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, 2012

SUMMARY

For the year ended 31st December, 2012 (the "Year"), the turnover of Shandong Weigao Group Medical Polymer Company Limited (the "Company" and together with its subsidiaries, the "Group") was approximately RMB3,689,115,000 (2011: RMB3,180,577,000), representing an increase of 16.0% over the previous year. Net profit attributable to the owners of the Company excluding extraordinary items was approximately RMB1,024,441,000 (2011: RMB958,036,000), representing an increase of approximately 6.9% over the previous year.

	2012	**2011**	**Growth**
	RMB'000	*RMB'000*	*%*
Turnover	3,689,115	3,180,577	16.0
Gross profit	2,112,420	1,760,116	20.0
Net profit attributable to the owners of the Company excluding extraordinary items	1,024,441	958,036	6.9

* *For identification purpose only*

During the Year, facing the extensive restructuring on sales and marketing system, the Group increased significantly sales staff headcount and the investment in supporting market channels. Such measures affected the revenue growth which was below expectation. The Directors believe that the effect of adjustment of marketing strategies of the Group will gradually be felt in the coming quarters. During the Year, the Group absorbed the impact of rising raw materials and labour costs, and increased the gross profit margin to 57.3% from 55.3% in the previous year.

During the Year, the performance of the Group in four business segments was as follows:

(1) the turnover for consumables of the Group reached approximately RMB3,063,636,000 for the year ended 31st December, 2012, representing an increase of 15.9% when compared with the previous year;

(2) the turnover of orthopaedic for the Year was approximately RMB223,015,000, representing a decrease of 8.4% when compared with the previous year. The Distribution Joint Venture with Medtronic in orthopaedic products contributed a net profit of approximately RMB42,107,000 to the Group for the Year, representing a decrease of 10.8% when compared with the previous year;

(3) the turnover of haemodialysis consumables and equipment for the Year was approximately RMB402,464,000, representing an increase of 37.3% 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 RMB4,401,000 (2011: RMB6,601,000); and

(4) Biosensors International Pte Ltd. ("Biosensors"), which is 21.5% held by the Group, contributed approximately RMB130,775,000 to the profit of the Group. Excluding the extraordinary items, Biosensors contributed approximately RMB172,269,000 to the profit of the Group.

The Directors recommended the payment of a final dividend of RMB0.033 per share (2011: RMB0.03), which is subject to the 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, 2012, together with the comparative figures for the year ended 31st December, 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER, 2012

	NOTES	**2012** ***RMB'000***	2011 *RMB'000*
Revenue	*3*	**3,689,115**	3,180,577
Cost of sales		**(1,576,695)**	(1,420,461)
Gross profit		**2,112,420**	1,760,116
Other income, gains and losses	*6*	**107,749**	42,217
Distribution costs		**(874,317)**	(633,441)
Administrative expenses		**(212,893)**	(143,750)
Research and development expenses		**(170,587)**	(142,031)
Finance costs	*4*	**(4,678)**	(1,142)
Share of profit of jointly controlled entities		**(4,401)**	99,842
Share of profit of two associates		**172,882**	51,419
Gain on disposal of a jointly controlled entity		**–**	2,568,534
Loss on disposal of subsidiaries		**–**	(9,258)
Profit before taxation		**1,126,175**	3,592,506
Income tax expense	*5*	**(129,805)**	(124,472)
Profit for the year		**996,370**	3,468,034

	NOTES	**2012**	2011
		RMB'000	*RMB'000*
Other comprehensive income:			
Exchange differences arising on translation of foreign operations			
– subsidiaries		**(626)**	(573)
– an associate		**(4,847)**	(16,383)
Share of other comprehensive income of associates		**–**	2,661
Total comprehensive income for the year		**990,897**	3,453,739
Profit for the year attributable to:			
Equity holders of the Company		**996,486**	3,462,172
Non-controlling interests		**(116)**	5,862
		996,370	3,468,034
Total comprehensive income attributable to:			
Equity holders of the Company		**991,013**	3,447,877
Non-controlling interests		**(116)**	5,862
		990,897	3,453,739
Earnings per share (basic)	*8*	**RMB0.22**	RMB0.78

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER, 2012

	NOTES	**2012** **RMB'000**	2011 RMB'000
Non-current assets			
Property, plant and equipment		**3,198,249**	2,470,492
Investment properties		**10,597**	3,460
Deposits paid for acquiring property, plant and equipment		**59,407**	–
Prepaid lease payments		**461,520**	378,499
Intangible assets		**19,820**	17,735
Interest in jointly controlled entities		**104,457**	28,858
Interest in associates		**2,525,106**	2,374,267
Goodwill		**202,900**	202,900
Deferred tax assets		**24,402**	15,757
Other receivables – receivable after one year		**1,684**	9,046
		6,608,142	5,501,014
Current assets			
Inventories	*9*	**830,274**	463,001
Trade and other receivables	*10*	**1,651,028**	1,449,242
Pledged bank deposits		**91,546**	107,472
Bank balances and cash		**1,297,856**	1,851,238
		3,870,704	3,870,953
Current liabilities			
Trade and other payables	*11*	**1,472,504**	1,025,415
Bank borrowings – repayable within one year		**–**	21,003
Tax payable		**57,253**	35,504
		1,529,757	1,081,922

