONNECTED TRANSACTIONS

1. On 20 March 2008, the Company entered into a supplemental agreement with Weihai Weigao Fusen Medical Materials Company Limited ("Weigao Fusen"), a 70% owned subsidiary of Weigao Holding, pursuant to which the Company purchased from Weigao Fusen surgical suture, medical dressing and surgical tape entered into with an revised annual cap of less than RMB12.0 million for a contract period of 3 years from 1 February 2008 to 31 January 2011. For the year under review, the actual transaction amount of the continuing connected transaction between the Company and Weigao Fusen was approximately RMB8.9 million .

2. On 20 March 2008, Weigao Blood entered into the peritoneal dialysis fluid supply agreement with Shandong Weigao Pharmaceutical Company Limited ("Weigao Pharmaceutical"), a non-wholly owned subsidiary of Weigao Holding for the purchase of peritoneal dialysis fluid, substitution liquid, potassium power and calcium power with an annual cap of less than RMB3.0 million for a contract period of 3 years from 1 April 2008 to 31 December 2011. For the year under review, the actual transaction amount of the continuing connected transaction between the Company and Weigao Pharmaceutical was approximately RMB2.0 million .

3. On 20 March 2008, Weigao Holding, a controlling shareholder of the company as landlord entered into the tenancy agreement with the Company as tenant in respect of the lease of premises located at 369 Wenhua Road West, Weihai, Shandong, the PRC at an annual rental of RMB2.1 million.

4. On 18 December 2007, the Company and Medtronic International entered into a distribution joint venture agreement ("Distribution JV Agreement") in respect of the establishment of the Distribution JV in the PRC which specializes in the sale and distribution of orthopedic medical device products in the PRC. Following the completion of the Distribution JV Agreement, the entering of the transaction between Distribution JV and the Company constitutes continuing connected transaction for the Company and the annual cap for the year ended 31 December 2008 was RMB62.0 million. During the year under review, the actual transaction amount between the Company and the Distribution JV was approximately 61.3 million.

5. On 30 December 2008, Weigao Jierui Medical Products Company Limited ("Jierui Subsidiary") a wholly owned subsidiary of the Company entered into the packaging material agreement for a period of 3 years from 1 January 2009 to 31 December 2011 with Shandong Weigao Pharmaceutical Company Limited ("Weigao Pharmaceutical") 48.6% owned by Weigao Holding, for the sales of mainly packaging materials from Jierui Subsidiary to Weigao Pharmaceutical with an annual cap of less than RMB9.0 million. For the year under review, the actual transaction amount of the continuing connected transaction between the Company and Jierui Subsidiary was approximately RMB3.4 million .

6. On 9 May 2007, He Ze Weigao Hygenic Materials and Products Company Limited ("HeZe Weigao"), a wholly owned subsidiary of Weigao Holding entered into the medical products supply agreement with the Company for the sale of medical supplies including single use mattress, diapers and needle products for an annual cap of less than HK$1.0 million. On 30 December 2008, the Company entered into the supplemental agreement with HeZe Weigao to revise the annual cap to less than RMB5.0 million for the remaining terms of medical products supply agreement which will expire on 31 December 2009. For the year under review, the actual transaction amount of the continuing connected transaction between the Company and HeZe Weigao was approximately RMB2.1 million .

Save as disclosed therein, there were no other material transactions to be disclosed as connected and related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

The directors, including the independent non-executive directors have reviewed the connected transactions above and in their opinion, these transactions entered into by the Group are in the ordinary and usual course of business of the Group, on normal commercial terms and such terms are fair and reasonable so far as the Company and the shareholders of the Company as a whole are concerned and the agreements are in the interest of the Company and the shareholders of the Company as a whole. Save as disclosed above, there has been no contract of significance between the Company or its subsidiary and Weigao Holding or any of its subsidiaries.

AUDIT COMMITTEE

The Company set up an audit committee 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. Lau Wai Kit, Mr. Shi Huan, Mr Luan Jian Ping 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.

AUDITORS

A resolution will be proposed at the forthcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Chen Xue Li
Chairman

Weihai, Shandong, the PRC
13 March 2009

Deloitte.
德勤

TO THE MEMBERS OF SHANDONG WEIGAO GROUP MEDICAL POLYMER COMPANY LIMITED
山東威高集團醫用高份子制品股份有限公司
(A joint stock limited company established in the People's Republic of China)

We have audited the consolidated financial statements of Shandong Weigao Group Medical Polymer Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 109, which comprise the consolidated balance sheet as at 31st December, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
13 March 2009

Consolidated Income Statement

For the year ended 31st December, 2008

	NOTES	2008 *RMB'000*	2007 *RMB'000*
Revenue	7	**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	9	**(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	10	**(38,977)**	(2,732)
Profit for the year	11	**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	13		
Dividends recognised as distributions		**115,485**	66,703
Dividends proposed		**93,636**	58,738
Earnings per share - basic	14	**RMB0.48**	RMB0.31

