山東威高集團醫用高分子製品股份有限公司

Shandong Weigao Group Medical Polymer Company Limited *

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

(Stock Code: 1066)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2011

SUMMARY

For the year ended 31st December (the "Year"), 2011, the turnover of Shandong Weigao Group Medical Polymer Company Limited (the "Company" and together with its subsidiaries, the "Group") was approximately RMB3,180,577,000 (2010: RMB2,462,557,000), representing an increase of 29.2% over the previous year. Net profit attributable to the owners of the Company was approximately RMB3,462,172,000 (2010: RMB799,072,000), representing an increase of approximately 333.3% over the previous year. Net profit attributable to the owners of the Company excluding extraordinary items was RMB958,036,000 (2010: RMB760,628,000), representing an increase of approximately 26.0% over the previous year.

		Audited	
	2011	**2010**	**Growth**
	RMB'000	*RMB'000*	*%*
Turnover	3,180,577	2,462,557	29.2
Gross profit	1,760,116	1,359,699	29.4
Net profit attributable to the owners of the Company excluding extraordinary items	958,036	760,628	26.0
Net profit attributable to shareholders	3,462,172	799,072	333.3

* *For identification purpose only*

During the Year, the Group continued the strategy of optimizing the product mix, focusing on the business development of blood purification products and increased the marketing and sales efforts on high value-added products such as intravenous catheters, non PVC infusion sets, specialized infusion set with dosage control device, achieving a continuous growth in turnover. Due to effective adjustments in product mix, the Group absorbed the impact of escalating raw materials and labour costs during the Year, and further increased the gross profit margin to 55.3% from 55.2% in the previous year. The performance of the Group in four business segments was as follows:

(1) The growth momentum continued for consumables of the Group, reaching approximately RMB2,643,990,000 for the year ended 31st December, 2011, representing an increase of 27.3% when compared with the previous year;

(2) The turnover of orthopaedic for the year was approximately RMB243,423,000, representing a growth of 38.9% when compared with the previous year. The Distribution Joint Venture with Medtronic, Inc. in orthopaedic products contributed approximately a net profit of RMB47,224,000 to the Group for the year, representing an increase of 7.0% when compared with the previous year;

(3) The turnover of haemodialysis consumables and equipment for the year was approximately RMB293,164,000, representing an increase of 39.8% when compared with the previous year. Loss attributable to Weigao Nikkiso (Weihai) Dialysis Equipment Co., Ltd. ("Weigao Nikkiso"), which is 51% held by the Group, amounted to approximately RMB6,601,000; and

(4) The stent business of 山東吉威醫療製品有限公司 (Shandong JW Medical Products Company Limited) ("JW Medical"), a 50% jointly owned entity of the Company, contributed approximately RMB106,443,000 to the profit of the Group for the nine months ended 30 September 2011. The Company disposed of its 50% equity interest in JW Medical and an one-off profit contribution of approximately RMB2,568,534,000 was recognized by the Group. Biosensors International Pte Ltd. ("Biosensors"), which is 21.6% held by the Group, contributed approximately RMB4,195,000 to the profit of the Group. Excluding extraordinary items, Biosensors contributed approximately RMB36,595,000 to the profit of the Group.

The Directors recommended the payment of a final dividend of RMB0.03 (2010: RMB0.075), which is subject to approval by the shareholders of the Company ("Shareholders") at the forthcoming general meeting.

FULL YEAR RESULTS

The board of Directors (the "Board") is pleased to announce the audited results of the Group for the year ended 31st December, 2011, together with the comparative figures for the year ended 31st December, 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December, 2011

		2011	2010
	NOTES	***RMB'000***	*RMB'000*
Revenue	*3*	**3,180,577**	2,462,557
Cost of sales		**(1,420,461)**	(1,102,858)
Gross Profit		**1,760,116**	1,359,699
Other income, gains and losses	*7*	**42,217**	104,158
Distribution costs		**(633,441)**	(501,324)
Administrative expenses		**(285,781)**	(262,188)
Finance costs	*5*	**(1,142)**	(9,658)
Share of profit of jointly controlled entities		**99,842**	153,057
Share of profit of associates		**51,419**	44,140
Gain recognised on disposal of a jointly controlled entity		**2,568,534**	–
Loss recognised on disposal of a subsidiary		**(9,258)**	–
Profit before tax		**3,592,506**	887,884
Income tax expense	*6*	**(124,472)**	(85,532)
Profit for the year		**3,468,034**	802,352

	NOTES	2011 RMB'000	2010 RMB'000
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		**(573)**	665
Share of other consolidated profit of associates		**(13,722)**	–
Total comprehensive income for the year		**3,453,739**	803,017
Profit for the year attributable to:			
Owners of the Company		**3,462,172**	799,072
Non-controlling interests		**5,862**	3,280
		3,468,034	802,352
Total comprehensive income attributable to:			
Owners of the Company		**3,447,877**	799,737
Non-controlling interests		**5,862**	3,280
		3,453,739	803,017
Earnings per share (basic)	*9*	**RMB0.78**	RMB0.19 (Restated)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment		**2,470,492**	1,411,384
Investment properties		**3,460**	14,905
Prepaid lease payments		**378,499**	226,953
Intangible assets		**17,735**	20,849
Interest in a jointly controlled entity		**28,858**	431,436
Interest in an associate		**2,374,267**	130,127
Goodwill		**202,900**	202,900
Deferred tax asset		**15,757**	12,505
Other receivables – due after one year		**9,046**	–
		5,501,014	2,451,059
Current assets			
Inventories	*10*	**463,001**	380,222
Trade and other receivables	*11*	**1,449,242**	1,055,751
Pledged bank deposits		**107,472**	134,109
Bank balances and cash		**1,851,238**	628,223
		3,870,953	2,198,305
Current liabilities			
Trade and other payables	*12*	**1,025,415**	838,534
Bank borrowings – repayable within one year		**21,003**	26,418
Tax payable		**35,504**	41,872
		1,081,922	906,824

	NOTES	2011 RMB'000	2010 RMB'000
Net current assets		**2,789,031**	1,291,481
		8,290,045	3,742,540
Capital and reserves			
Capital	*13*	**447,637**	215,256
Reserves		**7,754,354**	3,411,154
Equity attributable to owners of the Company		**8,201,991**	3,626,410
Minority interests		**9,538**	7,463
Total equity		**8,211,529**	3,633,873
Non-current liability			
Bank borrowings – repayable after one year		**63,009**	88,303
Other payables		**10,445**	20,364
Deferred income		**5,062**	–
		78,516	108,667
		8,290,045	3,742,540

