威高

Shandong Weigao Group Medical Polymer Company Limited*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code : 8199)

2007 Annual Report

* For identification purposes only

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

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

Contents

DIRECTORS AND SUPERVISORS

Executive Directors

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

Non-executive Directors

Mr. Chen Xue Li
Mrs. Zhou Shu Hua

Independent non-executive Directors

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

Supervisors

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

CORPORATE INFORMATION

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

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

Company secretary
Ms. Wong Miu Ling, Phillis, ACIS

Compliance officer
Mr. Zhang Hua Wei

Qualified accountant
Ms. Chan Yuk Ying, Phyllis, CA

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

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

Auditors
Deloitte Touche Tohmatsu
Certified Public Accountants

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

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

Website of the Company
www.weigaogroup.com

Stock Code 8199

Shandong Weigao Group Medical Polymer Company Limited

Shandong Weigao Group Medical Polymer Company Limited (the "Company") and its subsidiaries (together the "Group") is principally engaged in research, development, production and sale of medical device under the trademark of "Jierui" . The Company is recognised as an industrialization base to commercialise products developed by the State High-tech Research and Development (863) Program, the State High-tech Enterprise and the State Technology Center. The Group's main production facilities is situated in Weihai City in Shandong Province.

The Group is incorporated in the People's Republic of China. The Group has an extensive sales network comprising 18 sales offices, 21 customer liaison centers and over 100 municipal representative offices. It has an extensive customer base of 5,423 healthcare organizations and distributors, including 2,805 hospitals, 412 blood stations, 697 other medical units and 1,509 trading companies.

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

I. Single use medical consumables and materials (including infusion (transfusion) sets, syringes, blood bags and blood component segregator consumable, blood sampling products, dental and anaesthetic consumables;

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

III. Medical needles which mainly include intravenous needles, syringe needles, intravenous catheter needles, blood sampling needles and irregular needles;

IV. Blood purification consumables, including puncture needles, blood tapping set, dialyzers and related consumables and immunoadsorption column for the treatment of immune system disorders such as systemic lupus erythematosus, organ transplant rejections and rheumatoid arthritis. Research and product registration are underway for adsorption columns for treatment of low density lipoprotein, endotoxin and hepatitis B;

V. Cardiovascular stent, mainly including drug eluting stent and balloon; and

VI. Pre-filled syringes for drug delivery.

On behalf of the board of directors (the "Board") of Shandong Weigao Group Medical Polymer Company Limited (the "Company"), I would like to present the audited consolidated results of the Group for the year ended 31 December 2007. The Group's results in 2007 have continued to grow rapidly, with prominent effect from the adjustment to our operational structure and product mix, which laid down a foundation for our future development.

FINANCIAL SUMMARY

During the year under review, the Group achieved record financial results in turnover and net profit attributable to shareholders.

As at 31 December 2007, the annual turnover amounted to RMB1,095,109,000, representing a growth of 39.2% over the previous year. Net profit attributable to shareholders was RMB308,149,000, representing a growth of 80.3% over the previous year. The significant growth in turnover and net profit attributable to shareholders have been mainly attributable to our market development strategy and effective adjustments made to our product mix. The successful strategy resulted the achievement of record high results with the development of high-end product market, expansion of markets to new customers and increase in sales to existing customers.

As at 31 December 2007, the total reserves of the Group amounted to approximately RMB1,228,206,000 (2006: RMB602,184,000).

FINANCIAL HIGHLIGHT

	Audited		
	2007 **RMB'000**	2006 RMB'000	Growth %
Turnover	**1,095,109**	786,926	39.2%
Gross profit	**500,265**	335,341	49.2%
Net profit attributable to shareholders	**308,149**	170,921	80.3%

BUSINESS REVIEW

Major Developments

Successful Achievement from international collaboration

During the year of 2007, the Group achieved a significant progress in discussion regarding collaborations with international business players and conducted in-depth discussions with a number of multi national medical device companies in various business sectors. On 18 December 2007, the Company entered into an agreement with Medtronic Inc. regarding the issuance of 80,721,081 new H shares (representing 7.5% of the enlarged issued share capital of the Company) and sales of 80,721,081 existing domestic shares (representing 7.5% of the enlarged issued share capital of the Company) sold by Weigao Holding Company Limited and the management shareholders to Medtronic, representing a total of 15% of the enlarged issued share capital of the Company. The Company and Medtronic will establish a distribution joint venture in China which will specialize in the sale and distribution of orthopedic products. Leveraging the resources of customer relationship in China, business collaboration with international players further strengthened the business, research and development capability of the Company and also provided opportunities for the Group to become a leading medical device player in Asia.

Successful Adjustments to business and product mix

During the year under review, the Group has been dedicated to optimize business and product mix and focused on the business development of high value, high margin single use consumables and orthopedic products. The Company increased the sales and marketing effort on promoting products of intravenous catheter, high end infusion sets and auto disables syringes and phased out the production of low valued added products. The adjustment achieved remarkable result.

The Group leveraged the customer relationship and phased out customers with low profit contribution. During the year, the Company increased new customers of 38 hospitals and 4 blood stations, and also expanded the distribution network by including some community medical units. Less competitive distribution agents were terminated, thereby the number of other medical units decreased by 45 and corporate customers was reduced by 52. As at the date of the report, our customer base of 5,423, including 2,805 hospitals, 412 blood stations, 697 other medical units and 1,509 trading companies.

Research and development and launch of new products

During the year, the Group continued to increase its resources on research and development and also established alliances with two research institutes, namely China Academy of Sciences (Changchun Applied Chemistry Research Institute and Dalian Chemistry-Physics Research Institute) and a number of top medical educational institutions in the PRC, such as Beijing 301 Hospital, the First Subordinate Hospital of the Third Military Medical University, and such research collaboration achieved a satisfactory progress.

In 2007, the Group achieved extensive achievement in the area of intellectual property rights and obtained 31 new patents. The application for patent registration of 12 new products were in progress. Registration certificates of 25 new products were obtained and applications for registration for 25 newly developed products are in progress.

Enhancing in internal control and operation efficiency

During the year, the Group implemented stringent budget management control on production cost and expenses, the application of enterprise resources planning system has increased the efficiency of production facilities and has enhanced the competitiveness of the Group by providing quality products at competitive cost.

OUTLOOK

Looking ahead, we anticipated that the market demand for single use medical devices in the PRC will continue to grow rapidly principally driven by the increasing health consciousness and extending the national medical insurance scheme for general public in China. We expected that the process of restructuring of the medical device industry in China will continue and intensify, presenting both opportunities and risks in the market.

The Company will continue to seek for business collaboration with international market leaders. Leveraging the Group's advantage on sales network, quality and cost control capabilities, the Company will speed up the market share expansion in high value-added medical consumables in the industry and further expand the business to overseas market. With a nationwide sales network, strong customer relationship, low cost high quality production, the Group will focus on :-

1. research and development and sale of high margin, high value single use consumables to replace products by international medical device companies for the Group to become the leading supplier of high end consumables in the PRC ;

2. develop overseas markets for single use consumables in collaboration with overseas major hospital sourcing groups ;

3. develop Weigao Ortho to be the key supplier for global instrument market ; and

4. expand dialyser production for the Group to be the key integrated supplier for dialysis related consumables in the PRC.

The undersigned, together with the Board, are confident with the Group's future development. The Group will continue to strengthen its professional management team. With an in depth local knowledge and by applying advanced technology knowledge and innovative management skill, the Group and its employees are confident to meet new challenges.

DIVIDENDS

A final dividend of RMB0.059 (2006: RMB0.033) per share amounting to approximately RMB58,738,000 for the year ended 31 December 2007 (2006: RMB31, 863,000) has been proposed by the Directors after the balance sheet date. The proposal is subject to approval by the shareholders at the annual general meeting to be held on Monday, 2 June 2008. The final dividends for 2007 will be paid on or about 13 June 2008.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at 9:00 a.m. on Monday, 2 June 2008 at the registered office of the Company at No. 312 Shichang Road, Weihai City, Shandong Province, PRC.