	NOTES	2012 RMB'000	2011 RMB'000
Net current assets		**2,340,947**	2,789,031
		8,949,089	8,290,045
Capital and reserves			
Share capital	*12*	**447,637**	447,637
Reserves		**8,463,356**	7,754,354
Equity attributable to holders of the Company		**8,910,993**	8,201,991
Non-controlling interests		**9,422**	9,538
Total equity		**8,920,415**	8,211,529
Non-current liabilities			
Bank borrowings – repayable after one year		**–**	63,009
Other payables		**–**	10,445
Deferred income		**28,674**	5,062
		28,674	78,516
		8,949,089	8,290,045

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER, 2012

	Attributable to owners of the Company								
	Share capital *RMB'000*	Share premium reserve *RMB'000*	Statutory surplus reserve *RMB'000* (Note)	Translation reserve *RMB'000*	Other reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January, 2011	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									
– subsidiaries	–	–	–	(573)	–	–	(573)	–	(573)
– an 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 subsidiaries	–	–	–	–	–	–	–	(3,787)	(3,787)
At 31 December, 2011	447,637	2,478,544	240,962	(16,928)	2,661	5,049,115	8,201,991	9,538	8,211,529
Profit for the year	–	–	–	–	–	996,486	996,486	(116)	996,370
Exchange differences arising on translation of foreign operations									
– subsidiaries	–	–	–	(626)	–	–	(626)	–	(626)
– an associate	–	–	–	(4,847)	–	–	(4,847)	–	(4,847)
Total comprehensive income for the year	–	–	–	(5,473)	–	996,486	991,013	(116)	990,897
Transfer to statutory reserve	–	–	14,696	–	–	(14,696)	–	–	–
Dividend paid	–	–	–	–	–	(282,011)	(282,011)	–	(282,011)
At 31 December, 2012	447,637	2,478,544	255,658	(22,401)	2,661	5,748,894	8,910,993	9,422	8,920,415

Note: The Articles of Association of those companies comprising the Company and its subsidiaries incorporated in the 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, 2012

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 were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 February, 2004 and the listing of the shares has been transferred to the Main Board of the Stock Exchange since 29 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 amendments to standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which have been effective.

HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Asset; and
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Transfers of Financial Assets

Except as described below, the application of the above amendments to Standards in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

IFRS 7 (Amendments) Disclosures – Transfers of Financial Assets

The Group has applied for the first time the amendments to IFRS 7 Disclosures – Transfers of Financial Assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has endorsed certain bills receivable to suppliers on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivable, these bills receivable was therefore not derecognised and the corresponding trade payables was recognised in the consolidated financial statements. The relevant disclosures have been made regarding the transfer of the bills receivable on application of the amendments to HKFRS 7.

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

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[2]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[4]
HKFRS 9	Financial Instruments[2]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[3]
HKAS 19 (Revised 2011)	Employee Benefits[1]
HKAS 27 (Revised 2011)	Separate Financial Statements[1]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[1]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[4]
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

[2] *Effective for annual periods beginning on or after 1 January, 2015*

[3] *Effective for annual periods beginning on or after 1 July, 2012*

[4] *Effective for annual periods beginning on or after 1 January, 2014*

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (Revised 2011) and HKAS 28 (Revised 2011).

Key requirements of these five standards that are relevant to the Group are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK (SIC)-Int 12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

Currently, under IAS 31 Interests in Joint Ventures, from the date when a jointly controlled entity becomes an associate of an investor, the investor should account for its interest in accordance with IAS 28 Interests in Associates. On the loss of joint control, the investor should measure at fair value any investment the investor retains in the former jointly controlled entity. The investor should recognise in profit or loss any difference between (i) the fair value of any retained investment and any proceeds from disposing of the part interest in the jointly controlled entity and (ii) the carrying amount of the investment at the date when joint control is lost.

Under IAS 28 (Revised 2011), if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January, 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors of the Company considered the change in the accounting treatment in respect of an investment in a joint venture becoming an investment in an associate will have a significant impact on the Group's consolidated financial statements. The directors of the Company have not yet performed a detailed analysis and hence have not yet quantified the extent of the impact.

HKAS 1 (Amendments) Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors of the Company anticipate that the application of the other New and Revised HKFRSs will have no material impact on the consolidated financial statements.

3. 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 device 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 (Managing Director) 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 device 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:

2012

	Single use medical device products *RMB'000*	**Orthopaedic products** *RMB'000*	**Blood purification products** *RMB'000*	**Eliminations** *RMB'000*	**Total** *RMB'000*
Revenue					
External sales	**3,063,636**	**223,015**	**402,464**	**–**	**3,689,115**
Inter-segment sales	**9,817**	**–**	**535**	**(10,352)**	**–**
Total	**3,073,453**	**223,015**	**402,999**	**(10,352)**	**3,689,115**
Segment profit	**783,964**	**93,380**	**25,525**	**–**	**902,869**
Unallocated expenses					**(144)**
Unallocated other income, gain and losses					**54,969**
Share of (loss) profit of jointly controlled entities					**(4,401)**
Share of profit of associates					**172,882**
Profit before tax					**1,126,175**

Inter-segments sales are charged at prevailing market rates.