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2011

	Attributable to owners of the Company								
	Share capital *RMB'000*	Share premium reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Translation reserve *RMB'000*	Other Reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1st January, 2010	107,628	1,393,170	111,217	(637)	–	1,328,305	2,939,683	3,183	2,942,866
Profit for the year	–	–	–	–	–	799,072	799,072	3,280	802,352
Other comprehensive income for the year	–	–	–	665	–	–	665	–	665
Total comprehensive income for the year	–	–	–	665	–	799,072	799,737	3,280	803,017
Capital injection from minority shareholder	–	–	–	–	–	–	–	1,000	1,000
Transfer to statutory reserve	–	–	52,656	–	–	(52,656)	–	–	–
Dividend paid	–	–	–	–	–	(113,010)	(113,010)	–	(113,010)
Bonus issue of shares	107,628	(107,628)	–	–	–	–	–	–	–
At 31st December, 2010	215,256	1,285,542	163,873	28	–	1,961,711	3,626,410	7,463	3,633,873
Profit for the year	–	–	–	–	–	3,462,172	3,462,172	5,862	3,468,034
Exchange differences arising on translation of foreign operations	–	–	–	(573)	–	–	(573)	–	(573)
Exchange differences arising on translation of associate	–	–	–	(16,383)	–	–	(16,383)	–	(16,383)
Share of other comprehensive income of associates	–	–	–	–	2,661	–	2,661	–	2,661
Total comprehensive income for the year	–	–	–	(16,956)	2,661	3,462,172	3,447,877	5,862	3,453,739
Issue of shares	8,562	1,416,821	–	–	–	–	1,425,383	–	1,425,383
Transfer to statutory reserve	–	–	77,089	–	–	(77,089)	–	–	–
Dividend paid	–	–	–	–	–	(297,679)	(297,679)	–	(297,679)
Bonus issue of shares	223,819	(223,819)	–	–	–	–	–	–	–
Disposal of a subsidiary	–	–	–	–	–	–	–	(3,787)	(3,787)
At 31st December, 2011	**447,637**	**2,478,544**	**240,962**	**(16,928)**	**2,661**	**5,049,115**	**8,201,991**	**9,538**	**8,211,529**

Note: The Articles of Association of the those companies comprising the Company and its subsidiaries incorporated in PRC require the appropriation of 10% of profit after taxation (prepared under the generally accepted accounting principles in the PRC) each year to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provisions of the Articles of Association of the companies comprising the Group, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of its production and operation. For the capitalisation of statutory surplus reserve into share capital, the remaining amount of such reserve shall not be less than 25% of the registered share capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2011

1. GENERAL

The Company was established and registered as a joint stock company with limited liability in the People's Republic of China (the "PRC") under the Company Law of the PRC on 28th December, 2000. Its 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 were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27th February, 2004 and the listing of the shares has been transferred to the Main Board of the Stock Exchange since 29th July, 2010.

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, orthopaedic products and blood purification 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 new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (Revised 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK (IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial instruments[2]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transaction Disclosures[3]
HKAS 10	Consolidated Financial Statements[2]
HKAS 11	Joint Arrangements[2]
HKAS 12	Disclosure of Interests in Other Entities[2]
HKAS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[4]
HKAS 19 (Revised 2011)	Employee Benefits[2]
HKAS 27 (Revised 2011)	Separate Financial Statements[2]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
HK (IFRIC) – INT 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] *Effective for annual periods beginning on or after 1st July, 2011.*

[2] *Effective for annual periods beginning on or after 1st January, 2013.*

[3] *Effective for annual periods beginning on or after 1st January, 2015.*

[4] *Effective for annual periods beginning on or after 1st January, 2012.*

[5] *Effective for annual periods beginning on or after 1st July, 2012.*

HKFRS 9 “Financial instruments” (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 “Financial instruments” (as revised in November 2010) add requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending December 31, 2013 and that the application of the new Standard will not have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers, less sales tax and sales returns during the year.

4. SEGMENT INFORMATION

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

For management purposes, the Group is currently organised into three operating divisions – single use medical products, orthopaedic products, blood purification products. These divisions are the basis of the internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance.

Principal activities of the Group's operating segments 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.
Blood purification products	–	production and sale of blood purification products and related medical equipment.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segment:

2011

	Single use medical products *RMB'000*	**Orthopaedic products** *RMB'000*	**Blood purification products** *RMB'000*	**Eliminations** *RMB'000*	**Total** *RMB'000*
Revenue					
External sales	**2,643,990**	**243,423**	**293,164**	**–**	**3,180,577**
Inter-segment sales	**10,025**	**–**	**–**	**(10,025)**	**–**
Total	**2,654,015**	**243,423**	**293,164**	**(10,025)**	**3,180,577**
Segment profit	**706,278**	**84,585**	**42,536**	**–**	**833,399**
Unallocated expenses					**(300)**
Unallocated other income, gain and losses					**48,870**
Share of profit of jointly controlled entities					**99,842**
Share of profit of an associate					**51,419**
Gain recognised on disposal of an jointly controlled entity					**2,568,534**
Loss recognised on disposal of an subsidiary					**(9,258)**
Profit before tax					**3,592,506**

Inter-segments sales are charged at prevailing market rates.

2010

	Single use medical products *RMB'000*	Orthopaedic products *RMB'000*	Blood purification products *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Revenue					
External sales	2,077,602	175,233	209,722	–	2,462,557
Inter-segment sales	13,443	–	6,308	(19,751)	–
Total	2,091,045	175,233	216,030	(19,751)	2,462,557
Segment profit	520,807	54,237	24,092	–	599,136
Unallocated expenses					(594)
Unallocated other income, gain and losses					92,145
Share of profit of jointly controlled entities					153,057
Share of profit of an associate					44,140
Profit before tax					887,884

Inter-segments sales are charged at prevailing market rates.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of unallocated other income, gains and losses, unallocated expenses, share of profit of jointly controlled entities and share of profit of an associate. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment:

2011

	Single use medical products *RMB'000*	**Orthopaedic products** *RMB'000*	**Blood purification products** *RMB'000*	**Consolidated** *RMB'000*
Assets				
Segment assets	**3,831,787**	**477,226**	**681,902**	**4,990,915**
Interest in an associate				**2,374,267**
Interest in jointly controlled entities				**28,858**
Investment properties				**3,460**
Deferred tax assets				**15,757**
Pledged bank deposits				**107,472**
Bank balances and cash				**1,851,238**
Consolidated assets				**9,371,967**
Liabilities				
Segment liabilities	**977,822**	**54,118**	**23,041**	**1,054,981**
Bank borrowings				**84,012**
Other payable relating to the acquisition of additional interest in a subsidiary *(note 29)*				**21,445**
Consolidated liabilities				**1,160,438**