Consolidated Balance Sheet

At 31st December, 2008

	NOTES	2008 *RMB'000*	2007 *RMB'000*
Non-current assets			
Property, plant and equipment	15	**922,475**	816,046
Investment properties	16	**16,090**	16,641
Prepaid lease payments	17	**130,844**	88,045
Intangible assets	18	**27,077**	30,191
Interest in a jointly controlled entity	19	**131,020**	75,039
Interest in an associate	20	**14,070**	—
Goodwill	21	**202,900**	28,934
Deferred tax asset	30	**7,867**	6,656
		1,452,343	1,061,552
Current assets			
Inventories	22	**292,118**	248,939
Trade and other receivables	23	**690,766**	486,961
Pledged bank deposits	24	**75,020**	87,482
Bank balances and cash	25	**830,419**	255,572
		1,888,323	1,078,954
Current liabilities			
Trade and other payables	26	**646,944**	410,187
Borrowings - repayable within one year	27	**1,716**	127,627
Derivative financial instrument	29	**—**	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
Capital and reserves			
Share capital	31	**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			
Borrowings - repayable after one year	27	**136,692**	210,800
Other payable	28	**38,726**	—
		175,418	210,800
		2,660,341	1,595,795

The consolidated financial statements on pages 49 to 109 were approved by the Board of Directors on 13 March 2009 and are signed on its behalf by:

Chen Xue Li	**Zhang Hua Wei**
DIRECTOR	DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st 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.

	NOTE	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		**524,082**	332,074
Adjustments for:			
Interest income		**(3,841)**	(1,704)
Interest expense		**30,227**	17,865
Depreciation of property, plant and equipment		**56,586**	47,083
Depreciation of investment properties		**551**	—
Prepaid lease payments charged to consolidated income statement		**2,543**	2,584
Allowances for bad and doubtful debts		**4,487**	13,157
Amortisation of intangible assets		**3,114**	953
Share of profit of a jointly controlled entity		**(55,981)**	(58,958)
Share of profit of an associate		**(8,448)**	—
Unrealised profit on sales to associate		**9,136**	—
Realised gain arising from establishing of an associate	20	**(14,758)**	—
Loss on disposal of property, plant and equipment		**497**	27
Loss on fair value changes of derivative financial instrument		**429**	1,497
Operating profit before working capital changes		**548,624**	354,578
Increase in inventories		**(43,179)**	(74,591)
Increase in trade and other receivables		**(208,292)**	(139,505)
Increase in trade and other payables		**156,178**	146,146
Decrease in derivative financial instrument		**(1,926)**	—
Net cash generated from operations		**451,405**	286,628
PRC income tax paid		**(13,923)**	(10,417)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**437,482**	276,211

Consolidated Cash Flow Statement

For the year ended 31st December, 2008

	NOTE	2008 *RMB'000*	2007 *RMB'000*
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(202,413)**	(225,552)
Prepaid lease payments made		**(4,928)**	(27,270)
Acquisition of subsidiaries, net of cash and cash equivalents paid		**—**	(57,392)
Acquisition of additional interest in a subsidiary		**106,414**	(40,000)
Dividend income received from a jointly controlled entity		**—**	27,724
Proceeds from disposal of property, plant and equipment		**3,391**	818
Interest received		**3,841**	1,704
Decrease (increase) in pledged bank deposits		**12,462**	(65,154)
NET CASH USED IN INVESTING ACTIVITIES		**(294,061)**	(385,122)
FINANCING ACTIVITIES			
New borrowings raised		**485,397**	316,500
Repayments of borrowings		**(685,416)**	(364,116)
Issue of shares		**782,670**	387,820
Capital contributions from minority interests		**—**	400
Interest paid		**(35,131)**	(21,905)
Dividend paid		**(115,485)**	(69,103)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**432,035**	249,596
NET INCREASE IN CASH AND CASH EQUIVALENTS		**575,456**	140,685
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**255,572**	115,131
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET		**(609)**	(244)
CASH AND CASH EQUIVALENTS AT END OF YEAR, representing bank balances and cash		**830,419**	255,572

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.

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

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. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interests in subsidiaries are recorded at historical cost and the excess of the cost of acquisition over the carrying amounts of net assets acquired is recognised as goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

GOODWILL

For previously capitalised goodwill arising on acquisitions of additional interests in subsidiaries, such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

REVENUE RECOGNITION

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales taxes and sales returns.

Revenue from sales of medical products are recognised when the medical products are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the year in which it is incurred.

RETIREMENT BENEFIT COSTS

Payments to defined contributions schemes including Mandatory Provident Fund Scheme and state-managed retirement benefits schemes are charged as expenses when employees have rendered service entitling them to the contributions.

GOVERNMENT GRANTS

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions associated with the grant. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable.

A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Group for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Group for expenses incurred is recognised in profit or loss immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interest in joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

INVESTMENT PROPERTIES MEASURED USING THE COST MODEL

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTANGIBLE ASSETS

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

JOINTLY CONTROLLED ENTITY

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as the jointly controlled entity.

The results and assets and liabilities of the jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in the jointly controlled entity is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets and of changes in equity of the jointly controlled entity, less any identified impairment loss. When the Group's share of losses of the jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with the jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

ASSOCIATE

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint controlled entity.

The results and assets and liabilities of the associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in the associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of the associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with the associate of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the associate.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

IMPAIRMENT

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

BORROWING COST

Borrowing costs directly attributable to the construction of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value, are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets

The Group's financial assets are loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bank balances and pledged bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For loans and receivable, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and bills receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and bills receivable are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including bank and other borrowings, and trade and other payables are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity instruments (Continued)

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed as below:

ESTIMATED IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The discount rate represents rate that reflects current market assessments of time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. As at 31st December, 2008, the carrying amount of goodwill is RMB202,900,000. Details of the recoverable amount calculation are disclosed in note 21.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 27, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and issue of new shares as well as the issue of new debt or the repayment of existing debt.

6. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

	2008	2007
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,555,310**	789,494
Financial liabilities		
Amortised cost	**813,202**	742,425
Fair value through profit or loss - held for trading	**—**	1,497

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and bills receivables, other receivables, pledged bank deposits, bank balances, trade and bills payable, other payables, borrowings and derivative financial instruments. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS *(Continued)*

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk

Currency risk

The Group collects most of the revenue in RMB and incurs most of the expenditures as well as capital expenditures in RMB.

The director considered that the Group's exposure to foreign currency exchange risk is insignificant as all of the Group's transactions are denominated in the functional currency of each individual group entity.

The directors consider that the sensitivity of the Group's exposure towards the change in foreign exchange rates is minimal as none of the assets and liabilities of the Group denominated in currency other than functional currency of a particular group entity as at each of the balance sheet dates.

Interest rate risk

The Group was exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 27 for details of these borrowings).

The Group's cash flow interest rate risk relates to the bank balances as well as variable-rate bank borrowings (see note 27 for details of bank borrowings). The Group cash flow interest rate risk is mainly concentrated on the fluctuation of lending rate promulgated by the People's Bank of China.

The Group manages its interest rate exposure based on the interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility of the interest rate.

The Group currently does not have interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arise.

6. FINANCIAL INSTRUMENTS *(Continued)*

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk (Continued)

Sensitivity analysis

The sensitivity analysis below is prepared assuming the bank balances as well as bank borrowings outstanding at the balance sheet date were outstanding for the whole year. A 50 basis point increase or decrease is used and it represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2008 would increase/decrease by RMB3,940,000 (2007: decrease/increase by RMB1,169,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to discharge their obligations as at 31st December, 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debtors. In addition, the Group reviews the recoverable amount of each individual debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

6. FINANCIAL INSTRUMENTS *(Continued)*

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate	Less than 3 months	3-6 months	6 months to 1 year	1-2 year	2-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2008
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2008									
Non-derivative financial liabilities									
Trade payables	–	242,612	–	–	–	–	–	242,612	242,612
Bills payable	–	171,356	–	–	–	–	–	171,356	171,356
Other payables	–	213,607	–	–	–	–	–	213,607	213,607
Other payables	5.3%	–	–	11,000	11,000	33,000	–	55,000	47,219
Bank borrowings - variable rate	7.43%	2,035	–	–	–	–	–	2,035	1,716
Bank borrowings - fixed rate	5.12%	–	–	–	32,988	81,468	48,480	162,936	136,692
		629,610	–	11,000	43,988	114,468	48,480	847,546	813,202

6. FINANCIAL INSTRUMENTS *(Continued)*

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk (Continued)

	Weighted average effective interest rate	Less than 3 months	3-6 months	6 months to 1 year	1-2 year	Total undiscounted cash flows	Carrying amount at 31.12.2007
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2007							
Non-derivative financial liabilities							
Trade payables	—	115,189	—	—	—	115,189	115,189
Bills payable	—	159,530	—	—	—	159,530	159,530
Other payables	—	129,279	—	—	—	129,279	129,279
Bank borrowings - variable rate	6.79%	46,758	53,981	15,809	75,821	192,369	180,138
Bank borrowings - fixed rate	6.44%	—	19,084	—	149,399	168,483	158,289
		450,756	73,065	15,809	225,220	764,850	742,425

FAIR VALUE

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The fair value of the foreign currency forward contract classified as derivative financial instruments determined based on the market rate for the remaining duration of forward contracts.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. 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.

8. 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.

8. SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

Segment information about these businesses is presented below:

2008

	Single use medical products *RMB'000*	Orthopaedic products *RMB'000*	Other products *RMB'000*	Eliminations *RMB'000*	Total *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

8. SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

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

8. SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

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
Loss/(gain) 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

8. SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

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

8. SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

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

8. SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

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
Loss on disposal of property, plant and equipment	27	—	—	27
Research and development cost	16,652	—	—	16,652
VAT rebate	(26,677)	—	—	(26,677)

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.

9. 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

10. INCOME TAX EXPENSE

	2008	2007
	RMB'000	*RMB'000*
PRC income tax	**40,188**	9,388
Deferred taxation *(note 30)*	**(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.

10. INCOME TAX EXPENSE *(Continued)*

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

11. 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.

12. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Supervisors are the members of the supervisory committee of the Company.

The emoluments of directors and supervisors during the year are analysed as follows:

	2008				2007			
	Fee	Salaries and other allowances	Retirement benefits schemes contributions	Total	Fee	Salaries and other allowances	Retirement benefits schemes contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors								
Mr. Zhang Hua Wei	—	149	6	155	—	136	3	139
Mr. Miao Yan Guo	—	115	5	120	—	110	3	113
Mr. Wang Yi	—	115	5	120	—	112	3	115
Mr. Wang Zhi Fan	—	110	5	115	—	104	3	107
Mr. Wu Chuan Ming	—	106	5	111	—	99	3	102
Mr. Li Bing Yung	—	—	—	—	—	—	—	—
Mr. Jean Luc Butel	—	—	—	—	—	—	—	—
	—	595	26	621	—	561	15	576
Non-executive directors								
Mr. Chen Xue Li	—	—	—	—	—	170	—	170
Ms. Zhou Shu Hua	—	—	—	—	—	132	3	135
	—	—	—	—	—	302	3	305
Independent non-executive directors								
Mr. Lau Wai Kit	—	—	—	—	—	—	—	—
Mr. Luan Jian Ping	—	46	—	46	46	—	—	46
Mr. Shi Huan	46	—	—	46	46	—	—	46
Mr. Li Jia Miao	46	—	—	46	46	—	—	46
	92	46	—	138	138	—	—	138
Supervisors								
Ms. Bi Hong Mei	—	101	4	105	—	104	3	107
Ms. Chen Xiao Yun	—	73	4	77	—	69	2	71
Mr. Miao Hai Sheng	—	85	4	89	—	87	2	89
	—	259	12	271	—	260	7	267
	92	900	38	1,030	138	1,123	25	1,286

12. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

EMPLOYEES' EMOLUMENTS

Of the five individuals with highest emoluments in the Group, two (2007: two) were directors of the Company whose emoluments are included in the disclosure above. The emoluments of the remaining three (2007: three) individual were as follows:

	2008	2007
	RMB'000	*RMB'000*
Salaries and other benefits	**1,207**	354

Their emoluments were within the following band:

	2008	2007
	No. of employees	No. of employees
Nil to HK$1,000,000	**3**	3

During the year ended 31st December, 2008, one of the independent non-executive directors, Mr. Lau Wai Kit, has agreed to waive the director's fee of RMB48,000 (2007: RMB48,000) and took a nominal annual fee of RMB1 (2007: RMB1).

During the two years ended 31st December, 2008, no emoluments were paid by the Group to the directors and supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

13. 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.

14. 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.

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Buildings	Plant and machinery	Motor vehicles	Moulds	Furniture, fixtures and office equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At 1st January, 2007	43,512	337,821	248,091	15,803	8,341	38,191	691,759
Additions	256,495	2,781	5,493	3,029	2,924	3,870	274,592
Acquired on acquisition of subsidiaries	8,191	1,025	3,973	714	—	207	14,110
Transfer	(35,818)	1,649	32,009	195	—	1,965	—
Transfer to investment properties	—	(18,715)	—	—	—	—	(18,715)
Disposals	—	(202)	(129)	(2,140)	—	(122)	(2,593)
At 31st December, 2007	272,380	324,359	289,437	17,601	11,265	44,111	959,153
Additions	173,945	105	18,767	8,280	139	6,081	207,317
Transfer	(219,033)	117,148	57,650	904	—	2,917	(40,414)
Disposals	—	—	(4,824)	(1,136)	—	(1,584)	(7,544)
At 31st December, 2008	227,292	441,612	361,030	25,649	11,404	51,525	1,118,512
DEPRECIATION							
At 1st January, 2007	—	31,741	40,085	5,730	3,445	18,845	99,846
Provided for the year	—	10,488	25,460	2,907	3,476	4,752	47,083
Eliminated on transfer to investment properties	—	(2,074)	—	—	—	—	(2,074)
Eliminated on disposals	—	(34)	(76)	(1,597)	—	(41)	(1,748)
At 31st December, 2007	—	40,121	65,469	7,040	6,921	23,556	143,107
Provided for the year	—	11,901	28,701	4,260	3,892	7,832	56,586
Eliminated on disposals	—	—	(2,106)	(629)	—	(921)	(3,656)
At 31st December, 2008	—	52,022	92,064	10,671	10,813	30,467	196,037
CARRYING VALUES							
At 31st December, 2008	227,292	389,590	268,966	14,978	591	21,058	922,475
At 31st December, 2007	272,380	284,238	223,968	10,561	4,344	20,555	816,046

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

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis after taking into account their estimated residual value and at the following rates per annum:

Buildings	3.3% - 10%
Plant and machinery	10% - 20%
Motor vehicles	20%
Moulds	50%
Furniture, fixtures and office equipment	20%

The buildings of the Group are situated in the PRC and erected on leasehold land under medium-term lease.

The construction in progress represented buildings, plant and machinery, moulds and furniture, fixtures and office equipment under construction which are situated in the PRC.

At 31st December, 2008, the Group has pledged buildings having a carrying value of approximately RMB134,777,000 (2007: RMB86,115,000) to banks to secure bank loans granted to the Group.

16. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1st January, 2007	—
Transfer from property, plant and equipment	18,715
At 31st December, 2007 and 31st December, 2008	18,715
DEPRECIATION	
At 1st January, 2007	—
Transfer from property, plant and equipment	2,074
At 31st December, 2007	2,074
Provided for the year	551
At 31st December, 2008	2,625
CARRYING VALUES	
At 31st December, 2008	16,090
At 31st December, 2007	16,641

16. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties of approximately RMB18,000,000 as at 31st December, 2008 has been determined by the Directors. No valuation has been performed by independent qualified professional valuers. The valuation performed by the Directors was arrived by reference to recent market prices for similar properties in the same location and conditions.

The above investment properties are depreciated on a straight-line basis at 5% per annum.

The carrying value of investment properties shown above comprise of:

	2008	2007
	RMB'000	*RMB'000*
Building in PRC		
Medium term lease	**16,090**	16,641

17. 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.

18. INTANGIBLE ASSETS

	Registration rights *RMB'000*
COST	
At 1st January, 2007	—
Acquired on acquisition of subsidiaries	31,144
At 31st December, 2007 and 31st December, 2008	31,144
AMORTISATION	
At 1st January, 2007	—
Charge for the year	953
At 31st December, 2007	953
Charge for the year	3,114
At 31st December, 2008	4,067
CARRYING VALUES	
At 31st December, 2008	27,077
At 31st December, 2007	30,191

The registration rights were acquired on acquisition of subsidiaries from independent third parties. They are amortised on a straight-line basis over the period of 10 years.

19. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2008	2007
	RMB'000	*RMB'000*
Cost of unlisted investment, at cost	**13,000**	13,000
Share of post-acquisition profit	**118,020**	62,039
	131,020	75,039

Details of the Group's jointly controlled entity as at 31st December, 2008 are as follows:

Name	Form of business structure	Place of incorporation or registration/ operation	Proportion of nominal value of registered capital held by the Group 2008	2007	Principal activities
Shandong JW Medical Products Co., Ltd. ("JW Medical")	Incorporated	PRC	**50%**	50%	Production and sales of drug eluting stents

The summarised financial information in respect of the Group's interests in the jointly controlled entity which is accounted for using equity method is set out below:

	2008	2007
	RMB'000	*RMB'000*
Current assets	**109,871**	53,724
Non current assets	**39,136**	33,815
Current liabilities	**17,987**	12,500
Non current liabilities	**—**	—
Income	**146,379**	120,145
Expenses	**90,398**	61,187

20. INTERESTS IN AN ASSOCIATE

	2008 RMB'000	2007 RMB'000
Cost of unlisted investment in an associate, at cost (note)	—	—
Realised gain arising from establishing of an associate	14,758	—
Share of post-acquisition profit	8,448	—
Unrealised profit on sales to an associate	(9,136)	—
	14,070	—

Note:

On 18th December 2008, the Company and Medtronic International Limited ("Medtronic International") entered into an agreement in respect of establishing a joint venture (the "Distribution JV") in the PRC with a total registered capital of RMB147,580,000 to undertake the sale and distribution of orthopaedic medical device products in the PRC (the "Distribution JV Agreement").

The Distribution JV will take the form of a Sino-foreign co-operative joint venture limited liability company.

Pursuant to the terms of the Distribution JV Agreement, the registered capital of RMB147,580,000 were solely contributed by Medtronic International while the Company is entitled to 49% equity interest in the Distribution JV (the other 51% equity interest is attributable to Medtronic International).

Pursuant to the terms of the Distribution JV Agreement, the Company is entitled to share 49% of the remaining net assets of the Distribution JV except for the registered capital of RMB147,580,000 while the Group's entitlement is as follows when the Distribution JV is dissolved:

0 - 1 year since incorporation	10%
1 - 2 year since incorporation	25%
More than 2 years since incorporation	49%

During the year, 10% of the registered capital of the Distribution JV of RMB14,758,000 was recognised as a realised gain arising from establishing of an associate and credited to the consolidated income statement.

20. INTERESTS IN AN ASSOCIATE *(Continued)*

Details of the Group's associate as at 31st December, 2008 are as follows:

Name	Form of business structure	Place of incorporation or registration/ operation	Attributable equity interest directly held by the Company		Principal activities
			2008	2007	
Medtronic Weigao Orthopaedic Device Company Limited	Incorporated	PRC	**49%**	N/A	Sale and distribution of orthopaedic medical device products

The summarised financial information in respect of the Group's associate is set out below:

	RMB'000
Total assets	293,462
Total liabilities	(128,642)
Net assets	164,820
Group's share of net assets	14,070
Revenue	102,692
Profit for the year	17,240
Group's share of profit of an associate for the year	8,448

21. 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

21. GOODWILL *(Continued)*

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.

22. 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

23. 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

23. TRADE AND OTHER RECEIVABLES *(Continued)*

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. In the opinion of the directors of the Company, the amounts are expected to be recovered in the next twelve months. 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

23. TRADE AND OTHER RECEIVABLES *(Continued)*

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 and with good credit quality.

24. PLEDGED BANK DEPOSITS

The amounts represented deposits pledged to banks to secure banking facilities granted to the Group. The amounts had been pledged to secure short-term bank loans and banking facilities and were therefore classified as current assets. The deposits carried fixed interest rate ranging from 0.36% to 1.98% (2007: 0.7% to 0.8%) per annum.

25. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest rate of 0.7% (2007: 0.7%) per annum.

26. 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 (note 28)	**80,579**	—
Other payables and accrued expenses	**152,397**	135,468
	646,944	410,187

All the bills payable will mature within six months.

27. 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**	210,800
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 not 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.

28. OTHER PAYABLE

As at 31 December 2008, the remaining consideration relating the acquisition of additional interest in a subsidiary, Weigo Ortho Limited payable by the Group amounted RMB119,305,000. The amount is unsecured interest-free, and RMB72,086,000 of which is payable on demand and has been included in other payables as current liabilities (note 26). The remaining RMB47,219,000 is repayable by five installments since year 2009 until year 2013. The present value of the first instalment amounted RMB8,493,000 and it has been included in other payables of the current liabilities (note 26). The imputed interest rate was 5.3% per annum.

29. DERIVATIVE FINANCIAL INSTRUMENT

	2008	2007
	RMB'000	*RMB'000*
Foreign currency forward contract	—	1,497

Major terms of the foreign currency forward contract were as follow:

Notional amount	**Maturity**	**Exchange rate**
Buy US$3,920,000	22nd August, 2008	USD/RMB6.8

The above derivative was measured at fair value at the balance sheet date. Its fair value was determined based on the market rate for the remaining duration of forward contracts.