CLOSURE OF THE REGISTER OF MEMBERS

In order to determine the list of holders of H shares who are entitled to attend the annual general meeting of the Company and to receive the final dividend for the year ended 31 December, 2007, the register of members of H shares will be closed from Saturday, 3 May 2008 to Monday, 2 June 2008, both days inclusive, during which period no transfer of shares will be effected. Holders of the Company's H shares whose names appear on the register of members on Monday, 2 June 2008 are entitled to attend the meeting and to receive the final dividend for the year ended 31 December 2007. The latest time to lodge transfer of shares for the attendance of the annual general meeting and the entitlement of final dividend will be no later than 4:00 p.m. on Friday, 2 May 2008.

ACKNOWLEDGEMENTS

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

Chen Xue Li
14 March 2008

BUSINESS REVIEW

MAJOR DEVELOPMENTS

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

During the year, the Group achieved a significant progress in discussion regarding collaboration with international business players. The Group has conduct in-dept discussions with a number of multinational medical device companies in various business sectors.

(1) On 18 December 2007, the Company and Medtronic Inc ("Medtronic") entered into an agreement regarding the issuance of 80,721,081 new H shares (representing 7.5% of the enlarged issued share capital of the Company) by the Company and sale of 80,721,081 existing domestic shares (representing 7.5% of the enlarged issued share capital of the Company) sold by Weigao Holding and the Management Shareholders to Medtronic, representing a total of 15% of the enlarged issued share capital of the Company. Pursuant to the terms and conditions of the agreement, the Company and Medtronic will establish a distribution joint venture in the PRC which will specialize in the sale and distribution of orthopedic products. The distribution joint venture will be held as to 49% by the Company and 51% by Medtronic.

    Medtronic is the global leader in medical technology. The Directors are of the view that Medtronic as a strategic shareholder will strengthen management and operational skills. With Medtronic's brand recognition and technologically advanced spinal product portfolio, coupled with Weigao Orthopaedic's wide range of product portfolio in spinal, artificial joints and trauma, advanced manufacturing capability, extensive sales network in the PRC and good customer relationship, the distribution joint venture and Weigao orthopaedic will be positioned at an excellent environment to capture fast growing track of orthopedic market in China.

(2) On 2 March 2007, the Company has signed an 8-years loan agreement with the International Finance Corporation. The loan of was fully drawn down by the Company as at the date of the announcement.

Leverage the resources of customers relationship in China, business collaboration with international partners further strengthened the business, research and development capability of the Company, and also provided opportunities paving the way for the Group to become a leading medical device player in Asia. With the benefit of cooperating with international companies, the Group can further improve its management skill and methodology, operating systems, human resources, technology, product portfolio and market expansion to upgrade the competitiveness of the core business of the Group.

OPTIMISATION ADJUSTMENTS TO BUSINESS AND PRODUCT MIX

During the year, the Group continued to focus on adjustments to optimise business and product mix and increase in capital expenditure strategically. The Group focused on the business development of high value, high margin single use consumables and orthopedic products. The Group increased the sales and marketing effort on promoting the products of intravenous catheter, high-end infusion sets and auto disable syringes and phased out the production of low value-added products. The adjustment achieved remarkable result.

During the year, Weigao Ortho, a subsidiary of the Company, solidly expanded its market and developed international markets in America and Europe. For the financial year ended 31 December 2007, Weigao Ortho recorded a turnover of RMB111,003,000, representing an increase of 64.4% over last year.

Due to capacity constraint, expansion of orthopedic market was affected. As at the date of this report, the Group invested RMB80,000,000 to develop Weigao Orthopedic Industrial Park phase II. Construction has been commenced and is anticipated to be put into operation in the first half of 2008.

During the year, in order to meet the demands for medium to low end products in the PRC market, Weigao Ortho acquired 100% equity interests in 常州健力邦德醫療器械有限公司 (Changzhou Jianli Bangde Medical Devices Co. Ltd) ("Jianli Bangde") at an aggregate consideration of RMB13,840,000. Jianli Bangde has excellent management team, registration certificates of nine orthopedic products and one patent of utility model. Acquisition of Jianli Bangde enhanced the operation of Weigao Ortho and broadened the product portfolio. The acquisition further strengthened the competitiveness of Weigao Ortho in the medium to low end trauma products and expanded the market coverage.

In order to expand the product lines of Weigao Ortho and to expedite the launching of artificial joint products, Weigao Ortho acquired 100% equity interests in 北京亞華人工關節開發公司 (Beijing Yahua Artificial Joints Development Company) ("Beijing Yahua"). Beijing Yahua has product registration certificates of three artificial joint products and three spinal products, three patents of utility model and one patent of invention. The acquisition enabled Weigao Ortho to become one of the few orthopedic companies in China capable of producing artificial joint products and enhanced competitiveness of Weigao Ortho.

On 18 December 2007, the Company signed an agreement to acquire 22% and 25% equity interest from Weihai Fumaite Trading Limited and Howell (Hong Kong) Limited in Weigao Ortho at a consideration of RMB RMB110,000,000 and RMB125,000,000 respectively.

Weihai Weigao Blood Purification Product Company Limited ("Weigao Blood") is in the process of obtaining product registration for synthetic membranes dialyser, lavage set and recombinant protein adsorption column. During the year, Weigao Blood invested Euro9,950,000 (equivalent to approximately RMB108,727,000) to purchase a synthetic membrane dialyser production line. It is anticipated that the production line will be put into operation in the second half of 2008.

Production and sales of drug eluting stents by JW Medical Systems Limited ("JW Medical"), which is 50% held by the Company, recorded significant growth during the year. Development of international sales is progressing well. During the year, the attributable profit of JW Medical to the Group was approximately RMB58,958,000, representing an increase of approximately 81.6% over the previous year.

The needle products of the Group, such as intravenous catheters, have strong growth potentials. During the year, the raw needle tube production line invested by the Group operated smoothly. The Group extended the needle product chain and successfully raised the profit margin of intravenous catheters. At the same time, the Group increased its efforts in the marketing and sales of needle products, driving record sales of approximately RMB148,336,000, representing a growth of 170.2% compared with the prior year.

The new product thermal plastic elastic (TPE) infusion set with the proprietary technology was launched in the market during the year. The marketing strategic of high valued proficient light-proof infusion set has been implemented with satisfactory results. It further strengthened the position of high valued added infusion set products in the market.

Due to the optimized adjustments of product and business mix, the Group increased the proportion of sale of high value added products to 35.2% (2006: 32.0%) of the total revenue for the year ended 31 December 2007. The Directors believe that, with the enhancement of the research, development and manufacturing capability, sales and marketing resources, the proportion of revenue contributed from sales of high valued added products will continue to be increased in the coming years.

RESEARCH AND DEVELOPMENT

During the year under review, the Group continued to increase its resources on research and development. In addition to in-house research and development capability, the Group also established alliances with two research institutes, namely, China Academy of Sciences (Changchun Applied Chemistry Research Institute and Dalian Chemistry-Physics Research Institute) and a number of top medical educational institutions in the PRC, such as Beijing 301 Hospital, the First Subordinate Hospital of the Third Military Medical University, and such research collaboration achieved a satisfactory progress. The Group expanded its research team with post-doctorate researchers and has successfully achieved remarkable results in research and development.

During the year, the Group achieved extensive achievement in the area of intellectual property rights and obtained 31 new patents. The applications for patent registration of 12 new products were in progress. Registration certificates of 25 new products were obtained and applications for registration for 26 newly developed products are underway. By placing strong emphasis on research and development, it enhances the Group's competitiveness and facilities the Group to leverage on its customer base to provide the Group with addition growth drivers.

As at 31 December 2007, the Group obtained over 150 product registration certificates and over 120 patents (of which 11 were patents of inventions). During the year under the review, the State Food and Drug Administration of China ("SFDA") stringented the product safety control in the medical device industry to stamp out illegal practices and to impose strict control on specific products in the industry resulting in cancellation of the registration certificates of a batch of unqualified medical devices. None of the Group's product registrations were affected. The Directors considered that such measures would facilitate the stamping out poor quality products from the market and would be good for the long term development of the market. The directors believe that the leading position of the Group in the industry would be further enhanced.