2010

	Single use medical products *RMB'000*	Orthopaedic products *RMB'000*	Blood purification products *RMB'000*	Consolidated *RMB'000*
Assets				
Segment assets	2,545,178	418,926	333,955	3,298,059
Interest in an associate				130,127
Interest in jointly controlled entities				431,436
Investment properties				14,905
Deferred tax assets				12,505
Pledged bank deposits				134,109
Bank balances and cash				628,223
Consolidated assets				4,649,364
Liabilities				
Segment liabilities	778,262	32,339	49,386	859,987
Bank borrowings				114,721
Other payable relating to the acquisition of additional interest in a subsidiary				40,783
Consolidated liabilities				1,015,491

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than investment properties, pledged bank deposits, bank balances and cash, deferred tax assets, interest in jointly controlled entities and interest in an associate. Assets used jointly by operating segments are allocated on the basis of the revenues earned by individual operating segments; and

- all liabilities are allocated to operating segments other than bank borrowings and other payables relating to the acquisition of additional interest in a subsidiary. Liabilities for which operating segments are jointly liable are allocated in proportion to segment assets.

Other segment information

2011

	Single use medical products *RMB'000*	Orthopaedic products *RMB'000*	Blood purification products *RMB'000*	Total *RMB'000*
Amounts included in the measure of segment profit or segment assets:				
Additions to property, plant and equipment	856,268	34,775	252,563	1,143,606
Allowance for bad and doubtful debts	13,856	2,286	–	16,142
Release of prepaid lease payment	5,594	193	275	6,062
Amortisation of intangible assets	–	3,114	–	3,114
Depreciation of property, plant and equipment	66,671	14,241	13,388	94,300
(Gain) loss on disposal of property, plant and equipment	(146)	(64)	20	(190)
Research and development expenditure	112,379	20,854	8,798	142,031
Government grant	(10,049)	(2,240)	(130)	(12,419)
Rebate of value added tax ("VAT")	(39,288)	–	–	(39,288)

2010

	Single use medical products RMB'000	Orthopaedic products RMB'000	Blood purification products RMB'000	Total RMB'000
Amounts included in the measure of segment profit or segment assets:				
Additions to property, plant and equipment	295,503	6,795	37,437	339,735
Allowance for bad and doubtful debts	6,600	9,223	3,838	19,661
Impairment loss on property, plant and equipment	2,314	–	–	2,314
Release of prepaid lease payment	4,774	193	275	5,242
Amortisation of intangible assets	–	3,114	–	3,114
Depreciation of property, plant and equipment	64,163	13,087	13,113	90,363
(Gain) loss on disposal of property, plant and equipment	293	(79)	(85)	129
Research and development expenditure	84,236	9,728	6,078	100,042
Government grant	–	–	(21,197)	(21,197)
Rebate of value added tax ("VAT")	(35,000)	–	–	(35,000)

Revenue from major products

	2011 ***RMB'000***	2010 *RMB'000*
Sale of single use medical products		
– Infusion sets	**937,652**	723,697
– Syringes	**469,694**	408,054
– Pre-filled syringes	**126,492**	97,676
– Needles	**549,263**	398,354
– Blood bags and sampling products	**250,003**	218,419
– PVC granules	**63,896**	60,179
– Other products	**246,990**	171,223
Sale of orthopaedic products	**243,423**	175,233
Sale of blood purification products	**293,164**	209,722
	3,180,577	2,462,557

Information about major customers

There is no single customer contributing over 10% of total sales of the Group for both years.

Geographical segment

The Group's operations, assets and most of the customers are located in the PRC. Accordingly, no analysis of the carrying amount of segment assets, additions to property, plant and equipment and intangible assets is presented.

5. FINANCE COSTS

	2011	2010
	RMB'000	*RMB'000*
Imputed interest expenses on other payable	**1,081**	2,056
Interest on bank borrowings wholly repayable within five years	**3,357**	8,666
Interest on bank borrowings wholly repayable after five years	**–**	–
Less: Amount capitalised in construction in progress	**(3,296)**	(1,064)
	1,142	9,658

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 3.39% (2010: 3.88%) per annum to expenditure on qualifying assets.

6. INCOME TAX EXPENSE

	2011	2010
	RMB'000	*RMB'000*
PRC Enterprise Income Tax	**127,724**	88,150
Deferred taxation	**(3,252)**	(2,618)
	124,472	85,532

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of certain PRC subsidiaries is 25% from 1st January, 2008 onwards.

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%.

The Company, Weihai Jierui Medical Products Company Limited ("Jierui Subsidiary"), Shandong Weigao Orthopaedic Device Company Limited ("Weigao Ortho") and Weihai Weigao Blood Purification Product Company Limited ("Weigao Blood") were recognised as Shandong Province New and High Technical Enterprises（山東省高新技術企業）for the year ended 31st December, 2011 and 2010. Therefore, they were subject to income tax at a tax rate of 15% for both years.

Jierui Subsidiary was recognised as a "Social Welfare Entity" and pursuant to Guo Fa 2007 No. 92 issued by the State Council, with effect from 1st 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 taxable income 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 31st December, 2011 and 2010 were made after taking these tax incentives into account.

Weigao Ortho 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 subsequent three years. Weigao Ortho commenced its first profit-making year in 2006. For the year ended 31st December, 2011, Weigao Ortho was subject to income tax at a tax rate of 15% (2010: 7.5%).

Taxation for other PRC subsidiaries are calculated at a tax rate of 25% (2010: 25%).

No provision of Hong Kong taxation has been made for Weigao International Medical Co., Ltd, Wego Medical Investment Company Limited and Wego Medical Holding Company Limited as they did not have assessable profit in Hong Kong during both years.

No provision of overseas taxation has been made for Weigao Medical (Europe) Co., Ltd and Weigao Medical Germany Gmbh as they did not have assessable profit made during both years.

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

	2011	2010
	RMB'000	*RMB'000*
Profit before taxation	**3,592,506**	887,884
Taxation at the domestic income tax rate of 15% (2010: 15%)	**538,876**	133,183
Tax effect of share of profit of a jointly controlled entity	**(14,976)**	(22,959)
Tax effect of share of profit of an associate	**(7,714)**	(6,621)
Tax effect of income not taxable for tax purpose	**(396,168)**	(5,312)
Additional tax benefit in research and development cost *(note)*	**(8,592)**	(6,640)
Utilisation of estimated tax losses previously not recognised	**–**	(1,480)
Tax effect of deductible temporary difference not recognised	**1,590**	–
Tax effect of expenses not deductible for tax purpose	**10,727**	6,602
Effect of differential tax rate on the Group	**948**	(11,842)
Others	**(219)**	601
Taxation	**124,472**	85,532

Note: Additional tax allowance of RMB57,280,000.00 (2010: RMB44,267,000) was granted by the PRC tax authority in respect of the research and development cost incurred in new products.