2011

	Single use medical device 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 associates					51,419
Gain on disposal of a jointly controlled entity					2,568,534
Loss on disposal of subsidiaries					(9,258)
Profit before tax					3,592,506

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 expenses, other income, gains and losses of the corporate function, share of profit (loss) of jointly controlled entities, share of profit of associates and gain/loss on disposal of subsidiaries/a jointly controlled entity. 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:

2012

	Single use medical device products *RMB'000*	**Orthopaedic products** *RMB'000*	**Blood purification products** *RMB'000*	**Consolidated** *RMB'000*
Assets				
Segment assets	**4,731,084**	**641,785**	**1,052,013**	**6,424,882**
Interest in associates				**2,525,106**
Interest in jointly controlled entities				**104,457**
Investment properties				**10,597**
Deferred tax assets				**24,402**
Pledged bank deposits				**91,546**
Bank balances and cash				**1,297,856**
Consolidated assets				**10,478,846**
Liabilities				
Segment liabilities	**1,202,732**	**189,791**	**143,908**	**1,536,431**
Other payable relating to the acquisition of additional interest in a subsidiary				**22,000**
Consolidated liabilities				**1,558,431**

2011

	Single use medical device 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 associates				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				21,445
Consolidated liabilities				1,160,438

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 associates; and

- all liabilities are allocated to operating segments other than other payables relating to the acquisition of additional interest in a subsidiary.

Other segment information

2012

	Single use medical device 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	586,338	49,253	229,243	864,834
Allowance for bad and doubtful debts	1,415	(1,804)	5,957	5,568
Release of prepaid lease payment	7,944	193	1,854	9,991
Amortisation of intangible assets	1	3,114	–	3,115
Depreciation of property, plant and equipment	88,821	20,942	15,320	125,083
(Gain) loss on disposal of property, plant and equipment	(157)	116	28	(13)
Research and development expenditure	128,764	29,605	12,218	170,587
Government grant	(3,611)	(5,983)	(2,464)	(12,058)
Rebate of value added tax ("VAT")	(42,333)	–	–	(42,333)

2011

	Single use medical device 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
Loss (gain) 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)

Revenue from major products

	2012 ***RMB'000***	2011 *RMB'000*
Sale of single use medical products		
– Infusion sets	**1,129,038**	937,652
– Syringes	**530,805**	469,694
– Pre-filled syringes	**158,586**	126,492
– Needles	**612,085**	549,263
– Blood bags and sampling products	**272,989**	250,003
– PVC granules	**67,455**	63,896
– Other products	**292,678**	246,990
Sale of orthopaedic products	**223,015**	243,423
Sale of blood purification products	**402,464**	293,164
	3,689,115	3,180,577

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 geographical analysis of non-current assets and customer is presented.

4. FINANCE COSTS

	2012	2011
	RMB'000	*RMB'000*
Imputed interest expenses on other payable	**555**	1,081
Interest on bank borrowings wholly repayable within five years	**4,476**	3,357
Less: Amount capitalised in construction in progress	**(353)**	(3,296)
	4,678	1,142

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 2.67% (2011: 3.38%) per annum to expenditure on qualifying assets.

5. INCOME TAX EXPENSE

	2012	2011
	RMB'000	*RMB'000*
PRC Enterprise Income Tax	**138,450**	127,724
Deferred taxation	**(8,645)**	(3,252)
	129,805	124,472

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%.

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%.

Weihai Jierui Medical Products Company Limited ("Jierui"), 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 31 December, 2012 and 2011. Therefore, they were subject to income tax at a tax rate of 15% for both years.

Jierui was recognised as a "Social Welfare Entity" and pursuant to Guo Fa (2007) No. 92 issued by the State Council, with effect from 1 July, 2007, Jierui 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 and the rebate of value added tax is exempted from the PRC income tax. Jierui is subject to income tax at a tax rate of 15%. The tax charge provided for the years ended 31 December, 2012 and 2011 were made after taking these tax incentives into account.

Taxation for other PRC subsidiaries are calculated at a tax rate of 25% (2011: 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, Wellford Capital Limited and Weigao Medical Germany GmbH as they did not have assessable profit made during both years.

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

	2012	2011
	RMB'000	*RMB'000*
Profit before taxation	**1,126,175**	3,592,506
Taxation at the domestic income tax rate of 15% (2011: 15%)	**168,926**	538,876
Tax effect of share of loss (profit) of jointly controlled entities	**660**	(14,976)
Tax effect of share of profit of associates	**(25,932)**	(7,714)
Tax effect of income not taxable for tax purpose	**(10,861)**	(392,679)
Additional tax benefit in research and development cost *(note)*	**(11,703)**	(8,592)
Additional tax benefit to a social welfare entity	**(4,407)**	(3,489)
Utilisation of estimated tax losses previously not recognised	**(38)**	–
Tax effect of deductible temporary difference not recognised	**–**	1,590
Utilisation of deductible temporary difference previously not recognised	**(59)**	–
Tax effect of tax losses not recognised	**1,316**	–
Tax effect of expenses not deductible for tax purpose	**11,527**	10,727
Effect of differential tax rate on the Group	**376**	948
Others	**–**	(219)
Taxation	**129,805**	124,472

Note: Additional tax allowance was granted by the PRC tax authority in respect of the research and development cost of RMB78,020,000 (2011: RMB57,280,000) incurred in new products.