During the year under review, the Company cooperated with the School of Business Administration of the University of Essex in the United Kingdom and established Weigao Europe Research Center to track the latest research results and technology in the international medical device industry. The cooperation enhance the Group's research and development capability.

During the year, six products, including the titanium mesh, spinal fixing system and metal locking bone plate developed by Weigao Ortho, protein A immunity adsorption column and fibre blood plasma segregator developed by Weihai Weigao Blood Purified Product Co., Limited ("Weigao Blood"), and the specialized materials of polyethylene for making of infusion sets which were enhanced and developed by Weihai Jierui Medical Products Co., Limited ("Jierui Subsidiary"), have been accredited with Provincial Technology Innovation Excellent Awards.

The platelet-rich plasma set, catheter for embryo transplants, oocytes collecting system was accredited by Science and Technology Bureau of Shandong Province.

The Company cooperated with the Changchun Applied Chemistry Research Institute ("Changchun Applied Chemistry Research Institute") of the China Academy of Sciences in the development of polylactic base biodegradable single-use syringes. The development of the product is environmental friendly and could reduce the risk in cross-contamination. The relative low cost material of polylactic also enhances the competitiveness of the Group.

Total research and development expenses amounted to approximately RMB16,652,000 (2006: RMB12,541,000), representing 1.5% of the total turnover of the Group.

PRODUCTION

During the year under review, production volumes of the Group's products as compared with the previous year were as follows:

(1) approximately 241,938,000 sets of single-use sterile infusion (transfusion) sets, increased by 10.3%;

(2) approximately 455,385,000 sets of single-use sterile syringes, increased by 25.3%;

(3) approximately 13,246,000 sets of single-use sterile blood transfusion consumables (including blood bag products), increased by 12.6%;

(4) approximately 2,561,000 sets of single-use sterile dental and anesthetic products, increased by 21.4%;

(5) approximately 93,116,000 sets of blood sampling products, increased by 20.8%;

(6) approximately 1,866,346,000 sets of medical needle products, increased by 45.3%;

(7) approximately 11,800 tones of PVC granules, increased by 21.3%;

(8) approximately 1,160,000 pieces (sets) of orthopedic materials, decreased by 2.2% *(Note 1)*;

(9) approximately 152,368,000 sets (pieces) of other products, increased by 80.1%.

Note 1: Reduction in the production units of orthopedic products was mainly due to the adjustment in product mix. The Group increased the proportion of high value-added orthopedic products and increased the level of stock reserves in newly launched products to satisfy market demand.

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

SALES AND MARKETING

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

During the year under review, the Company invested RMB3,826,000 to establish Weigao Medical Europe in order to explore European medical device market and increase overseas revenues.

The Group enhanced its sales by placing increasing resources in brand building through different advertising channels, including internet advertising, printed and TV commercials.

The results from the integration of the Group's sales channels and adjustment in product mix were remarkable.

The Group leveraged the customer relationship and phased out customers with low profit contribution. For the twelve months ended 31 December 2007, the Group has increased new customers of 38 hospitals and 4 blood stations, and also expanded the distribution network by including some community medical units. Less competitive distribution agents were terminated, thereby the number of other medical units decreased by 45 and corporate customers was reduced by 52. As at the date of the report, the Group has a customer base of 5,423, including 2,805 hospitals, 412 blood stations, 697 other medical units and 1,509 distributors.

Integration of channels strengthened the Group's market penetration and influence among the direct marketing high-end customers, and the contribution rate of single customers was enhanced. The average turnover of single customers increased by approximately 41.6% over the previous year.

REVENUE BY GEOGRAPHICAL SEGMENTS

Region	2007		2006		Growth
	RMB'000	**%**	*RMB'000*	%	%
Eastern and Central	**387,171**	**35.4**	267,292	34.0	44.8
Northern	**255,257**	**23.3**	186,538	23.7	36.8
Northeast	**167,180**	**15.3**	139,743	17.8	19.6
Southern	**119,233**	**10.9**	81,880	10.4	45.6
Southwest	**60,322**	**5.5**	43,948	5.6	37.3
Northwest	**40,349**	**3.7**	30,841	3.9	30.8
Overseas	**65,597**	**6.0**	36,684	4.7	78.8
Total	**1,095,109**	**100.0**	786,926	100.0	39.2

Adjustment to its business and the product mix was another important factor contributing to the increase in the Group's results during the year. During the year under review, the Group focused on the sales and marketing of high value-added products such as orthopedic products, intravenous catheter, CT developer syringes, pain killing pumps and high-end infusion sets. It resulted an increase in the proportion of sales revenue generated from high value-added products. The consolidated gross margin increased by 3.1% to 45.7% as compared with the previous year. Comparison of the sales revenue of various principal products with those of the previous year is set out as follows:

REVENUE BY PRODUCTS

Product category	For the twelve months ended 31 December 2007 RMB'000	2006 RMB'000	Growth %
Self-produced products			
Consumables			
– Infusion set/transfusion set	**265,559**	216,394	22.7%
– Syringes	**215,490**	175,411	22.8%
– Medical needles	**148,336**	54,906	170.2%
– Blood bags	**104,019**	83,499	24.6%
– Blood sampling products	**24,334**	20,078	21.2%
– Pre-filled syringes	**22,053**	14,409	53.1%
– Dental and anesthetic consumables	**14,218**	11,082	28.3%
– Other consumables	**55,727**	43,680	27.6%
Subtotal for consumables	**849,736**	619,459	37.2%
Orthopedic products	**111,003**	67,502	64.4%
Blood purification consumable	**15,435**	8,598	79.5%
PVC granules	**73,509**	56,204	30.8%
Trading products			
Medical instruments	**38,136**	33,279	14.6%
Other products	**7,290**	1,884	286.9%
Total	**1,095,109**	786,926	39.2%

HUMAN RESOURCES

As at 31 December 2007, the Company employed a total of 5,346 employees, an analysis by departments is set out as follows:

Departments	**2007**	2006
Production	**4,057**	4,307
Sales and marketing	**702**	656
Research and development	**211**	144
Finance and administration	**196**	181
Quality control	**98**	85
Management	**56**	55
Purchasing	**26**	28
Total	**5,346**	5,456

With the technical enhancement in the Group's production plants and the increase in the level of production automation, the number of the production workers decreased by approximately 5.8% as compared to that of 2006. The Group expanded its research and development department and marketing department, resulting in an increase in the number of employees in these departments.

All employees of the Group reside in the PRC except for the qualified accountant and company secretary who reside in Hong Kong. During the year, total cost incurred by the Group in relation to staff salaries, welfare and social insurance amounted to RMB128,532,000 (2006: RMB94,356,000).

REMUNERATION SYSTEM

The Group's remuneration policy has been determined based on its performance, changes in the local consumption level and the competition in the human resources market. The remuneration policy so determined has became 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 competitions.

FINANCIAL REVIEW

During the year under review, the Group recorded significant growth in both turnover and net profit attributable to shareholders.

For the year ended 31 December 2007, the annual turnover amounted to RMB1,095,109,000, representing an increase of 39.2% over the previous financial year. Net profit attributable to shareholders amounted to RMB308,149,000, representing an increase of 80.3% over the previous financial year. The significant growth in turnover and net profit was mainly attributable to the benefits of the strategic adjustments in product mix, increase in operation efficiency and efforts in the market expansion.

FINANCIAL SUMMARY

	Audited		
	2007 ***RMB'000*** ***(audited)***	2006 *RMB'000* *(audited)*	Growth%
Turnover	1,095,109	786,926	39.2
Gross Profit	500,265	335,341	49.2
Profit before interest, tax, depreciation and amortization	397,975	254,175	56.6
Net profit attributable to shareholders	308,149	170,921	80.3

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group has maintained a sound financial condition. As at 31 December 2007, the Group had a cash and bank balance of approximately RMB343,054,000. For the year ended 31 December 2007, the Group maintained healthy cash flow with net cash generated from operating activities amounted to approximately RMB276,211,000.