7. OTHER INCOME, GAINS AND LOSSES

	2011	2010
	RMB'000	*RMB'000*
Rebate of VAT *(note a)*	**39,288**	35,000
Government grant *(note b)*	**12,419**	21,197
Gain arising from increase in share of net assets of an associate *(note 21)*	**–**	35,419
Bank interest income	**6,447**	5,572
Rental income	**1,946**	2,485
Net exchange (loss) gain	**(15,906)**	3,025
Loss on fair value changes	**(6,834)**	–
Others	**4,857**	1,460
	42,217	104,158

Note:

(a) As 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 1st 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 1st 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 RMB12,419,000 (2010: RMB21,197,000) was awarded to the Group for the research and development projects completed during the year.

8. DIVIDENDS

	2011	2010
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2011 Interim – RMB0.029 (2010: interim dividend – nil) per share	**129,815**	–
2010 Final – RMB0.075 (2010: 2009 final dividend – RMB0.105) per share	**167,864**	113,010
	297,679	113,010

The final dividend of RMB0.03 per share in respect of the year ended 31st December, 2011 (2010: final dividend of RMB0.075 per share in respect of the year ended 31st December, 2010) amounting to RMB134,291,000 (2010: RMB167,864,000) has been proposed by the directors. The directors also propose bonus issue of one share for every existing share. Both proposals are subject to approval by the shareholders in the forthcoming annual general meeting.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to owners of the Company of approximately RMB3,462,172,000 (2010: RMB799,072,000) and on weighted average of 4,417,726,000 shares (2010: weighted average of 4,305,124,000 shares) in issue during the year.

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the one-for-one bonus issue for the calculation and restatement of basic earnings per share of the current year and prior year respectively.

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

10. INVENTORIES

	2011	2010
	RMB'000	*RMB'000*
Raw materials	**238,833**	169,555
Finished goods	**224,168**	210,667
	463,001	380,222

11. TRADE AND OTHER RECEIVABLES

	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**1,215,744**	945,615
Less: Allowance for bad and doubtful debts	**(90,636)**	(77,375)
	1,125,108	868,240
Bills receivable	**176,671**	91,822
Other receivables	**42,468**	28,241
Deposits and prepayments	**106,468**	67,448
	1,450,715	1,055,751

All the bills receivable will be matured within a period of 90-180 days.

Included in trade receivables are an amount due from a subsidiary of a shareholder of the Company and an amount due from an associate of RMB1,653,000 and RMB12,572,000 (2010: RMB3,458,000 and RMB1,205,000) respectively. The amounts are unsecured, interest-free and repayable on demand.

The Group allows an average credit period of 90-180 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	2011	2010
	RMB'000	*RMB'000*
0 to 90 days	**723,551**	542,565
91 to 180 days	**241,085**	212,710
181 to 365 days	**126,159**	72,920
Over 365 days	**34,313**	40,045
Trade receivables	**1,125,108**	868,240

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB160,472,000 (2010: RMB112,965,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 126 days and 377 days in the year of 2011 and 2010 respectively.

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

	2011	2010
	RMB'000	*RMB'000*
181 to 365 days	**126,159**	72,920
Over 365 days	**34,313**	40,045
	160,472	112,965

The Group has provided fully for all receivables over 2 years because historical experience is such that receivables that are past due beyond 2 years are generally not recoverable.

Movement in the allowance for bad and doubtful debt:

	2011	2010
	RMB'000	*RMB'000*
Balance at beginning of year	**77,375**	56,467
Impairment losses recognised on receivables	**21,854**	20,908
Impairment losses reversed	**(5,822)**	–
Amounts written off as uncollectible	**(2,771)**	–
Balance at end of year	**90,636**	77,375

Bills receivables of approximately RMB93,038,000 (2010: RMB78,578,000) was endorsed with recourse to third parties at 31st December, 2011 and corresponding trade payables of RMB93,038,000 (2010: RMB78,578,000) were included in the consolidated statement of financial position accordingly.

At 31st December, 2011, the Group has pledged bills receivables having a carrying value of approximately RMB nil (2010: RMB4,342,000) to banks to secure bank borrowings granted to the Group.

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 based on the invoice date is stated as follows:

	2011	2010
	RMB'000	*RMB'000*
0 to 90 days	**26,799**	16,621
91 to 180 days	**12,655**	3,343
181 to 365 days	**1,361**	3,196
Over 365 days	**1,653**	5,081
	42,468	28,241

At 31st December, 2011, an amount due from immediate holding company is nil balance (2010: an amount due from immediate holding company included in other receivable was RMB131,000). The amount is unsecured, interest-free and repayable on demand.

Movement in the allowance for bad and doubtful debt:

	2011	2010
	RMB'000	*RMB'000*
Balance at beginning of year	**1,523**	2,770
Impairment losses recognised on receivables	**114**	53
Impairment losses reversed	**(4)**	(1,300)
Amounts written off as uncollectible	**(16)**	–
Balance at end of year	**1,617**	1,523

Included in deposits and prepayments is an amount due from a jointly controlled entity of RMB527,000 (2010: RMB147,000). The amount is unsecured, interest-free and repayable on demand.

Receivables that were past due but not impaired relate to a number of independent customers that have a good repayment 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 and with good credit quality.

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.

12. TRADE AND OTHER PAYABLES

The following is an aged analysis of accounts payable presented based on the invoice date at the end of the reporting period:

	2011	2010
	RMB'000	*RMB'000*
0 to 90 days	**361,690**	200,613
91 to 180 days	**30,465**	32,753
181 to 365 days	**8,764**	21,028
Over 365 days	**7,016**	8,691
Trade payables	**407,935**	263,085
Bills payable	**348,070**	339,310
Consideration payable for the acquisition of additional interest in a subsidiary *(Note 29)*	**11,000**	20,419
Consideration payable for acquisition of land use right and buildings	**–**	12,308
Other payables and accrued expenses	**258,410**	203,412
	1,025,415	838,534

The normal credit period taken for trade purchases is 90-120 days. All the bills payable will mature within six months.

Included in trade payables is amounts due to fellow subsidiaries of RMB1,555,000 (2010: RMB840,000). The amount is unsecured, interest-free and repayable on demand.