30. DEFERRED TAXATION

The following is the deferred tax asset recognised and movements thereon during the current reporting year:

	Excess of depreciation over tax depreciation	Allowance for bad and doubtful debts	Unrealised profit	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1st January, 2007	—	—	—	—
Credited to consolidated income statement	1,198	4,319	1,139	6,656
At 31st December, 2007	1,198	4,319	1,139	6,656
Credited to consolidated income statement	225	315	671	1,211
At 31st December, 2008	1,423	4,634	1,810	7,867

At the balance sheet date, the Group has estimated unused tax losses of approximately RMB16,948,000 (2007: RMB29,548,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward for 5 years from the date incurred. Included in unrecognised tax losses are losses of RMB2,732,000 that will expire in 2011, losses of RMB12,777,000 that will expire in 2012 and other losses will expire in 2013.

31. 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

31. SHARE CAPITAL *(Continued)*

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.

32. ACQUISITION OF SUBSIDIARIES

(i) On 28th February, 2007 and 30th November, 2007 the Group acquired the following assets through the purchase of 51% equity interest and 49% equity interest in 常州邦德醫療器械有限公司(「常州邦德」) for considerations of RMB6,000,000 and RMB7,840,000 respectively.

	Fair value of net assets acquired
	RMB'000
Property, plant and equipment	2,858
Intangible asset	10,576
Inventories	4,216
Trade and receivables	1,111
Bank balances and cash	109
Trade and other payable	(5,030)
	13,840
Total consideration satisfied by:	
Cash	13,840
Net cash outflow arising on acquisition:	
Cash consideration paid	(13,840)
Bank balances and cash acquired	109
	(13,731)

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

(ii) On 31st October, 2007, the Group acquired the following assets through the purchase of the entire interest in the issued share capital of 北京亞華人工關節有限公司（「北京亞華」）for consideration of RMB44,000,000.

	Fair value
	RMB'000
Property, plant and equipment	11,252
Prepaid lease payment	9,437
Intangible asset	20,568
Inventories	3,947
Trade and receivables	3,667
Bank balances and cash	339
Trade and other payable	(5,210)
	44,000
Total consideration satisfied by:	
Cash	44,000
Net cash outflow arising on acquisition:	
Cash consideration paid	(44,000)
Bank balances and cash acquired	339
	(43,661)

33. MAJOR NON-CASH TRANSACTION

(i) During the year ended 31st December, 2007, deposits for land use right amounting to RMB45,000,000 was transferred to prepaid lease payments.

(ii) As at 31 December, 2008, remaining consideration for the acquisition of the additional interest in a subsidiary of RMB119,305,000 was not paid and included in other payables.

(iii) During the year ended 31 December, 2008, construction in progress of RMB40,414,000 was transferred to prepaid lease payments.

34. LEASE COMMITMENTS

THE GROUP AS LESSEE

At the balance sheet date, the Group had the following future minimum payments under non-cancellable operating leases which fall due as follows:

	2008	2007
	RMB'000	*RMB'000*
Within one year	**1,490**	3,254
In the second to fifth year inclusive	**1,916**	1,722
Over five years	**—**	750
	3,406	5,726

Operating lease payments represent rentals payable by the Group for its branch office premises, staff quarters and warehouses. Leases are mainly negotiated for a period ranging from two to five years and all rentals are fixed.

THE GROUP AS LESSOR

Property rental income earned during the year was approximately RMB2,325,000 (2007: RMB2,255,000). At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments.

	2008	2007
	RMB'000	*RMB'000*
Within one year	**1,459**	1,503

Operating lease payments represent rentals receivable by the Group from a portion of its office premises. Leases are negotiated and rentals are fixed for one year.

35. CAPITAL COMMITMENTS

At 31st December, 2008, the Group had commitments which were contracted for but not provided in the consolidated income statement:

	2008 *RMB'000*	2007 *RMB'000*
Acquisition of property, plant and equipment	**41,924**	119,182
Acquisition of a subsidiary	**5,000**	—
Acquisition of additional interest in a subsidiary	**—**	235,000
	46,924	354,182

36. RELATED PARTY TRANSACTIONS

(a) The Group had the following related party transactions during the two years ended 31st December, 2008:

	2008 *RMB'000*	2007 *RMB'000*
Sales to a fellow subsidiary	**3,416**	6,858
Sales to an associate	**61,340**	—
Purchases from fellow subsidiaries	**13,506**	6,074
Purchases from a jointly controlled entity	**12,235**	—
Acquisitin of land use right from ultimate holding company	**4,387**	—
Rental payments to ultimate holding company	**1,262**	—
Rental income from a fellow subsidiary	**—**	1,496
Rental income from a jointly controlled entity	**759**	759

36. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2008	2007
	RMB'000	*RMB'000*
Short-term employee benefits	**3,174**	1,806
Post-employment benefits	**76**	32
	3,250	1,838

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

37. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund scheme (the "MPF Scheme") for all qualifying employees of the Group in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of the trustees. The contributions are charged to the consolidated income statement as incurred.

The Group has established different benefits schemes for its full-time PRC employees according to the relevant PRC regulations and rules, including provision of housing provident fund, medical insurance, retirement insurance, unemployment insurance, labour injury insurance and pregnancy insurance. Pursuant to these existing schemes the Group contributes 8%, 8%, 18%, 2%, 1% and 1% of the basic salary of its employees to the housing provident fund, medical insurance, retirement insurance, unemployment insurance, labour injury insurance and pregnancy insurance, respectively.