6. OTHER INCOME, GAINS AND LOSSES

	2012	2011
	RMB'000	*RMB'000*
Rebate of VAT *(note a)*	**42,333**	39,288
Government grant *(note b and c)*	**12,058**	12,419
Bank interest income	**20,488**	6,447
Rental income	**2,573**	1,946
Net exchange gain (loss)	**29,719**	(15,906)
Loss from changes in fair value of financial assets designated as at FVTPL	**–**	(6,834)
Others	**578**	4,857
	107,749	42,217

Note:

(a) As Jierui was recognised as a "Social Welfare Entity", the Tax Bureau in Weihai granted a rebate of the value added tax paid by Jierui 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 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 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 RMB4,584,000 (2011: RMB5,230,000) was awarded to the Group mainly for specific research and development projects completed during the year ended on 31 December 2012 and are recognised as income when the government grants were received.

1) Pursuant to the Notice on the Budget for First Topics of National High-tech Research Development Plan for the Year 2011 Guokefacai [2011] No. 129 issued by the Ministry of Science and Technology of PRC, the Company received the second specific government grant RMB1,870,000 for purpose of incurring research and development of glucose check and insulin injection micro system. It was recognised as income during the year ended on 31 December 2012 when the government grants were received.

2) During the year ended on 31 December 2012, other subsidies of RMB2,714,000 (2011: RMB5,230,000) was awarded to the Group by Bureau of Finance of Weihai High-tech District and are recognised as income during the year ended 31 December 2012 when the government grants were received.

(c) During the year ended 31 December 2012, the release of government grants related to assets amounting to RMB7,474,000 (2011: RMB7,189,000) is recognised as other income.

7. DIVIDENDS

	2012	2011
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2012 Interim – RMB0.033		
(2011: interim dividend – RMB0.029) per share	**147,720**	129,815
2011 Final – RMB0.03		
(2011: 2010 final dividend – RMB0.075) per share	**134,291**	167,864
	282,011	297,679

The final dividend of RMB0.033 per share in respect of the year ended 31 December 2012 (2011: RMB0.03) amounting to RMB147,720,000 (2011: RMB134,291,000) has been proposed by the directors. The proposal is subject to approval by the shareholders in the forthcoming annual general meeting.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company for the each of reporting period is based on the following data:

	2012	2011
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to owners of the Company	**996,486**	3,462,172

	2012	2011
	'000	*'000*
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**4,476,372**	4,417,726

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 RMB996,486,000 (2011: RMB3,462,172,000) and number of ordinary shares of 4,476,372,000 (2011: weighted average number of ordinary shares of 4,417,726,000) in issue during the year. The number of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2011 has been adjusted for the bonus issue.

No diluted earnings per share is presented because no potential ordinary shares were outstanding in the current year or in the prior year.

9. INVENTORIES

	2012	2011
	RMB'000	*RMB'000*
Raw materials	**149,607**	238,833
Finished goods	**680,667**	224,168
	830,274	463,001

10. TRADE AND OTHER RECEIVABLES

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**1,369,629**	1,215,744
Less: Allowance for bad and doubtful debts	**(84,835)**	(90,636)
	1,284,794	1,125,108
Bills receivable	**204,482**	176,671
Other receivables	**33,905**	40,995
Prepayments	**110,076**	85,543
Other receivables – receivable within one year	**7,500**	12,501
Prepaid lease payments	**10,271**	8,424
	1,651,028	1,449,242

All the bills receivable will be matured within a period of 0-180 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 nil and RMB16,714,000 (2011: RMB1,653,000 and RMB12,572,000) 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, which near to goods delivery date, at the end of the reporting period.

	2012	2011
	RMB'000	*RMB'000*
0 to 90 days	**749,000**	723,551
91 to 180 days	**311,442**	241,085
181 to 365 days	**189,267**	126,159
Over 365 days	**35,085**	34,313
Trade receivables	**1,284,794**	1,125,108

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 receivables balance are debtors with aggregate carrying amount of RMB224,352,000 (2011: RMB160,472,000) 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.

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

	2012	2011
	RMB'000	*RMB'000*
181 to 365 days	**189,267**	126,159
Over 365 days	**35,085**	34,313
	224,352	160,472

The Group has provided fully for all receivables over 3 years because historical experience is such that receivables that are past due beyond 3 years are generally not recoverable.

Movement in the allowance for bad and doubtful debt:

	2012	2011
	RMB'000	*RMB'000*
Balance at beginning of year	**90,636**	77,375
Impairment losses recognised on receivables	**5,568**	16,032
Amounts written off as uncollectible	**(11,369)**	(2,771)
Balance at end of year	**84,835**	90,636

Bills receivables of approximately RMB182,730,000 (2011: RMB93,038,000) was endorsed with recourse to third parties at 31 December, 2012 and corresponding trade payables of RMB182,730,000 (2011: RMB93,038,000) were included in the consolidated statement of financial position accordingly.

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:

	2012	2011
	RMB'000	*RMB'000*
0 to 90 days	**19,646**	25,326
91 to 180 days	**3,209**	12,655
181 to 365 days	**4,676**	1,361
Over 365 days	**6,374**	1,653
	33,905	40,995

Movement in the allowance for bad and doubtful debt:

	2012	2011
	RMB'000	*RMB'000*
Balance at beginning of year	**1,617**	1,523
Impairment losses recognised on receivables	**–**	110
Amounts written off as uncollectible	**–**	(16)
Balance at end of year	**1,617**	1,617

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.