13. SHARE CAPITAL

	Nominal value of each share *RMB*	Number of Non-listed shares *(Note c)*	Number of H shares *(Note c)*	Total number of shares	Value *RMB'000*
At 1st January, 2010 and 31st December, 2010	0.1	1,296,320,000	856,242,162	2,152,562,162	215,256
Issue H shares *(Note a)*	0.1	–	85,624,000	85,624,000	8,562
Bonus issue of shares *(Note b)*	0.1	1,296,320,000	941,866,162	2,238,186,162	223,819
At 31st December, 2011		2,592,640,000	1,883,732,324	4,476,372,324	447,637

Notes:

(a) On 5th May, 2011, 85,624,000 H Shares of RMB0.1 each were issued.

(b) On 30th June, 2011, 1,296,320,000 Non-listed Shares of RMB0.1 each and 941,866,162 H Shares of RMB0.1 each were issued by way of bonus issue on the basis of one bonus H Share for every existing H Share and one bonus Non-listed Share for every Non-listed Share held in the Company.

The bonus shares issued rank pari passu with the existing H Shares and Non-listed Shares in issue in all respect.

(c) Non-listed 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. Non-listed 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 Non-listed Shares are to be paid by the Company in RMB. The Non-listed Shares and the H Shares rank pari passu with each other in all other respects and in particular, rank equally for all dividends or distributions declared, paid or made.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the Year, the Company issued bonus non-listed Shares and bonus H Shares and placed new H Shares. The Company placed a total of 85,624,000 new H shares on 27th April, 2011 and completed the placing on 30th June, 2011. Bonus Shares were issued on the basis of one bonus Share for every Share held on 7th June 2011. The total issued share capital of the Company was enlarged to 4,476,372,324 Shares after the bonus issue and placing.

International collaboration

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

During the Year, the Company agreed to dispose of its entire 50% equity interest in JW Medical which is principally engaged in stent business to Biosensors International Group Ltd ("Biosensors"), a Singapore listed company at a consideration of S$625,400,000, and the consideration was satisfied by way of cash, by the issue of Biosensors new shares and by the issue of convertible notes convertible into Biosensors shares. The transaction has been completed on 3 October 2011.

During the Year, Distribution Joint Venture with Medtronic for the twelve months ended 31st December, 2011 contributed approximately RMB47,224,000 to net profit of the Group, representing an increase of 7.0% when compared with the previous year. This was mainly due to the establishment of a technology support centre and the implementation of an employee incentive growth plan resulting in additional expenses. During the Year, Weigao Nikkiso (威高日機裝), a joint venture company with Nikkiso Co., Ltd., was undergoing trial production and was in the process of applying for product registration certificate for its dialysis machine. It is expected to commence production in the second quarter of 2012. The joint venture company produces haemodialysis machines and provides after-sales services in China. Weigao Blood will distribute haemodialysis machines in China produced by the joint venture company. The collaboration leverages the complementary strengths of the two partners and it will further strengthen the Group's competitive position in the blood purification segment. It also lays a solid foundation for the business expansion of the Group in the blood purification market in China. Loss from Weigao Nikkiso attributable to the Group for the twelve months ended 31st December, 2011 amounted to RMB6,601,000。

Optimization adjustments to product mix

During the Year, the Group continued the strategy of optimizing the product mix, focusing on the business development of blood purification products and increased the marketing and sales efforts on high value-added products such as intravenous catheters, non PVC infusion sets, specialized infusion set with dosage control device, achieving a continuous growth in turnover. Due to effective adjustments in product mix, the Group absorbed the impact of escalating raw materials and labour costs during the Year, and further increased the gross profit margin to 55.3% from 55.2% in the previous year. The performance of the Group in four business segments were as follows:

1. Consumables: the principal products segment of the Group maintained a continuous growth trend and achieved a turnover of approximately RMB2,643,990,000 representing an increase of 27.3% when compared with the previous year.

   The Group recorded a continuing growth in needle products, with turnover of approximately RMB549,263,000, representing an increase of 37.9% when compared with the last year. The Directors believe that needle products will become an important area for the on-going development of the Company.

   During the Year, the Group overcame the impact from certain provinces and cities that initiated to regulate the usage of high-ended infusion sets. The market development of specialized infusion sets with dosage control device and infusion sets made of proprietary non PVC based material maintained growth momentum. Turnover of infusion sets of the Group amounted to RMB937,652,000, representing an increase of 29.6% over last year. The Directors believe that the product development trend in safety infusion set will remain unchanged and hence specialized infusion sets with dosage control device and non PVC based infusion sets will have enormous development potential in the PRC. The Group will continue to consolidate its core competitive advantages in this sector.

During the Year, the glass tube production line for pre-filled syringes was operating smoothly. The Group established a favourable position in market development. However, sales were affected by the reduction in demand from pre-filled syringes customers whose production facilities were subject to GMP inspection and certification. Turnover of pre-filled syringes for the Year amounted to approximately RMB126,492,000, representing an increase of 29.5% over the last year. As at the date of this announcement, the customers for the Company's pre-filled syringes had passed the GMP inspection and certification. During the Year, the Company invested approximately RMB60,000,000 to purchase new production lines for pre-filled syringes to expand its production capacity.

2. The blood purification business of Weigao Blood, a subsidiary of the Company, had achieved rapid growth and the haemodialysis consumables production line had reached its full operating capacity. During the Year, Weigao Blood restructured the distribution channels for haemodialysis machine products and resulted a temporarily drop in sales volume. During the Year, the Group recorded a turnover of approximately RMB293,164,000, representing an increase of approximately 39.8% when compared with last year. The Group invested approximately RMB100 million to purchase the second dialyser production line to expand the production capacity to meet market demand, and it is expected that the installation and trial run will be completed in the second quarter of 2012. The Directors expect that the blood purification business will become an important future direction and segment for the development of the Group. Weigao Blood has already obtained the approval from the government to operate pilot haemodialysis centres independently. As at the date of this announcement, Weigao Blood established one haemodialysis centre and preparation is underway for opening up three other haemodialysis centres.

3. During the Year, turnover of orthopaedic business was approximately RMB243,423,000, representing a growth of 38.9% when compared with last year.

4. For the nine months ended 30th September, 2011, 山東吉威醫療製品有限公司 (Shandong JW Medical Products Company Limited) ("JW Medical"), a 50% jointly owned entity of the Company, contributed approximately RMB106,443,000 (for the year ended 31st December, 2010: RMB155,587,000) to the profit of the Group. An one-off profit of RMB2,568,534,000 was recognised by the Group for the sale of JW Medical by the Company. For the three months ended 31st December, 2011, Biosensors which is 21.6% held by the Group, contributed approximately RMB4,195,000 to the profit of the Group. Excluding extraordinary items, Biosensors contributed approximately RMB36,595,000 to the profit of the Group.