The contributions paid and payable to the schemes by the Group are disclosed in note 11.

38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries as at 31st December, 2008 are as follows:

Name	Form of business structure	Country of incorporation or registration/ operations	Registered capital	Proportion ownership interest held by the Group Directly	Indirectly	Principal activities
威海潔瑞醫用製品有限公司 (Weihai Jierui Medical Products Co., Ltd)	Incorporated	PRC	32,000,000	100%	—	Manufacturing of medica PVC granules, plastic packing bags and carton boxes
威海威高血液淨化製品有限公司 (Weihai Weigao Blood Purified Product Co., Ltd)	Incorporated	PRC	20,000,000	70%	—	Manufacturing of medical blood purification treatments and related consumables
瀋陽威高金寶商貿有限公司 (Shenyang Weigao Jinbao Trading Co., Ltd)	Incorporated	PRC	6,000,000	90%	—	Trading of medical products
威海威高集團模具有限公司 (Weihai Weigao Group Mould Co., Ltd)	Incorporated	PRC	8,000,000	100%	—	Manufacturing of moulds
山東威高骨科材料有限公司 (Shandong Weigao Orthopedic Device Co., Ltd)	Incorporated	PRC	40,000,000	100%	—	Manufacturing of orthopaedic medical device products
福州帆順醫療器械技術有限公司 (Fuzhou Fanzhou Medical Device Technology Co., Ltd)	Incorporated	PRC	500,000	95%	—	Trading of medical products

38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

Particulars of the Company's subsidiaries as at 31st December, 2008 are as follows: *(Continued)*

Name	Form of business structure	Country of incorporation or registration/ operations	Registered capital	Proportion ownership interest held by the Group Directly	Proportion ownership interest held by the Group Indirectly	Principal activities
山西威高華鼎醫療器械製造有限公司 (Shanxi Huading Medical Device Manufacturing Co., Ltd)	Incorporated	PRC	15,500,000	—	51.6%	Manufacturing of medical blood purification treatments and related consumables
威高國際醫療有限公司 (Weigao International Medical Co., Ltd)	Incorporated	HK	999,690	100%	—	Trading of medical products
常州邦德醫療器械有限公司 (Changzhou Jianli Bangde Medical Devices Co., Ltd)	Incorporated	PRC	8,000,000	—	100%	Manufacturing of orthopaedic products
北京亞華人工關節開發公司 (Beijing Yahua Artificial Joints Development Company)	Incorporated	PRC	720,000	—	100%	Manufacturing of orthopaedic products
Weigao Medical (Europe) Co., Ltd.	Incorporated	The United Kingdom	3,825,850	100%	—	Import and export trading of medical products
四川潔瑞威高醫療器械有限公司 Sichuan Jierui Weigao Medical Device Co., Ltd.	Incorporated	PRC	2,000,000	100%	—	Trading of medical products

None of the subsidiaries issued any debt securities at the end of the year or at any time during the year.

	For the year ended 31st December,				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
Revenue	**1,514,367**	1,095,109	786,926	569,987	407,823
Profit before taxation	**524,082**	332,074	189,348	102,580	69,867
Taxation	**(38,977)**	(2,732)	(6,745)	(2)	(3,040)
Profit for the year	**485,105**	329,342	182,603	102,578	66,827
Attributable to:					
Equity holders of the Company	**482,394**	308,149	170,921	101,200	65,888
Minority interests	**2,711**	21,193	11,682	1,378	939
	485,105	329,342	182,603	102,578	66,827

	As at 31st December,				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES					
Total assets	**3,340,666**	2,140,506	1,394,119	1,132,230	735,998
Total liabilities	**(855,743)**	(755,511)	(646,273)	(534,209)	(358,481)
Minority interests	**(8,191)**	(57,233)	(49,106)	(31,580)	(8,920)
	2,476,732	1,327,762	698,740	566,441	368,597

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting (the "**AGM**") of Shandong Weigao Group Medical Polymer Company Limited 山東威高集團醫用高分子製品股份有限公司 (the "**Company**") will be held at 9:00 a.m. on Monday, 4 May 2009 at the registered office of the Company at No. 312 Shichang Road, Weihai City, Shandong Province, PRC for the purpose of considering the following resolutions:

ORDINARY RESOLUTIONS

1. To consider and approve the audited consolidated financial statements of the Group (including the Company and its subsidiaries) for the year ended 31 December 2008;

2. To consider and approve the report of the board of directors of the Company (the "Board") for the year ended 31 December 2008;

3. To consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2008;

4. To consider and approve the profit distribution plan for the year ended 31 December 2008, and the final distribution plan of the Company for the year ended 31 December 2008 and to authorise the Board for the distribution of the final dividends to the shareholders of the Company for the year ended 31 December 2008;

5. To consider and approve the proposal for the re-appointment of Deloitte Touche Tohmatsu as the auditor of the Company for the year ending 31 December 2009, and to authorise the Board to determine its remuneration;

6. To consider and approve the re-appointment of Mr. Lau Wai Kit as the independent non-executive director of the Company for a term of three years;

7. To consider and authorise the Board to approve the remuneration of the directors and supervisors of the Company for the year ending 31 December 2009; and