During the year under review, the Group obtained bank loans of RMB316,500,000 and repaid bank loans of RMB364,116,000. Short-term loans increased by RMB22,584,000 , while long-term loans decreased by RMB70,200,000. As at 31 December 2007, the total amount of bank and other borrowings repayable within one year was 127,627,000 (2006: RMB105,043,000), and the total amount of bank and other borrowings repayable after one year amounted to RMB210,800,000 (2006: RMB281,000,000).

In 2007, the total interest expenses of the Group amounted to approximately RMB17,865,000 (2006: RMB21,519,000).

GEARING RATIO

As at 31 December 2007, the gearing ratio of the Group, being the ratio of total borrowings net of cash and bank balances to total equity attributable to shareholders, was 0.06 (2006: 0.39). The decrease in gearing ratio was mainly due to the increase in reserves during the year.

FOREIGN EXCHANGE RISKS

The Group's purchases and sales are mainly conducted in the PRC. During the year under review, the Group had not encountered any material difficulty due to exchange rate fluctuations nor affected by any shortage of operating funds.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2007.

MATERIAL SUBSIDIARY INVESTMENTS/FUTURE MATERIAL INVESTMENT PLANS

On 19 April 2007, the Company placed 30,000,000 new H Shares. The net proceeds from the placing is approximately HK$394,500,000, which have been and will be used for expansion of production capacity of orthopedic products, blood purification products and single use consumables and for additional working capital.

During the year in order to meet the demands for medium to low end products in the PRC market, Weigao Ortho acquired 100% equity interests in Jianli Bangde at an aggregate consideration of RMB13,840,000. Jianli Bangde has excellent management team, registration certificates of nine orthopedic products and one patent of utility model. Acquisition of Jianli Bangde enhanced the operation of Weigao Ortho and broaden its product portfolio. The acquisition will further strengthen the competitiveness of Weigao Ortho in the medium to low end trauma products, and expand its market coverage.

Due to capacity constraint, the progress of orthopedic market expansion was affected. As at the date of this report, the Group invested in the development of Weigao Orthopedic Industrial Park Phase in fourth quarter of 2007. The relocation of the workshop has been completed. During the year, the Group invested RMB80,000,000 to develop Weigao Orthopedic Industrial Park Phase II, the construction work of which had already commenced. The operation is expected to be commenced in the first half of 2008.

In order to expand the product lines of Weigao Ortho, and to expedite the launching of artificial joint products, Weigao Ortho acquired Beijing Yahua which has product registration certificates for three artificial joint products, three spinal products, three patents of utility model and one patent of invention. The acquisition enabled Weigao Ortho to become one of the few orthopedic companies in the PRC capable of producing artificial joint products and enhanced competitiveness of Weigao Ortho.

On 18 December 2007, the Company acquired 22% and 25% equity interest in Weigao Ortho respectively from Weihai Fumate Trading Limited and Howell (Hong Kong) Limited at the respective consideration of RMB110,000,000 and 125,000,000.

During the year under review , Weigao Blood invested Euro9,950,000 (approximately RMB108,727,000) to purchase a production line of synthetic membrane dialysis. It is anticipated that the production line will be put into operation in the second half of 2008. The Company paid a down payment of RMB28,138,000.

The Company invested RMB40,000,000 for the acquisition of the remaining 4% interest in Jierui Subsidiary held by Weigao Holding. Jierui Subsidiary is mainly engaged in the manufacture and sales of needle products, packaging materials and polyethylene granules.

Save for the above material investments and investment plans, as at 31 December 2007, the Group had no material capital commitments, nor any future plans to participate in any material investment or to acquire any capital assets. And there was no material acquisition or disposal of any other subsidiaries or associated companies conducted during the current year.

CAPITAL COMMITMENTS

As at 31 December 2007, the capital commitments of the Group and the Company contracted for the acquisition of property, plant and equipment but no provisions had been made in the financial statements amounted to RMB119,182,000 (2006: RMB31,578,000). These commitments are expected to be satisfied by the internal funding of the Group.

PLEDGE OF THE GROUP's ASSETS

As at 31 December 2007, the Group had pledged land use rights and buildings with a net book value of approximately RMB112,945,000 (2006: RMB237,402,000) and pledged bank deposits of RMB87,482,000 (2006: RMB22,328,000) to secure bills and banking facilities of the Group.

RESERVES AND DISTRIBUTABLE RESERVES

As at 31 December 2007, the total reserves of the Group amounted to RMB1,228,206,000 (2006: 602,184,000).

Under the PRC laws and regulations, the Company's distributable reserves will be based on the lower of the amount calculated according to the PRC accounting principles and rules and the amount calculated according to the Hong Kong generally accepted accounting principles. As at 31 December 2007, the distributable reserves of the Company were RMB186,411,000 (2006: RMB108,287,000).

OUTLOOK

Looking forward, the Directors anticipated that the market demand for single-use medical devices in the PRC will continue to grow rapidly driven by the increasing health consciousness and extending the national medical insurance scheme for general public in China. Besides, the Directors also expected that the restructuring of the medical device industry in the PRC will continue and intensify, presenting both opportunities and risks.

The medical registration regulatory authorities tightened the product review during the registration process, in particular for new medical device product with new and advanced technology. The approval process for registration reviews has been inevitably delayed. Such delay in obtaining approval will directly increase the development risk of new product and time span of the investment return period. For small and medium enterprises, the risk of investment and research and development will be even higher. The Directors expect that the stringent registration process of product review will affect the timetable of new product launch in the market. However, it will provide opportunities for strategic consolidation in the industry. The Group will leverage its capital and management advantages to participate in the industry consolidation.

With a nationwide sales network, strong customer relationship, low cost high quality production, the Group will focus on the following strategies:

1. Focus on research and development and sale of high margin, high value single use consumables to replace products by international medical device companies for the Group to become the leading supplier of high end consumables in the PRC.

2. Develop overseas market for single use consumables in collaboration with overseas major hospital sourcing groups.

3. Develop Weigao Ortho to be the key supplier for global instrument market.

4. Expand dialyser production for the Group to be the key integrated supplier for dialysis related consumables in the PRC.

The Group is confident with the future development. The Group will continue to strengthen its professional management team. With an indepth local knowledge and by applying advanced technology knowledge and innovative management skill, the Group and its employees are confident to meet new challenges.

BREAKDOWN ON THE USE OF PROCEEDS

Statement of business objective, as set out in the announcement for the placing in 2007 ("2007 Placing")

Project	Actual business progress as of 31 December 2007
1. To apply approximately RMB98,820,000 of the proceeds from the 2007 Placing for the purchase of machinery and equipment for Weigao Orthopedic	Actual invested amount as at 31 December 2007 was approximately RMB98,820,000
2. To apply approximately RMB59,292,000 of the proceeds from the 2007 Placing for the purchase of machinery and equipment for cardiovascular stent	It has not been invested
3. To apply approximately RMB49,410,000 of the proceeds from the 2007 Placing for the purchase of machinery and equipment for Weigao Blood	Actual invested amount as at 31 December 2007 was approximately RMB14,400,000
4. To apply approximately RMB49,410,000 of the proceeds from the 2007 Placing for the purchase of machinery and equipment for consumable products	Actual invested amount as at 31 December 2007 was approximately RMB22,793,000
5. To apply approximately RMB132,913,000 of the proceeds from the 2007 Placing for general working capital	Actual invested amount as at 31 December 2007 was approximately RMB132,913,000

To all shareholders:

For the year ended 31 December, 2007, the entire members of the Supervisory Committee of the Company have complied with the Company Law of the PRC, the relevant regulations of Hong Kong and the Articles of Association of the Company (the "Relevant Regulations"), and under the principles of fidelity, have diligently and seriously discharged their duties to safeguard the benefits of the Company's shareholders and the Company.