10a. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2012, bills receivable with carrying amount of RMB182,730,000 (2011: RMB93,038,000) were endorsed to suppliers on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivable, it continues to recognise the full carrying amount of the bills receivable and the associated liabilities amounted to RMB182,730,000 (2011: RMB93,038,000), being trade payables. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

11. 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:

	2012	2011
	RMB'000	*RMB'000*
0 to 90 days	**663,926**	361,690
91 to 180 days	**57,395**	30,465
181 to 365 days	**45,751**	8,764
Over 365 days	**9,145**	7,016
Trade payables	**776,217**	407,935
Bills payables	**231,898**	348,070
Advances from customers	**64,268**	35,530
Other tax payables	**55,683**	19,835
Consideration payable for the acquisition of additional interest in a subsidiary	**22,000**	11,000
Other payables	**322,438**	203,045
	1,472,504	1,025,415

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 are an amount due to fellow subsidiaries of RMB15,764,000 (2011: RMB1,555,000), an amount due to a jointly controlled entity of RMB12,440,000 (2011: nil) and an amount due to an associate of RMB114,102,000 (2011: nil). The amount is unsecured, interest-free and repayable on demand.

As at 31 December, 2012, an amount due to ultimate holding company of RMB4,819,000 (2011: nil) was included in other payables as current liabilities. The amount was unsecured, interest-free and repayable on demand. The amount was settled during the year.

12. SHARE CAPITAL

	Nominal value of each share	Number of Non-listed shares	Number of H shares	Total number of shares	Value
	RMB	*(Note c)*	*(Note c)*		*RMB'000*
At 1 January, 2011	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 31 December, 2011 and 31 December, 2012	0.1	2,592,640,000	1,883,732,324	4,476,372,324	447,637

Notes:

(a) On 5 May, 2011, 85,624,000 H Shares of RMB0.1 each were issued at RMB16.65 per share.

(b) On 30 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 and H shares issued rank pari passu with the existing H Shares and Non-listed Shares in issue in all material 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

International collaboration

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

On 3 December 2012, the Company and Medtronic International Ltd. ("Medtronic International") had reached an agreement to early terminate the distribution joint venture in orthopaedic products (the "Distribution Joint Venture"). As at the date of this announcement, the Distribution Joint Venture had basically completed the liquidation and dissolution procedures. The division and transfer of principal assets, personnel, markets and business operation had been completed. As affected by the dissolution, the Distribution Joint Venture contributed approximately RMB42,107,000 to the net profit of the Group, representing a decrease of 10.8% when compared with approximately RMB47,224,000 of last year.

During the Year, Weigao Nikkiso (Weihai) Dialysis Equipment Co., Ltd, a joint venture company with Nikkiso Co., Ltd., had completed trial run of the equipment for its dialysis machine production line, and obtained the product registration certificate and commenced production in the fourth quarter of 2012. The joint venture company produces haemodialysis machines and provides after-sales services in China. Weigao Blood will distribute haemodialysis machines produced by the joint venture company in China market. The collaboration leverages the complementary strengths of the two partners and it has further strengthened 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 JV attributable to the Group for the twelve months ended 31 December 2012 amounted to approximately RMB4,401,000 (2011: RMB6,601,000).

During the Year, the Group established a strategic alliance with Terumo Corporation and Terumo (China) Holding Co. Ltd in peritoneal dialysis. Both parties jointly agreed to invest RMB480,000,000 to establish a joint venture company to engage in the production and sales of peritoneal dialysis related devices in the PRC. Weigao Blood, a subsidiary of the Company, holds 50% equity interests of the joint venture company. As at the date of this announcement, the joint venture company was at its preparatory stage.

Optimization adjustments to product mix

During the Year, facing the extensive restructuring on sales and marketing system, the Group increased significantly sales staff headcount and the investment in supporting market channels. Such measures affected the revenue growth which was below expectation. The Directors believe that the effect of adjustment of marketing strategies will gradually be felt in the coming quarters. During the Year, the Group absorbed the impact of rising raw materials and labour costs, and increased the gross profit margin to 57.3% from 55.3% in the previous year.

1. Consumables: the principal products segment of the Group recorded a turnover of approximately RMB3,063,636,000, representing an increase of 15.9% when compared with the previous year.

   The needle products of the Group recorded a turnover for the Year of approximately RMB612,085,000, representing an increase of 11.4% when compared with the previous year. During the Year, with competition intensified in the needle products segment, the Group consolidated and restructured its distribution channel for needle products, and established a professional marketing team for needle products to enhance the competitive position of the Group in the direct sale channels to secure a larger market share. The Directors believe that needle products will become one of the important area for the on-going development of the Company.

   During the Year, the market development of the Group's specialized infusion sets with dosage control device and the infusion sets made of proprietary non-PVC based material maintained a growth momentum. Turnover of infusion sets of the Group amounted to RMB1,129,038,000, representing an increase of 20.4% over last year. The Directors believe that 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 competitiveness in this sector.

   During the Year, the glass tube production line for pre-filled syringes was operating smoothly. The Group has established a favourable position in the market. Turnover of pre-filled syringes for the Year amounted to approximately RMB158,586,000, representing an increase of 25.4% when compared with last year. The Company invested approximately RMB60,000,000 to purchase a new production line for pre-filled syringes, and the newly invested production line is expected to formally put into operation in the third quarter of 2013.

2. The blood purification business of Weigao Blood, a subsidiary of the Company, overcame the impact from production capacity constraint and the Sino-Japanese tension and achieved a rapid growth. During the Year, Weigao Blood recorded a turnover of approximately RMB402,464,000, representing an increase of 37.3% when compared with last year. The second dialyser production line purchased by the Group with an investment amount of approximately RMB100 million was put into operation and expanded its production capacity. As at the date of this announcement, the Group planned to invest RMB200 million to build the third and fourth dialyser production lines to further expand the production capacity to meet market demand. The Directors expect that the blood purification business will be an important direction and segment for future 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 had established and commenced operation of three haemodialysis centres.