RESEARCH AND DEVELOPMENT

For the twelve months ended 31st December, 2011, the Group obtained 28 new patents and 40 new patents are under application. Product registration certificates for 20 new products were obtained. The research and development for 41 products were completed for which application for product registration certificates are underway.

The strategy of placing strong emphasis on research and development had enhanced the Company's competitiveness and laid a solid foundation for the Company to fully leverage on its customer resources and provided the Group with new profit growth drivers.

For the twelve months ended 31st December, 2011, the Group had over 210 product registration certificates and over 150 patents, of which 21 were patents on invention.

In view of the need for the strategic adjustments to product mix, the Group continued to increase its investments in the research and development of its existing products series and new medical devices, so as to further improve its product series and expand product range. The Group continued to consolidate its leading position in research and development capability in China. For the twelve months ended 31st December, 2011, total research and development expenses amounted to approximately RMB142,031,000 (2010: RMB100,042,000), representing 4.5% (2010: 4.1%) of the turnover of the Group.

PRODUCTION

For the year ended 31st December, 2011, the production volume of the Group's products as compared with the previous year is as follows:

		For the twelve months ended 31st December		
Product Type	**Measurement unit**	**2011**	2010	Increase/ (Decrease) %
Syringes	1,000 pieces	**893,452**	801,257	11.5
Infusion sets	1,000 pieces	**424,800**	384,880	10.4
Blood Sampling products	1,000 pieces	**175,957**	135,330	30.0
Intravenous catheters	1,000 pieces	**50,856**	37,651	35.1
Pre-filled syringes	1,000 pieces	**48,634**	31,224	55.8
Blood bags	1,000 sets	**22,918**	20,433	12.2
PVC granules	Tons	**13,817**	13,556	1.9
Orthopaedic products	1,000 sets	**3,175**	2,030	56.4
Blood purification consumables	1,000 sets	**1,605**	1,162	38.1

During the Year, the Group continued to implement strategy on product mix adjustment by increasing the proportion of high value added products while decreasing the production plan of low value added products with low rate of returns. It has enhanced the contribution rate for each type of product and raised the overall profitability of the Company.

SALES AND MARKETING

The Group persisted to implement the strategy of integrating its sales channels and focused on product mix adjustment and improved the efficiency of credit resources extended on account receivables. The above measures had made fruitful progress.

During the Year, the Group consolidated its sales management system, strengthened the development of direct sales, integrated market resources and phased out low profitability customers. For the twelve months ended 31st December, 2011, the Group newly added 11 hospitals and 1 blood station to its customer portfolio. As at the date of this announcement, the Group has a customer base of 5,069 (including 2,951 hospitals, 414 blood stations, 622 other medical units and 1,082 distributors).

Sales comparison by geographical regions for the Year when compared with last year are set out as follows:

TURNOVER BY GEOGRAPHICAL SEGMENTS

	For the twelve months ended 31st December		
Region	**2011**	**2010**	**Increase/ (Decrease) over corresponding period**
	RMB'000	*RMB'000*	*%*
Eastern and Central	**1,003,799**	731,010	37.3
Northern	**720,116**	590,558	21.9
Northeast	**411,122**	361,824	13.6
Southern	**289,810**	240,588	20.5
Southwest	**273,832**	196,589	39.3
Northwest	**90,139**	67,696	33.2
Overseas	**160,694**	116,498	37.9
Distribution JV	**231,065**	156,794	47.4
Total	**3,180,577**	2,462,557	29.2

The integration of sales channels has strengthened the Group's market penetration in and influence over direct sales to high-end customers. It enhanced sales contribution significantly. Average sales per customer were increased by approximately 28.8% over last year. Continued driving higher product penetration to high-end customers is an important way to generate revenue growth.

Adjustment in product mix was another important factor in enhancing the results for the Year. During the Year, the Group focused on sales and marketing of high value-added products such as needle products, pre-filled syringes and high value-added infusion sets. It has increased the proportion of sales generated from high value-added products. Sales revenue comparison of principal products with that of last year is set as follows:

	For the twelve months ended 31st December			**For the three months ended 31st December**		
Product category	**2011**	2010	Increase/ (Decrease) over corresponding period	**2011**	2010	Increase/ (Decrease) over corresponding period
	RMB'000	*RMB'000*	%	***RMB'000***	*RMB'000*	%
– Infusion sets	**937,652**	723,697	29.6	**249,829**	198,656	25.8
– Needles	**549,263**	398,354	37.9	**141,669**	103,165	37.3
– Syringes	**469,694**	408,054	15.1	**122,914**	112,448	9.3
– Blood bags	**188,876**	168,744	11.9	**57,982**	53,667	8
– Pre-filled syringes	**126,492**	97,676	29.5	**21,593**	20,795	3.8
– Blood sampling products	**61,127**	49,675	23.1	**17,684**	15,063	17.4
– PVC granules	**63,896**	60,179	6.2	**16,371**	20,413	-19.8
– Other products	**246,990**	171,223	44.3	**74,313**	30,034	147.4
– Subtotal for Disposable Medical Consumables	**2,643,990**	2,077,602	27.3	**702,355**	554,241	26.7
– Orthopaedic products	**243,423**	175,233	38.9	**68,061**	51,895	31.2
– Blood purification consumables	**192,780**	142,893	34.9	**59,373**	51,982	14.2
– Blood purification equipments	**100,384**	66,829	50.2	**24,669**	11,010	124.1
Total	**3,180,577**	2,462,557	29.2	**854,458**	669,128	27.7

HUMAN RESOURCES

As at 31st December, 2011, the Group employed a total of 7,875 employees. The breakdown by departments when compared with the previous year is as follows:

Department

	2011	2010
Production	**5,541**	5,010
Sales and marketing	**1,050**	1,012
Research and development	**789**	731
Finance and administration	**257**	250
Quality control	**132**	129
Management	**76**	71
Purchasing	**30**	30
Total	**7,875**	7,233

Save for the 7 employees (including the company secretary) who reside in Hong Kong and Europe, all employees of the Group are resided in China. For the year, total cost of salaries, welfare and social benefits of the Group amounted to approximately RMB397,844,000 (2010: RMB320,377,000).

Remuneration System

The Group's remuneration policy has been determined based on its performance, changes in the local spending power and competition in 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

For the year ended 31st December, 2011, the Group recorded a turnover of RMB3,180,577,000, representing an increase of 29.2% over the previous financial year and net profit attributable to shareholders was RMB3,462,172,000, representing an increase of 333.3% over the previous financial year. Net profit attributable to the owners of the Company excluding extraordinary items was RMB958,036,000 (2010: RMB760,628,000), representing an increase of approximately 26.0% over the previous year.