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

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

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

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

Weihai, Shandong Province, the PRC
14 March 2008

Corporate Governance Practices

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

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

The following summarizes the corporate governance practices of the Company:

A. Directors

Board of Directors

The Board meets at least quarterly. Regular meetings are convened once every three months. Directors can attend meetings in person or by means of electronic communication. Set out below is the number of Board meetings of the Company convened in year 2007 and the individual attendance of each Director:

Number of Board meetings held during the year 2007: 13

Details of individual attendance of each Director:

	Attendance in 2007 (%)
Executive Directors	
Mr. Zhang Hua Wei	92%
Mr. Wang Yi	54%
Mr. Miao Yan Guo	85%
Mr. Wang Zhi Fan	54%
Mr. Wu Chuan Ming	77%
Non-executive Directors	
Mr. Chen Xue Li	92%
Mrs. Zhou Shu Hua	100%
Independent non-executive Directors	
Mr. Shi Huan	100%
Mr. Luan Jian Ping	100%
Mr. Lau Wai Kit	85%
Mr. Li Jia Miao	92%

Notices of all regular Board meetings are issued 14 days before the meetings.

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

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

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

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

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

Chairman and chief executive officer

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

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

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

Composition of the Board

The Board comprises 11 Directors, of which four are independent non-executive Directors, two are non-executive Directors and five are executive Directors. On 28 February 2007. Mr. Li Jia Miao was appointed as independent non-executive Director. The Directors are:

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

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

Experience

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

Nomination, Appointment and removal of Directors

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

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

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

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

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

Directors' responsibility

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

The Company has adopted a code of conduct regarding transactions in securities by directors on no less exacting terms than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Specific enquiries have been made with all Directors of the Company and they have confirmed that they have fully complied with the required standard of dealings and the code of conduct of the Company regarding securities transactions throughout the year 2007.

B. Remuneration of Directors and Senior Management

Remuneration Committee

The Company established a remuneration committee on 12 August 2005 in accordance with the requirement of the Code. The remuneration committee comprises four independent non-executive Directors, namely Mr. Shi Huan, Mr. Luan Jian Ping, Mr. Lau Wai Kit and Mr. Li Jia Miao who was appointed as committee member on 14 March 2007. The chairman of the remuneration committee is Mr. Shi Huan.

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

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

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

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

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

C. Accountability and Audit

Financial Reporting

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

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

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

Internal control

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

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

Audit committee

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

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

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

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

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

During the year of 2007, the audit committee has convened four meetings, at which, they have primarily discussed and reviewed the quarterly, interim and annual results and have discussed and considered the internal control procedures of the Group. The attendance of each Director is set out below:

	Attendance in 2007 (%)
Independent non-executive Directors	
Mr. Lau Wai Kit	100%
Mr. Shi Huan	100%
Mr. Luan Jian Ping	100%
Mr. Li Jia Miao	100%
Non-executive Director	
Mrs. Zhou Shu Hua	100%

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

There was no disagreement between the audit committee and the Board in respect of the selection, appointment, resignation or removal of external auditors during the year of 2007.

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

In 2007, the audit fees paid to the external auditors by the Company was approximately RMB1,662,000.

D. Mandate Granted to the Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

E. Communications with shareholders

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

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

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

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

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

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

➢ establishing specialized bodies and employing staff to serve investors and analysts and answer their relevant questions;

➢ arranging site visits to the production bases of the Company in order to keep them abreast of the operations and the latest developments of the Company;

➢ collecting and analyzing, in a timely manner, the respective opinions and recommendations on the operations of the Company given by securities analysts and investors and compiling them into reports periodically, and selectively adopting them in the operations of the Company;

➢ providing relevant information, including introduction to the Company, the Board and corporate governance, results of the Company, financial summary, marketing materials of the Company and press releases on the website of the Company; and

➢ taking the initiative to communicate with various parties, particularly following the announcement of interim, annual results and substantial investment decisions, organizing briefings, press conferences and one-on-one interviews with investment institutions. Besides, the Company also regularly communicates with investors on a one-on-one basis.

Directors

Executive Directors

Mr. Zhang Hua Wei, aged 44, is the vice chairman and general manager of the Company and vice chairman of Weigao Holding. Mr. Zhang studied politics and economics at the Weihai Campus of Shandong University from 1996 to 1998. Mr. Zhang was the deputy factory director of Weigao Holding from 1988 to 1998, and has been the general manager of Weigao Holding since 1998. Mr. Zhang joined the Company in December 2000.

Mr. Miao Yan Guo, aged 45, is an executive Director and deputy general manager of research and development of the Company. Mr. Miao studied Business Administration at the Weihai Campus of Shandong University from 1999 to 2001. Mr. Miao joined Weigao Holding in 1988 and was sales director from 1988 to 1991, operating manager from 1991 to 1993 and head of the No. 1 branch of Weigao Holding from 1993 to 1998. He was a deputy general manager of Weigao Holding from 1998 to 2000. Mr. Miao joined the Company in December 2000.

Mr. Wang Yi, aged 48, is an executive Director and deputy general manager of general affairs of the Company. Mr. Wang studied Business Administration at the Shandong Cadres Distance Learning University from 1994 to 1997. He joined Weigao Holding in 1988 and was production director from 1988 to 1989, head of the No. 2 branch of Weigao Holding from 1989 to 1992 and manager of the No. 3 branch of Weigao Holding from 1992 to 2004 of sales. Mr. Wang joined the Company in December 2000.

Mr. Wang Zhi Fan, aged 52, is an executive Director and deputy general manager of sales of the Company. He joined Weigao Holding in 1988 and was the production head and the manager of foreign trade of Weigao Holding. Mr. Wang joined the Group in December 2000.

Mr. Wu Chuan Ming, aged 49, is an executive Director and deputy general manager of production of the Company. Mr. Wu joined Weigao Holding in 1988. He has been the manager of the blood transfusion branch from 1996 to 2004. He joined the Group in December 2000.

Non-executive Directors

Mr. Chen Xue Li, aged 56, is the Chairman of both the Company and Weigao Holding. Mr. Chen founded Weigao Holding in 1988, and was the head of it from 1988 to 1998, Mr. Chen has been elected as the chairman of the Company since December 2000. He received the award of Entrepreneur of Weihai Economy Development in June 2003.

Mrs. Zhou Shu Hua, aged 51, is a non-executive Director of the Company and financial deputy general manager of Weigao Holding. Mrs. Zhou studied Business Administration at the Weihai Campus of Shandong University from 1999 to 2001. Mrs. Zhou joined Weigao Holding in 1989 and held a number of positions such as head of the finance division in the finance department, manager of the finance department and deputy general manager of Weigao Holding.

Independent non-executive Directors

Mr. Shi Huan, aged 71, is an independent non-executive Director. Mr. Shi is the president of China Pharmaceutical Association of Plant Engineering, a senior engineer and a former deputy head of State Pharmaceutical Administrative Bureau. He was appointed as an independent non-executive Director in September 2002.

Mr. Luan Jian Ping, aged 54, is an independent non-executive Director. Mr. Luan studied philosophy and logic at the People's University of China from 1979 to 1986. He also studied Business Administration at the Aston University in the United Kingdom from 1992 to 1994. He obtained a PRC Lawyer's License issued by the Ministry of Justice of the PRC in October 1996 and is currently a partner of Beijing De Run Law Firm. He was appointed as an independent non-executive Director of the Company in September 2002.

Mr. Lau Wai Kit, aged 44, holds a Bachelor of Law degree and a Postgraduate Certificate in Law from the University of Hong Kong. Mr. Lau is a partner of Gobi Partners, Inc. He was appointed as the financial director and financial controller of two private companies, responsible for the financial management of these companies from 1998 to 2001. Mr. Lau has over sixteen years of experience in practising law, and is a solicitor of the High Court of Hong Kong, an attorney and counselor at law of the Supreme Court of the State of California. Mr. Lau is also the Chairman of Diamondlite Group, a jewelry manufacturer headquartered in Hong Kong. He is also an independent non-executive director of Tianjin Development Holdings Limited and China Insurance International Holdings Company Limited. He sits on the Small Entrepreneur Research Assistance Programme Project Assessment Panel of the Government of the Hong Kong Special Administrative Region. He was appointed as an independent non-executive Director of the Company in November 2004.