8. To pass the following resolution as a special resolution of the Company;

SPECIAL RESOLUTION

"THAT:

a) subject to paragraphs (c), (d) and (e) below, the exercise by the Board during the Relevant Period (as herein after defined in paragraph (f)) of all the powers of the Company to allot, issue and deal with Domestic Shares and/or H Shares severally or jointly be and is hereby approved;

b) the approval in paragraph (a) above shall authorise the Board the Relevant Period to make or grant offers, agreement and options which would or might require the exercise of such powers to allot and issue Domestic Shares and/or H Shares during the Relevant Period or after the end of the Relevant Period;

c) the aggregate nominal amount of Domestic Shares allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the board of directors pursuant to paragraphs (a) and (b) above, otherwise than pursuant to (i) Rights Issue (as hereinafter defined in paragraph (f)); (ii) upon the exercise of rights of conversion under the terms of any securities which are convertible into Shares; (iii) upon the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend plan of other similar arrangement in lieu of the whole or part of a dividend on Shares allotted pursuant to the Company's Articles of Association, shall not exceed 20% of the aggregate nominal amount of the Domestic Shares in issue on the date of passing this resolution;

d) the aggregate nominal amount of H Shares allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the board of directors pursuant to paragraphs (a) and (b) above, otherwise than pursuant to (i) Rights Issue (as hereinafter defined in paragraph (f)); (ii) upon the exercise of rights of conversion under the terms of any securities which are convertible into Shares; (iii) upon the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend plan of other similar arrangement in lieu of the whole or part of a dividend on Shares allotted pursuant to the Company's Articles of Association, shall not exceed 20% of the aggregate nominal amount of the H Shares in issue on the date of passing this resolution;

e) the approval referred to in paragraph (a) above is conditional upon the Company obtaining the approval from China Securities Regulatory Commission;

f) for the purpose of this resolution;

"Relevant Period" means the period from the date of the passing of this special resolution until whichever is the earliest of:

i) the conclusion of next annual general meeting of the Company after the passing of this resolution;

ii) the expiration of the period within the twelve month period after the passing of this resolution; or

iii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders of the Company in a general meeting.

"Right Issue" means an offer of shares open for a fixed period to holders of shares on the register of members of the Company and (where appropriate) other holders of the equity securities of the Company that are entitled to accept such offer on a fixed record date in proportion to their then holdings of such shares or such equity securities (subject to such exclusion or other arrangements as the directors of the Company may deem necessary of expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in relevant jurisdiction); and

g) authorise the Board to, at its discretion, make any amendment of the Articles of Association of the Company where necessary, so as to increase the registered capital of the Company, and to refect the new capital structure upon the granting of approval for the allotment or issue of the shares in the Company pursuant to paragraph (a) above."

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

Weihai, Shandong, the PRC
18 March 2009

Registered address in the PRC:
No. 312 Shichang Road
Weihai
Shandong
PRC

As at the date of this report, 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. Li Bing Yung *(Non-executive Director)*
Mr Jean-Luc Butel *(Non-executive Director)*
Mr. Lau Wai Kit *(Independent non-executive Director)*
Mr. Li Jia Miao *(Independent non-executive Director)*
Mr. Luan Jian Ping *(Independent non-executive Director)*
Mr. Shi Huan *(Independent non-executive Director)*

Notes:

(i) A shareholder who has the right to attend and vote at the AGM is entitled to appoint one proxy (or more) in writing to attend the AGM and vote on his behalf in accordance with the Company's Articles of Association. The proxy need not be a shareholder of the Company. Enclosed herewith a form of proxy for use in the general meeting. In the case of joint registered holders, the proxy form may be signed by any joint registered holder. In the case that any one of such joint registered holders is present at any meeting personally or by proxy, then one of such joint registered holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

(ii) To be valid, a form of proxy together with a power of attorney or other authority , if any, under which it is signed or certified by a notary or an official copy of that power of attorney or authority, must be delivered at the Company's H Share Registrars in Hong Kong, Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong (in respect of the H Shareholders of the Company) and the Company's principal place of business at No. 312 Shichang Road, Weihai, Shandong Province, PRC (in respect of domestic Shareholders) not less than 24 hours before the time appointed for holding the AGM or 24 hours before the time designated for voting.

(iii) Shareholders and their proxies attending the AGM shall produce their proof of identification.

(iv) The register of members in Hong Kong will be closed from Saturday, 4 April 2009 to Monday, 4 May 2009, both days inclusive, during which no transfer of shares will be effected. In order to be eligible to attend the AGM, to vote and to entitle the final dividend thereat as shareholders, all transfers of H shares together with the relevant share certificates must be delivered at the Company's H Share Registrars, Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:00 p.m. on Friday, 3 April 2009.

(v) The holders of the Company's H shares who intend to attend the AGM should complete and return the reply slip to the Company's H share Registrars in Hong Kong, Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong no later than Thursday, 9 April 2009 by hand, by post, by telegraph or by fax to (852) 2528 3158,

(vi) The holders of the Company's Domestic Shares who intend to attend the AGM should complete and return the reply slip to the Company's registered address at No. 312 Shichang Road, Weihai, Shandong Province, PRC no later than Thursday, 9 April 2009 by hand, by post, by telegraph or by fax to (86) 631 5622419.

(vii) The AGM is expected not to exceed half a day, and all shareholders and proxies shall be responsible for their own traveling and accommodation expenses.

(viii) Any enquiries about this notice and the AGM shall be sent for the attention to Ms. Xing Jingran at No. 312 Shichang Road, Weihai, Shandong Province, PRC (Tel. (86) 631 5622418).