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

Financial Summary

	Audited		
	2011	2010	Growth
	RMB'000	*RMB'000*	*%*
Turnover	**3,180,577**	2,462,557	29.2
Gross profit	**1,760,116**	1,359,699	29.4
Net profit attributable to shareholders excluding extraordinary item	**958,036**	760,628	26.0
Net profit attributable to shareholders	**3,462,172**	799,072	333.3

Liquidity and Financial Resources

The Group has maintained a sound financial position during the Year. As at 31st December, 2011, the Group's cash and bank balance amounted to approximately RMB1,851,238,000. For the year ended 31st December, 2011, net cash flow from operating activities of the Group amounted to approximately RMB620,792,000. The Group has maintained a sound cash flow position.

During the year under review, the Group repaid bank borrowings of approximately RMB26,145,000 in total. As at 2nd March, 2012, the Group had repaid in full the borrowings from IFC.

Total interest expenses of the Group for the year ended 31st December, 2011 were approximately RMB1,142,000 (2010: RMB9,658,000).

Gearing Ratio

As at 31st December, 2011, total net cash of the Group amounted to approximately RMB1,767,226,000 (2010: RMB517,844,000). The change in the total net cash was mainly due to increase in profit and additional issuance in equity financing in 2011.

Foreign Exchange Risks

The Group's purchases and sales are mainly conducted in the PRC. All of its assets, liabilities and transactions are denominated in RMB. For the year ended 31st December, 2011, the Group has not encountered any material difficulty due to currency fluctuation nor shortage of its own operating funds. For the twelve months ended 31st December, 2011, the Group had no significant exposure to foreign exchange fluctuation or hedging for such risk.

Due to the change in exchange rates, foreign exchange loss equivalent to RMB15,906,000 for the year ended 31st December, 2011 was recognized (2010: foreign exchange gain equivalent to RMB3,025,000) by the Company.

Contingent Liabilities

On 21st April, 2011, the Company received a notice of arbitration issued by the Hong Kong International Arbitration Centre, which is related to the dispute in the contract with ADJECT ApS for a maximum loss up to US$49,600,000. As at the date of this announcement, the arbitration is still in the progress. The Directors believe that the arbitration will have no significant impact on the financial position of the Group.

The Group did not have any material contingent liabilities as at 31st December, 2011.

MATERIAL INVESTMENTS/FUTURE MATERIAL INVESTMENT PLANS

1. According to the municipal planning of Weihai City, the industrial zone of the Group's medical consumables production plant will be re-zoned as commercial and residential use. Hence, during the year, the Group made an investment of RMB1,068,573,000 on land acquisition and plant construction for the re-location of all of the medical consumables production plants in the future.

2. In view of the strong production demand for blood purification consumables, Weigao Blood had commenced the procurement and setting up of the second production line. Total investment costs will be approximately RMB100,000,000.

3. To expand the production capacity for pre-filled syringes, the Group had started to invest in the production line for pre-filled syringes. Total investment costs will be approximately RMB60,000,000.

4. Facing the increasing pressure in staff recruitment and tight labor market, the Group planned to invest in automatic production lines, and increase technological modification to ease labor shortage and reduce production costs. Total investment costs will be approximately RMB100,000,000.

Save for the above material investments and investment plans, the Group had no material capital commitments or any future plans involving significant investments or capital assets acquisition as at 31st December, 2011, and there was no material acquisition and disposal in any other subsidiaries and associates during the Year.

Capital commitment

As at 31st December, 2011, the capital commitment of the Group and the Company contracted but not provided for in respect of the acquisition of property, plant and equipment amounted to approximately RMB435,076,000 (2010: RMB328,961,000), of which the capital commitment in relation to the re-location of plant amounted to approximately RMB408,523,000. The above amounts will be financed by the internal resources of the Group.

Pledge of the Group's Assets

As at 31st December, 2011, the Group had pledged the land use rights and buildings with a net book value of approximately RMB79,431,000 (2010: RMB82,021,000) and pledged bank deposits of RMB107,472,000 (2010: RMB134,109,000) to secure the bills and banking facilities granted to the Group.

Reserves and Distributable Reserves

As at 31st December, 2011, total reserves of the Group amounted to RMB7,754,354,000 (2010: RMB3,411,154,000).

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 31st December, 2011, the distributable reserves of the Company were approximately RMB1,464,994,000 (2010: RMB600,537,000).

Review and Outlook

In 2011, firstly, the Group continued to face a significant increase in material, transportation and labour costs in the conventional products segment. The change in tax policy led to the increase in operating costs of the Company, resulting in a fairly low profit margin for majority of the conventional products. Therefore, profit growth of conventional products segment was significantly slowed down. Secondly, facing competition in recruitment, the Orthopedic Joint Venture made adjustment to the incentive scheme and established a technology supporting centre, which therefore slowed down the net profit growth compared with the revenue growth of the Orthopedic Joint Venture. It resulted in a lower attributable net profit growth of the Group in the short term compared with the previous years. Thirdly, due to the effect of the change in tax policy and the decrease in product price, the attributable profit of the Group from the stent segment was reduced. Fourthly, the growth of blood purification segment was constrained by production capacity and integration of distribution channels, the performance of business development was less satisfactory than expected. In summary, the net profit growth of the Group lagged behind its revenue growth during the Year. However, the Directors consider that the growth in volume and revenue of four segments of the Group was well above the average industry growth rates. This indicates that the market share of each segment of Group was expanding and the decrease in the profit growth rate in the short term would lay a solid foundation for the on-going leading position by the Company in the market in the future.

Looking forward to 2012, the Company believes that the factors like rising materials and labour costs will remain and it will continue to affect the profitability of conventional products. Tight labor market will have pressure on the expansion of the Group's production capacity. In view of this situation, the Group will place emphasis on the following:

1. Continue to intensify more efforts on research and development of new products and product sales mix adjustment and consolidate the Group's competitive position in the PRC high-end market. The Group will strengthen the medical staff training and the selection and consolidation of distributors in the middle-end market, thereby laying a solid foundation for the Group's entry into the middle-end market after production capacity expansion in 2012.

2. Capitalize on the Group's research and development strengths, continue to increase the investments in technological improvement, and increase automation with an objective of assimilating the rising labour costs and recruitment pressure in the long run. The Group will speed up the study and implementation of the long term incentive scheme for employees to share the success of the Group. The Group will continue to offer competitive salary and fringe benefits packages to retain and expand the work force.