Mr. Li Jia Miao, aged 68, is an independent non-executive Director. Mr. Li is a senior economist and obtained a degree in economics and management in Hohai University in 1998. Mr. Li has over 30 years of pharmaceutical related management experiences and has been an assistant general manager and a general manager in Nanjing Pharmaceutical Company since he joined NPC in 1965. Prior to the retirement of Mr. Li in 2005, he was the chairman of Nanjing Pharmaceutical Company Limited since 2000. He was formally appointed as an independent non-executive director of the Company on 28 February 2007.

Supervisors

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

Ms. Bi Hong Mei, aged 44, is a supervisor of the Company and the director of the purchase department. Ms. Bi graduated from the Economic Management Department of Shandong Cadres Distance Learning University in 1997. She joined Weigao Holding in December 1988 and has been the head of the finance division and the deputy manager of the infusion sets branch from 2001 to 2004. She joined the Company in December 2000.

Mr. Miao Hai Sheng, aged 35, is a supervisor of the Company and the project manager of auxiliary pre-filled syringe branch. Mr. Miao graduated from the Weihai Campus of Shandong University in 1997, majoring in operation management. He joined Weigao Holding in 1991 and has been the accountant, finance director, the labour and management officer of Weigao Holding. He joined the Company in December 2000.

Ms. Chen Xiao Yun, aged 34, is a supervisor of the Company and the manager of marketing and finance department. Ms. Chen studied financial accounting at the Shandong Broadcast and Television University from 1994 to 1998. She joined Weigao Holding in July 1991 and was the head of the finance division in finance department and the assistant to the manager of infusion sets branch. She joined the Company in December 2000.

Senior Management

Mr. Jiang Qiang, aged 35, is the deputy general manager of the Company. Mr. Jiang obtained a Master degree in Accounting from Northeast University of Finance and Economics in the PRC in 1998. He is a certified public accountant and has extensive experience in accounting and financial management. Mr. Jiang joined the Company in June 2002.

Mr. Li Yi, aged 43, is the head of production department of the Company and a senior engineer. Mr. Li was graduated from Wuhan Academy of Iron and Steel, major in industrial automation, and has a bachelor degree in engineering. He joined Weigao Holding in 1993 and has been the head of the No.1 Branch Factory of Weigao Holding (from 1993 to 1995), deputy manager, manager of the syringe branch company of Weigao Holding (from 1995 to 2005). Mr. Li joined the Company in December 2000.

Mr. Song Xiushan, aged 44, is the head of sales department of the Company. Mr. Song was graduated from Shandong University, major in corporate administration in 2001, and studied in an advanced business administration program administered by the People University of China from 2002 to 2004. Mr. Song joined Weigao Holding in June 1992, and has been the manager of the Beijing sales branch of Weigao Holding, marketing manager of infusion device branch of Weigao Holding, and has extensive experience in corporate marketing. He joined the Company in December 2000.

Ms. Chan Yuk Ying, Phyllis, aged 47, is the qualified accountant of the Company. Ms. Chan is a chartered accountant with the Institute of Chartered Accountants in Australia and joined the Company in May 2006. Ms. Chan has over 20 years of experience in accounting and corporate finance.

Ms. Wong Miu Ling, Phillis, aged 39, is the company secretary of the Company. Ms. Wong joined the Company in May 2006. She is an associate member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Ms. Wong has over 12 years of experience in corporate finance and management.

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2007.

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

PRINCIPAL ACTIVITIES

The Company is principally engaged in research, development, production and sale of medical device. The principal products types include single use medical consumables, including infusion/transfusion sets, syringes, blood segregator consumable and high valued added products including orthopedic products, blood purification consumables and cardiovascular stent.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 50 of this annual report.

An interim dividend of RMB3.4 cents per share amounting to approximately RMB33,849,000 was paid during the year. The Directors now recommend the payment of a final dividend of RMB5.9 cents per shares to the shareholders on the register of members on Monday, 2 June 2008 amounting to approximately RMB58,738,000 and the retention of the remaining profit for the year of approximately RMB249,411,000.

PROPERTY, PLANT AND EQUIPMENT

The Group acquired property, plant and equipment during the year of 2007 at an aggregate cost of approximately RMB288,702,000 (including RMB45,000,000 being the deposit for acquisition of property) in order to enhance its production capacity. Details of movements in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL

On 19 April 2007, the Company issued 30,000,000 new H shares of RMB0.10 each at HK$13.62 per share by way of placing. The Group intended to use the net proceeds of approximately RMB394.5 million for business expansion of orthopedic products, cardiovascular stent, blood purification products, cousumable products and for general working capital of the Group.

Subsequent to the placing, the proportion of the Company's domestic shares and H shares as well as the registered capital have changed.

Details of movements during the year in the share capital of the Company are set out in the consolidated statement of changes in equity on page 93 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2007, an amount of approximately RMB186,411,000 (2006: RMB 108,287,000) standing to the credit of the Company's reserve account, which is computed based on the lower of , (i) in accordance with the PRC accounting standards and regulation, the aggregate amount of profit after taxation for the year and (ii) in accordance with Hong Kong accounting standards and regulation, the retained profit brought forward after deduction of the current year's appropriation to the statutory surplus reserve and statutory public welfare fund.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year were:

EXECUTIVE DIRECTORS:

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

NON-EXECUTIVE DIRECTORS

Mr. Chen Xue Li
Mrs. Zhou Shu Hua

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Each of the executive and non-executive directors (except for Mr. Luan Jian Ping and Mr. Shi Huan, the two independent non-executive directors who entered into service agreements with the Company on 1 September 2002 and Mr. Lau Wai Kit, an independent non-executive director who entered into a service agreement with the Company on 1 September 2004) entered into a service agreement with the Company on 11 February 2004, commencing on 27 February 2004 for an initial term of three years, unless and until terminated by either party by giving notice to the other party not less than three months' time in writing. In accordance with the Company's articles of association, the service agreements of all directors are renewable for successive three-year terms.

The service agreements for executive and non-executive directors do not stipulate for any amount of remuneration or bonus payment to be paid for services provided. The executive and non-executive directors are paid with a fixed sum of annual salaries for holding positions in the Company. All executive and non-executive directors shall be entitled to welfare benefits (including retirement benefits and medical insurance) in accordance with the relevant laws and regulations in the PRC. According to the service agreement entered into between the Company and each of the three independent non-executive directors, Mr. Luan Jian Ping and Mr. Shi Huan shall received nominal fee of RMB30,000. Mr. Lau Wai Kit, another independent non-executive director, is also a partner of Gobi Partners, Inc. ("Gobi"), a China-based venture capital firm. He waived his director's remuneration of RMB 48,000 for the year ended 31 December 2007 and instead took a nominal annual fee of RMB1.00 to comply with Gobi's internal compliance requirements.

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

DIRECTORS' INTERESTS IN CONTRACTS

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive directors are independent.

DIRECTORS' INTERESTS AND LONG POSITIONS IN SHARES

As at 31 December 2007, the interests of the directors in the share capital of the Company and their associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the registered required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of Rule 5.46 of the GEM Listing Rules, were as follows:

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

Name of Director	Types of interests	Capacity	Total number of Domestic Shares	Approximate percentage of the issued share capital of the Company
Mr. Zhang Hua Wei	Personal	Beneficial owner	10,800,000	1.08%
Mr. Miao Yan Guo	Personal	Beneficial owner	7,800,000	0.78%
Mr. Wang Yi	Personal	Beneficial owner	7,800,000	0.78%
Ms. Zhou Shu Hua	Personal	Beneficial owner	5,100,000	0.51%
Mr. Wang Zhi Fan	Personal	Beneficial owner	2,700,000	0.27%
Mr. Wu Chuan Ming	Personal	Beneficial owner	2,400,000	0.24%

In addition, Mr. Chen Lin, son of Mr. Chen Xue Li is holder of the Company's 23,400,000 Domestic Shares, representing 2.35% of the issue share capital of the Company.