3. During the Year, affected by the early dissolution of the Distribution Joint Venture, the turnover of orthopaedic business was approximately RMB223,015,000, representing a decrease of 8.4% when compared with last year.

4. Biosensors International Pte Ltd. ("Biosensors"), which is 21.5% held by the Group, contributed approximately RMB130,775,000 (2011: approximately RMB4,195,000) to the profit of the Group. Excluding the extraordinary items, Biosensors contributed approximately RMB172,269,000 (2011: approximately RMB36,595,000) to the profit of the Group.

   50% of equity interests in JW Medical held by the Company was disposed of to Biosensors International Pte Ltd. ("Biosensors") during the year 2011. JW Medical had no profit contribution to the Group during the Year, whilst JW Medical contributed approximately RMB106,443,000 to the profit of the Group in 2011.

   As result of the aforesaid measures in adjusting the product mix, the percentage of turnover from high value-added products (products with gross profit margins of over 60%) of the Group to its total turnover maintained at 45.8% (2011: 44.3%).

RESEARCH AND DEVELOPMENT

For the twelve months ended 31st December 2012, product registration certificates for 38 new products were obtained. The research and development for 46 products were completed for which applications for product registration certificates are underway. The Group obtained 53 new patents and 55 new patents are under application.

The strategy of placing strong emphasis on research and development has enhanced the competitiveness and laid a 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 2012, the Group had over 240 product registration certificates and over 210 patents, of which 34 were patents on invention.

In view of the need for the strategic adjustments to product mix, the Group continued to increase the investment in the research and development in existing products series and new medical devices, so as to further improve its 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 31st December 2012, total research and development expenses amounted to approximately RMB170,587,000 (2011: RMB142,031,000), representing 4.5% (2011: 4.5%) of the turnover of the Group.

PRODUCTION

For the year ended 31st December 2012, the production volume of the Group's products as compared with last year is as follows:

Product Type	Measurement unit	For the twelve months ended 31st December **2012**	 2011	Increase/ (Decrease) over corresponding period %
Syringes	1,000 pieces	**1,012,163**	893,452	13.3%
Infusion (transfusion) sets	1,000 pieces	**533,576**	424,800	25.6%
Blood sampling products	1,000 pieces	**191,547**	175,957	8.9%
Intravenous catheters	1,000 pieces	**58,832**	50,856	15.7%
Pre-filled syringes	1,000 pieces	**57,600**	48,634	18.4%
Blood bags	1,000 sets	**26,384**	22,918	15.1%
PVC granules	Tons	**16,797**	13,817	21.6%
Orthopaedic products	1,000 sets	**4,489**	3,175	41.4%
Haemodialysis consumables	1,000 pieces	**2,406**	1,605	49.9%

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 of low value-added products with low rate of returns. This enhanced the contribution rate for each type of products and raised the overall profitability of the Company.

SALES AND MARKETING

The Group persisted to implement the strategy in integrating its sales channels. It focused on product mix adjustment and improved the efficiency of credit resources extended on account receivables.

During the Year, the Group strengthened its sales management system, integrated and restructured distributors and customers. The Group focused its marketing resources on the exploration and maintaining relationship with hospitals from the grade-A of tier two or above（二甲級以上醫院）. For the twelve months ended 31st December 2012, the Group newly added 12 hospitals while other medical institutes and distributors decreased by 34 and 87 respectively. As at the date of this announcement, the Group has a total customer base of 4,960 (including 2,963 hospitals, 414 blood stations, 588 other medical units and 995 distributors).

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

TURNOVER BY GEOGRAPHICAL SEGMENTS

	2012	2011	Increase/ (Decrease) over corresponding period
	RMB'000	*RMB'000*	*%*
Eastern and Central	**1,271,083**	1,003,799	26.6
Northern	**799,911**	720,116	11.1
Northeast	**453,210**	411,122	10.2
Southern	**322,303**	289,810	11.2
Southwest	**311,331**	273,832	13.7
Northwest	**116,839**	90,139	29.6
Overseas	**198,066**	160,694	23.3
Subtotal	**3,472,743**	2,949,512	17.7
Distribution JV	**216,372**	231,065	(6.4)
Total	**3,689,115**	3,180,577	16.0

The integration of sales channels has strengthened the Group's market penetration and influence over the direct sales to high-end customers. It enhanced sales contribution significantly and average sales per customer was increased by approximately 18.5% when compared with 2011. It continued to drive the higher product penetration to high-end customers and 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 valued added infusion sets. It has increased the proportion of sales generated from high value-added products. Sales revenue comparison of principal products with that in 2011 is as follows:

	For the twelve months ended 31st December			**For the three months ended 31st December**		
Product category	**2012**	2011	Increase/ (Decrease) over corresponding period	**2012**	2011	Increase/ (Decrease) over corresponding period
	RMB'000	*RMB'000*	%	***RMB'000***	*RMB'000*	%
Infusion sets	**1,129,038**	937,652	20.4	**256,920**	249,829	2.8
Needles	**612,085**	549,263	11.4	**123,544**	141,669	(12.8)
Syringes	**530,805**	469,694	13.0	**121,970**	122,914	(0.8)
Blood bags	**201,673**	188,876	6.8	**55,181**	57,982	(4.8)
Pre-filled syringes	**158,586**	126,492	25.4	**26,590**	21,593	23.1
Blood sampling products	**71,316**	61,127	16.7	**17,056**	17,684	(3.6)
PVC granules	**67,455**	63,896	5.6	**18,621**	16,371	13.7
Other consumables	**292,678**	246,990	18.5	**70,485**	74,313	(5.2)
Subtotal for single-use consumables	**3,063,636**	2,643,990	15.9	**690,367**	702,355	(1.7)
Orthopaedic products	**223,015**	243,423	(8.4)	**9,611**	68,061	(85.9)
Blood purification consumables	**288,571**	192,780	49.7	**91,172**	59,373	53.6
Blood purification equipments	**113,893**	100,384	13.5	**38,122**	24,669	54.5
Total	**3,689,115**	3,180,577	16.0	**829,272**	854,458	(2.9)

HUMAN RESOURCES

As at 31st December 2012, the Group employed a total of 8,935 employees. The breakdown by departments when compared with last year is as follows:

Department

	2012	2011
Production	**5,720**	5,541
Sales and marketing	**1,762**	1,050
Research and development	**906**	789
Finance and administration	**294**	257
Quality control	**139**	132
Management	**80**	76
Purchasing	**34**	30
Total	**8,935**	7,875

Save for the six employees (including the company secretary) who are resided in Hong Kong and Europe, all the employees of the Group are resided in Mainland China. During the Year, total cost of salaries, welfare and social benefits of the Group amounted to approximately RMB648,046,000 (2011: RMB445,996,000).

Remuneration System

The Group's remuneration policy has been determined based on its performance, changes in the local consumption power and competition in human resources market. The remuneration policy so determined has become the basis of determining the salary level 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, 2012, the Group recorded a turnover of RMB3,689,115,000, representing an increase of 16.0% over the previous financial year. Net profit attributable to the owners of the Company excluding extraordinary items was approximately RMB1,024,441,000 (2011: RMB958,036,000), representing an increase of approximately 6.9% over the previous year.

Financial Summary

	2012	2011	Growth
	RMB'000	*RMB'000*	*%*
Turnover	**3,689,115**	3,180,577	16.0
Gross profit	**2,112,420**	1,760,116	20.0
Net profit attributable to shareholders excluding extraordinary items	**1,024,441**	958,036	6.9

Liquidity and Financial Resources

The Group has maintained a sound financial position during the Year. As at 31st December, 2012, the Group's cash and bank balance amounted to approximately RMB1,297,856,000. For the year ended 31st December, 2012, net cash flow from operating activities of the Group amounted to approximately RMB806,031,000. The Group has maintained a sound cash flow position.

During the year under review, the Group repaid bank borrowings of approximately RMB84,012,000 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, 2012 were approximately RMB4,678,000 (2011: RMB1,142,000).

Gearing Ratio

As at 31st December, 2012, total net cash of the Group amounted to approximately RMB1,297,856,000 (2011: RMB1,767,226,000). The change in the total net cash was mainly due to decrease in profit and increase in working capital used in new production plant.

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, 2012, 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, 2012, the Group had no significant exposure to foreign exchange fluctuation or hedging for such risk.

Due to the change in exchange rates, foreign exchange gain equivalent to RMB29,719,000 for the year ended 31st December, 2012 was recognized (2011: foreign exchange loss equivalent to RMB15,906,000) 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.

The ruling of arbitration was awarded on 5 March 2013. The Board is of the view that it will not have a significant impact on the Group after considering the following factors.

(a) The Court of Arbitration dismissed the first claim made by Adject and the consumption expenses were awarded to Adject; and

(b) Both parties will submit a statement for legal costs to the Court of Arbitration, thereafter the Court of Arbitration will make a final award for the legal costs and interests. The Company has a strong merit that Adject is required to pay for the legal costs of the Company.

Save as disclosed above, the Group did not have any material contingent liabilities as at 31st December, 2012.

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 rezoned as commercial and residential use. Hence, during the Year, the Group made an investment of RMB1,019,102,000 on purchase of land, production facilities and plant construction for the purpose of the overall relocation of the industrial zone of the Group's medical consumables production plant.

2. With the market demand and production capacity planning on the blood purification consumables, Weigao Blood had planned to invest a total of RMB200 million to build the third and fourth production lines.

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, 2012, and there was no material acquisition and disposal in any other subsidiaries and associates during the Year.

Capital commitment

As at 31st December, 2012, 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 RMB643,721,000 (2011: RMB435,076,000), of which the capital commitment in relation to the re-location of plant amounted to approximately RMB584,034,000. The above amounts will be financed by the internal resources of the Group.

Pledge of the Group's Assets

As at 31st December, 2012, the Group had pledged the land use rights and buildings with a net book value of RMB Nil (2011: RMB79,431,000) and pledged bank deposits of RMB91,546,000 (2011: RMB107,472,000) to secure the bills and banking facilities granted to the Group.

Reserves and Distributable Reserves

As at 31st December, 2012, total reserves of the Group amounted to RMB8,463,356,000 (2011: RMB7,754,354,000).

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, 2012, the distributable reserves of the Company were approximately RMB2,038,346,000 (2011: RMB1,464,994,000).