3. Continue to focus on domestic market. Leverage on the stable development of domestic market to backup the long term process of developing and expanding overseas market. Fully capitalise on the customer resource strengths in the PRC high-end market, through international collaboration by ways of joint venture, co-operation, technology transfer, acquisitions and mergers, thereby introducing technologies and further expanding product categories.

4. Strengthen the strategic management, in particular with blood purification business as a foundation, strategically expanding into the medical service sector and new product lines to counteract the policy risk and pressure from competition.

With the launching of more upgraded products and new product series, gradual easing of production capacity constraint and the entry into the middle-end market, the management believes that the Group will continue to consolidate its leading position in the PRC market. The Group and its employees are confident to face new challenges.

Analysis of the use of proceeds

Items that are stated according to the use of proceeds as set out in the placing announcement of the Company in 2011

Items	**Planned investment amount of proceeds** *RMB*	**Actual investment amount as at 31st December, 2011** *RMB*
Construction of new production plant and purchase of production equipments for the production of dialysers	157,000,000	157,000,000
Construction of new production plant and purchase of production equipments for the production of consumables for peritoneal dialysis	156,000,000	–
Construction of new production plant and purchase of equipments for the production of new materials replacing PVC	157,000,000	51,493,000
Construction of new production plant and purchase of production equipments for the production of single use consumables using new materials	80,000,000	71,272,000
Construction of new production plant and purchase of production equipments for the production of equipments and consumables for blood centers	80,000,000	38,001,000
Construction of new production plant and purchase of production equipments for the production of automated production machinery and mouldings	80,000,000	13,000,000
Use for potential mergers and acquisitions opportunities	200,000,000	–
Use as working capital	545,800,000	545,800,000
	1,455,800,000	876,566,000

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

During the Year, there was no purchase, sale or redemption by the Company, or any of its subsidiaries of its securities.

BOARD PRACTICES AND PROCEDURES

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

AUDIT COMMITTEE

The Company set up an audit committee with terms of reference in compliance with the 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. Lo Wai Hung, Mrs. Fu Ming Zhong, Mr. Li Jia Miao, and Mr. Luan Jian Ping (resigned on 15 March 2012) 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 31st December, 2010 and the first three quarterly reports of the year 2011. On 15th March, 2012, the audit committee had reviewed and approved the financial statements for the year ended 31st December, 2011.

The unaudited quarterly and interim results and audited annual results for the year ended 31st December, 2011 have been reviewed by the audit committee, which was of the opinion that the preparation of such results had complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

PRE-EMPTIVE RIGHTS

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

Pursuant to the terms of the subscription and sale and purchase agreement dated 18th December, 2007 entered into between the Company, Weigao Holding Company Limited, certain management shareholders, Medtronic and Medtronic Holding Switzerland GmbH ("Medtronic Switzerland"), so long as Medtronic Switzerland continuously and beneficially owns at least five percent (5%) of the enlarged issued share capital of the Company in the form of H Shares, it shall be entitled to certain pre-emptive rights in the event that the Company proposes to issue H Shares or securities that are convertible into H Shares. Provided that Medtronic Switzerland maintains the five percent (5%) threshold requirement described immediately above, the Company shall, prior to issuing any H Shares or securities that are convertible into H Shares, give Medtronic Switzerland notice in writing specifying (a) the number of H Shares it proposes to issue, and (b) the price at which such H Shares are being issued. Upon receipt of such notice, Medtronic Switzerland shall have the right, but not the obligation, to subscribe for up to such number of H shares (or securities that are convertible into H Shares), at the same price and on the same terms and conditions as set out in the notice, as necessary to maintain its pro rata equity ownership of the Company.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest. The Company has complied with the code provision of the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Listing Rules throughout the year ended 2011, except for the deviation that Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. Independent non-executive directors of the Company do not have a specific term of appointment as subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company is fair and reasonable.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21 April 2012 to 21 May April 2012 (both days inclusive), for the purpose of determining shareholders' entitlement to attend the forthcoming annual general meeting (the "Annual General Meeting"), during which period no transfer of shares of the Company will be registered. In order to qualify for attending the Annual General Meeting, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 20 April 2012.

In order to qualify for attending the annual general meeting:-

Latest time to lodge in the transfer instrument accompanied by the share certificates . . . . 4:30 p.m., 20 April 2012

Closure of register of members of the Company for attendance of the annual general meeting . . . . 21 April 2012 to 21 May 2012

Latest time to lodge in the reply slip . . . . 4:30 p.m., 30 April 2012

Date of annual general meeting . . . . 21 May 2012

PROPOSED FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to recommend a final dividend of RMB0.03 per share (inclusive of tax). The total amount of final dividends to be distributed shall be approximately RMB134,291,000, 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 the final dividend will be submitted to the forthcoming Annual General Meeting to be held on Monday, 21 May 2012. Final dividend for non-listed shares will be distributed and paid in Renminbi whereas dividend for H shares will be declared in Renminbi and paid in Hong Kong dollars.

The register of members of the Company will be closed from 26 May 2012 to 31 May 2012 (both days inclusive) for the purpose of determining shareholders' entitlement to final dividend for the year ended 31 December 2011, during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement of final dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 25 May 2012.

In order to qualify to entitle the final dividend for the year ended 31 December 2011:-

Latest time to lodge in the transfer instrument accompanied by the share certificates . . . . 4:30 PM., 25 May 2012

Closure of register of members of the Company for the entitlement of final dividend for the year ended 31 December 2011 . . . . 26 May 2012 to 31 May 2012

Record date for entitlement of final dividend . . . . 31 May 2012

Despatch date of final dividend . . . . 15 June 2012

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at 9:00 a.m. on Monday, 21 May 2012 at the registered office of the Company at No. 312 Shichang Road, Weihai City, Shandong Province, PRC.

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

15th March, 2012
Weihai, Shandong Province, the PRC

As at the date of this announcement, the Board Comprises:
Mr. Zhang Hua Wei *(Executive Director)*
Mr. Miao Yan Guo *(Executive Director)*
Mr. Wang Yi *(Executive Director)*
Mr. Wang Zhi Fan *(Executive Director)*
Mr. Wu Chuan Ming *(Executive Director)*
Mr. Chen Xue Li *(Non-executive Director)*
Mrs. Zhou Shu Hua *(Non-executive Director)*
Mr. Li Bing Yung *(Non-executive Director)*
Mrs. Fu Ming Zhong *(Independent non-executive Director)*
Mr. Li Jia Miao *(Independent non-executive Director)*
Mr. Lo Wai Hung *(Independent non-executive Director)*