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

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

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO recorded that other than the interests disclosed above in respect of certain Directors, the following shareholder had notified the Company of relevant interest in the issued share capital of the Company.

Name of Shareholder	Capacity	Number of Domestic shares	Percentage of issued Domestic Shares	Percentage of total issued share capital
Weigao Holding	Beneficial owner	578,160,000	89.20%	58.07%

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

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 4.4% of the total sales for the year and sales to the largest customer included therein accounted for 1.38% of the total sales of the year. Purchases from the Group's five largest suppliers accounted for 34.9% of the total purchases for the year and purchases to the largest supplier included therein accounted for 10.5% of the total sales of the year. During the year, none of the directors of the Company or any of their associates or any shareholders (which to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the top five customers and suppliers of the Group.

PRE-EMPTIVE RIGHTS

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

COMPETITION AND CONFLICT OF INTERESTS

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

CONNECTED TRANSACTIONS

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

NON-EXEMPT CONNECTED TRANSACTIONS

A. On 1 February 2007, the Company as a purchaser and Weihai Weigao Fusen Medical Materials Company Limited ("Weihai Weigao Fusen"), a 70% owned subsidiary of Weigao Holding entered into an agreement for the purchase of surgical suture, medical dressing and surgical tape with an annual transaction cap of not more than RMB 2.0 million during the period from 1 February 2007 to 31 January 2008.

   On 18 May 2007, the Company entered into a supplemental agreement with Weihai Weigao Fusen relating to the purchase of surgical suture, medical dressing and surgical tape with a revised cap of not more than RMB 12.0 million during the period from 18 May 2007 to 31 January 2008. The actual transaction amount of the continuing connected transaction between the Company and Weihai Weigao Fusen was approximately RMB 4.3 million during the period from 1 February 2007 to 31 January 2008.

B. On 31 October 2007, the Company as the purchaser entered into an agreement with Weigao Holding as the vendor pursuant to which Weigao Holding agreed to sell its equity interest of 4% in Jierui Subsidiary at a consideration of RMB 40 million.

C. On 18 December 2007, the Company and Medtronic International entered into a distribution joint venture agreement ("Distribution JV Agreement") in respect of the establishment of the distribution join venture in the PRC with a total registered capital of RMB 147,580,000, which will specialize in the sale and distribution of orthopedic medical device products. The distribution joint venture will be a sino foreign co-operative joint venture limited company and will be held as to 49% by the Company and 51% by Medtronic.

   Under the Distribution JV Agreement, the Company granted to Medtronic the call option to acquire the 49% equity interest in the Distribution JV held by the Company and the 100% equity interest in Weigao Ortho to be held by the Company following the completion of the transaction.

D. On 18 December 2007, the Company entered into the agreement with Fumaite pursuant to which the Company acquired the equity interest of 22% in Weigao Ortho at a consideration of RMB 110,000,000. On the same date, Weigao International Medical Co., Limited, a wholly owned subsidiary of the Company entered into an agreement with Howell (Hong Kong) Company Limited pursuant to which the Company acquired the equity interest of 25% in Weigao Ortho at a consideration of RMB 125,000,000. Upon completion of the acquisitions, the entire equity interests of Weigao Ortho will be directly and indirectly owned by the Company.

E. On 12 August 2005, the Company entered into a property rental agreement with Shandong Weigao Biosensors Medical Products Company Limited ("Weigao Biosensors"), 50% owned by Weigao Holding, for an annual rental of approximately RMB1,496,000 for a term of three years commencing 12 August 2005.

   For the year under review, the Company received an annual rental of approximately RMB1,496,000 from Weigao Biosensors at the agreed rent as set out in the lease agreement.

F. On 21 December 2004, Jierui Subsidiary, a wholly owned subsidiary of the Company entered into the packaging material agreement (the "Agreement") with Shandong Weigao Pharmaceutical Company Limited ("Weigao Pharmaceutical") 48.6% owned by Weigao Holding, for the sales of mainly packaging materials from Jierui Subsidiary to Weigao Pharmaceutical for an annual transaction amount of not more than RMB 1,000,000 for the contract period from 1 January 2005 to 31 December 2006. On 18 April 2006, Jierui Subsidiary entered into the Supplemental Agreement with Weigao Pharmaceutical pursuant to which the maximum annual transaction amount was increased to more than RMB 9,000,000, the unit selling prices of the various items listed in the Agreement were adjusted with reference to the latest market unit prices, the number of items listed under the Agreement was increased and the contract period of the Agreement was extended to 31 December 2008.

   For the year under review, the Company received an amount of approximately RMB6,857,000 from Weigao Pharmaceutical with respect to the Agreement.

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

The directors, including the independent non-executive directors have reviewed the connected transactions above and in their opinion, these transactions entered into by the Group are in the ordinary and usual course of business of the Group, on normal commercial terms and such terms are fair and reasonable so far as the Company and the shareholders of the Company as a whole are concerned and the agreements are in the interest of the Company and the shareholders of the Company as a whole.

Save as disclosed above, there has been no contract of significance between the Company or its subsidiary and Weigao Holding or any of its subsidiary.

AUDIT COMMITTEE

The Company set up an audit committee on 1 September 2002 with terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has five members comprising Mr. Shi Huan, Mr Luan Jian Ping and Mr. Lau Wai Kit, being independent non-executive directors and Mrs. Zhou Shu Hua, a non-executive director. Mr Li Jia Miao, an independent non-executive directors being appointed as a member of the audit committee on 14 March 2007.

During the year, the audit committee held four meetings and the committee had reviewed and approved the annual report for the year ended 31 December 2006 and the first three quarterly reports of the year 2007. On 13 March 2008, the audit committee had reviewed and approved the financial statements for the year ended 31 December 2007.

The unaudited quarterly and interim results and annual results during the year ended 31 December 2007 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group has entered into the following significant transactions:

(a) On 9 January 2008, the Company and Biosensors International Group, Ltd. ("Biosensors"), a company listed on Singapore Exchange Securities Trading Limited entered into an agreement pursuant to which Biosensors agreed to purchase and the Company agreed to sell 30% equity interest in JW Medical. The consideration for the sale of 30% equity interest in JW Medical to Biosensors shall consist of the issuance to the Company of 120 million new ordinary shares of Biosensors at S$1.08 (equivalent to HK$5.89) per new share which amounts to S$129.60 million (equivalent to HK$ 706.32 million) in aggregate. The transaction has not been completed up to the date of this report.

    On 9 January 2008, the Company and Biosensors also entered into a put option agreement. Pursuant to the put option agreement, Biosensors agreed to grant to the Company a put option in respect of its remaining 20% equity interest in JW Medical. The put option is exercisable commencing on the completion date of the agreement and expiring on 30 July 2009.

    The consideration for the sale of 20% equity interest of JW Medical to Biosensors under the put option agreement shall consist of the issuance to the Company or its designated nominee(s) of 40 million new ordinary shares at S$1.08 (equivalent to HK$5.89) per new share, which amounts to S$43.20 million (equivalent to HK$235.44 million) in aggregate.