Analysis of use of proceeds

According to items listed under "Use of Proceeds" in the placing announcement issued by the Company in 2011

	Planned investment amounts for fund-raised projects *RMB*	**Actual investment amounts as at 31 December 2012** *RMB*
Construction of new production plant and the purchase of production equipments for the production of dialysers	157,000,000	157,000,000
Construction of new production plant and the purchase of production equipments for the production of consumables for peritoneal dialysis	156,000,000	80,000,000
Construction of new production plant and purchase of equipments for the production of new materials and the application of which is replacing PVC	157,000,000	157,000,000
Construction of new production plant and the purchase of production equipments for the production of single use consumables using new materials	80,000,000	80,000,000
Construction of new production plant and the purchase of production equipments for the production of equipments and consumables for blood centers	80,000,000	80,000,000
Construction of new production plant and the purchase of production equipments for the production of automated production machinery and mouldings	80,000,000	14,045,000
Potential mergers and acquisitions opportunities	200,000,000	–
Working capital	545,800,000	545,800,000
	1,455,800,000	1,113,845,000

Review and Outlook

In 2012, facing the situation of accelerating expansion of low and middle-end hospitals and intensifying competition in medical device industry, the Group carried out extensive restructuring on its sales and marketing organisation, increased significantly its sales staff headcount, integrated its client resources and increased the investment of its channels. Such measures had led to the below expectation revenue growth from disposable medical consumables segment; Secondly, with the early dissolution of the Distribution Joint Venture, revenue from the orthopaedic products segment was experiencing a temporarily drop; thirdly, the significant increase in the Group's labour costs had squeezed its profitability. A combination of the impact of such factors affected the growth rate of both revenue and profit for the Year of the Group which was substantially below expectation. However, the Directors believe the effect of adjustment of marketing strategies of the Group will gradually be performed in coming quarters.

Looking forward to 2013, the Company is of the view that the progress and effect of the restructuring on sales and marketing organisation will become a biggest challenge for the Group. Meanwhile, the new factory relocation and rising labour costs will continue to affect the profitability of conventional products. In view of this situation, the Group will place emphasis on the followings:

1. Continue to implement sales restructuring on marketing aspects, enhance the efforts in training marketing personnel, integrate the resources of direct selling customers, facilitate the optimization management on distributors, increase the investment in the middle-end market channels to improve the sales network coverage of the Group and market share of its product lines, and thereby consolidate and expand its market share;

2. Continue to intensify more efforts on research and development of new products to facilitate the adjustment of product sales mix; carefully organise and co-ordinate such arrangement to complete the new factory relocation smoothly; continue to increase the investments in technological improvement, and increase automation standard with an objective of assimilating the pressure from increase in costs in relocation of new factory and rising labour costs.

3. 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.

4. 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 to gradually expand the international market share of existing products. 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, introducing technologies and further expanding product categories to consolidate the competitive strengths of the various product lines of the Company.

5. 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 implementation of the sales restructuring strategy of the Group and the launching of more upgraded products and new product series, gradual easing of production capacity constraint, 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.

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, Mr. Li Jia Miao, Mrs. Fu Ming Zhong, and Mrs. Wang Jin Xia 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, 2011 and the first three quarterly reports of the year 2012. On 25th March, 2013, the audit committee had reviewed and approved the financial statements for the year ended 31st December, 2012.

The unaudited quarterly and interim results and audited annual results for the year ended 31st December, 2012 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 2012, 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 1 May 2013 to 31 May 2013 (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 30 April 2013.

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., Tuesday, 30 April 2013

Closure of register of members of the Company
for attendance of the annual general meeting . . . . Wednesday, 1 May 2013 to
Friday, 31 May 2013

Latest time to lodge in the reply slip . . . . 4:30 p.m., Friday, 10 May 2013

Date of annual general meeting . . . . Friday, 31 May 2013

PROPOSED FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to recommend a final dividend of RMB0.033 per share (inclusive of tax). The total amount of final dividends to be distributed shall be approximately RMB147,720,000, 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 Friday, 31 May 2013. 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 8 June 2013 to 13 June 2013 (both days inclusive) for the purpose of determining shareholders' entitlement to final dividend for the year ended 31 December 2012, 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 7 June 2013.

In order to qualify to entitle the final dividend for the year ended 31 December 2012:–

Latest time to lodge in the transfer instrument accompanied by the share certificates	4:30 p.m., Friday, 7 June 2013
Closure of register of members of the Company for the entitlement of final dividend for the year ended 31 December 2012	Saturday, 8 June 2013 to Thursday, 13 June 2013
Record date for entitlement of final dividend	Thursday, 13 June 2013
Despatch date of final dividend	Friday, 5 July 2013

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at 9:00 a.m. on Friday, 31 May 2013 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

25th March, 2013
Weihai, Shandong Province, the PRC

As at the date of this announcement, the Board Comprises:
Mr. Zhang Hua Wei *(Executive Director)*
Mr. Wang Yi *(Executive Director)*
Mr. Gong Jian Bo *(Executive Director)*
Mr. Xia Lie Bo *(Executive Director)*
Mr. Chen Xue Li *(Non-executive Director)*
Mrs. Zhou Shu Hua *(Non-executive Director)*
Mr. Christopher J. O' Connell *(Non-executive Director)*
Mr. Lo Wai Hung *(Independent non-executive Director)*
Mr. Li Jia Miao *(Independent non-executive Director)*
Mrs. Fu Ming Zhong *(Independent non-executive Director)*
Mrs. Wang Jin Xia *(Independent non-executive Director)*