AUDITORS

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

On behalf of the Board

Chen Xue Li
Chairman

Weihai, Shandong, the PRC
14 March 2008

Deloitte.
德勤

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

We have audited the consolidated financial statements of Shandong Weigao Group Medical Polymer Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 101, which comprise the consolidated balance sheet as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
14 March 2008

Consolidated Income Statement

For the year ended 31st December, 2007

	NOTES	2007	2006
		RMB'000	*RMB'000*
Revenue	7	**1,095,109**	786,926
Cost of sales		**(594,844)**	(451,585)
Gross profit		**500,265**	335,341
Other income		**31,465**	18,191
Distribution costs		**(152,700)**	(115,368)
Administrative expenses		**(88,049)**	(59,759)
Finance costs	9	**(17,865)**	(21,519)
Share of profit of a jointly controlled entity		**58,958**	32,462
Profit before taxation		**332,074**	189,348
Taxation	10	**(2,732)**	(6,745)
Profit for the year	11	**329,342**	182,603
Attributable to:			
Equity holders of the Company		**308,149**	170,921
Minority interests		**21,193**	11,682
		329,342	182,603
Dividends	13		
Dividends recognised as distributions		**66,703**	38,622
Dividends proposed		**58,738**	31,863
Earnings per share - basic	14	**RMB0.31**	RMB0.18

As 31st December, 2007

	NOTES	2007 *RMB'000*	2006 *RMB'000*
Non-current assets			
Property, plant and equipment	15	**816,046**	591,913
Investment properties	16	**16,641**	—
Prepaid lease payments	17	**88,045**	53,922
Intangible assets	18	**30,191**	—
Interest in a jointly controlled entity	19	**75,039**	43,805
Deposits for property, plant and equipment		**—**	45,000
Goodwill	20	**28,934**	—
Deferred tax asset	28	**6,656**	—
		1,061,552	734,640
Current assets			
Inventories	21	**248,939**	166,185
Trade and other receivables	22	**486,961**	355,835
Pledged bank deposits	23	**87,482**	22,328
Bank balances and cash	24	**255,572**	115,131
		1,078,954	659,479
Current liabilities			
Trade and other payables	25	**410,187**	253,801
Borrowings - repayable within one year	26	**127,627**	105,043
Derivative financial instrument	27	**1,497**	—
Tax payable		**5,400**	6,429
		544,711	365,273
Net current assets		**534,243**	294,206
		1,595,795	1,028,846
Capital and reserves			
Share capital	29	**99,556**	96,556
Reserves		**1,228,206**	602,184
Equity attributable to equity holders of the Company		**1,327,762**	698,740
Minority interests		**57,233**	49,106
Total equity		**1,384,995**	747,846
Non-current liability			
Borrowings - repayable after one year	26	**210,800**	281,000
		1,595,795	1,028,846

The consolidated financial statements on pages 50 to 101 were approved by the Board of Directors on 14 March 2008 and are signed on its behalf by:

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

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2007

	Attributable to equity holders of the Company								
	Share capital	Share premium reserve	Statutory surplus reserve	Statutory public welfare fund	Translation reserve	Retained earnings	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000* *(Note a)*	*RMB'000* *(Note b)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1st January, 2006	96,556	233,752	34,293	17,147	—	184,693	566,441	31,580	598,021
Profit for the year and total recognised income	—	—	—	—	—	170,921	170,921	11,682	182,603
Dividend paid	—	—	—	—	—	(38,622)	(38,622)	—	(38,622)
Appropriation	—	—	36,033	(17,147)	—	(18,886)	—	—	—
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	—	(3,713)	(3,713)
Capital contribution from minority interests	—	—	—	—	—	—	—	9,557	9,557
At 31st December, 2006	96,556	233,752	70,326	—	—	298,106	698,740	49,106	747,846
Profit for the year and total recognised income	—	—	—	—	—	308,149	308,149	21,193	329,342
Shares issued	3,000	384,820	—	—	—	—	387,820	—	387,820
Dividend paid	—	—	—	—	—	(66,703)	(66,703)	(2,400)	(69,103)
Appropriation	—	—	40,891	—	—	(40,891)	—	—	—
Exchange differences arising on translation of foreign operation	—	—	—	—	(244)	—	(244)	—	(244)
Capital contribution from minority interests	—	—	—	—	—	—	—	400	400
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	(11,066)	(11,066)
At 31st December, 2007	99,556	618,572	111,217	—	(244)	498,661	1,327,762	57,233	1,384,995

Notes:

(a) The Articles of Association of the companies comprising the Group except Weigao International Medical Co. Limited ("Weigao International") 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.

(b) Pursuant to the PRC Company Law, the companies comprising the Group except Weigao International shall make allocation from profit after taxation (prepared under the generally accepted accounting principles in the PRC) at the rate of 5% to 10% to the statutory public welfare fund (see below). The statutory public welfare fund can only be utilised on the capital items for employees collective welfare. Individual employees only have the right to use these facilities and the titles on which will remain with the Group. The statutory public welfare fund is non-distributable other than in liquidation.

From 1st January, 2006, according to the revised PRC Company Law, the companies comprising the Group except Weigao International are not required to make such transfers. The directors of the Company resolved to transfer the statutory public welfare fund of RMB17,147,000 as at 1st January, 2006 to statutory surplus reserve which is in compliance with the PRC Company Law.

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	NOTE	2007 *RMB'000*	2006 *RMB'000*
OPERATING ACTIVITIES			
Profit before taxation		**332,074**	189,348
Adjustments for:			
Interest income		**(1,704)**	(751)
Interest expense		**17,865**	21,519
Depreciation of property, plant and equipment		**47,083**	43,308
Prepaid lease payments charged to consolidated income statement		**2,584**	1,377
Allowances for bad and doubtful debts		**13,157**	5,747
Share of profit of a jointly controlled entity		**(58,958)**	(32,462)
Amortisation of intangible assets		**953**	—
Loss on disposals of property, plant and equipment		**27**	54
Loss on fair value changes of derivative financial instrument		**1,497**	—
Operating profit before working capital changes		**354,578**	228,140
Increase in inventories		**(74,591)**	(46,816)
Increase in trade and other receivables		**(139,505)**	(111,253)
Increase in trade and other payables		**146,146**	106,792
Net cash generated from operations		**286,628**	176,863
PRC income tax paid		**(10,417)**	(316)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**276,211**	176,547
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(225,552)**	(110,356)
Prepaid lease payments made		**(27,270)**	—
Deposits for property, plant and equipment		**—**	(45,000)
Acquisition of subsidiaries, net of cash and cash equivalents paid	30	**(57,392)**	—
Purchase of additional interest in a subsidiary		**(40,000)**	(3,713)
Dividend income received from a jointly controlled entity		**27,724**	—
Proceeds from disposal of property, plant and equipment		**818**	829
Interest received		**1,704**	751
(Increase) decrease in pledged bank deposits		**(65,154)**	329
NET CASH USED IN INVESTING ACTIVITIES		**(385,122)**	(157,160)

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	2007	2006
	RMB'000	*RMB'000*
FINANCING ACTIVITIES		
New borrowings raised	**316,500**	432,043
Repayments of borrowings	**(364,116)**	(433,200)
Issue of shares	**387,820**	—
Capital contributions from minority interests	**400**	2,057
Interest paid	**(21,905)**	(21,519)
Dividend paid	**(69,103)**	(38,622)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	**249,596**	(59,241)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**140,685**	(39,854)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**115,131**	154,985
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET	**(244)**	—
CASH AND CASH EQUIVALENTS AT END OF YEAR, representing bank balances and cash	**255,572**	115,131

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 have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 27th February, 2004.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the research and development, production and sale of single-use medical devices and Orthopedic 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, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) - INT 8	Scope of HKFRS 2
HK(IFRIC) - INT 9	Reassessment of embedded derivatives
HK(IFRIC) - INT 10	Interim financial reporting and impairment

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

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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

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

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKFRS 8	Operating segments [1]
HK(IFRIC) - INT 11	HKFRS 2: Group and treasury share transactions [2]
HK(IFRIC) - INT 12	Service concession arrangements [3]
HK(IFRIC) - INT 13	Customer loyalty programmes [4]
HK(IFRIC) - INT 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction [3]

1 Effective for annual periods beginning on or after 1st January, 2009.
2 Effective for annual periods beginning on or after 1st March, 2007.
3 Effective for annual periods beginning on or after 1st January, 2008.
4 Effective for annual periods beginning on or after 1st July, 2008.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

BASIS OF CONSOLIDATION

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BASIS OF CONSOLIDATION *(Continued)*

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

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

GOODWILL

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

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

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

REVENUE RECOGNITION

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION *(Continued)*

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

Rebate of value added tax on revenue is recognised as revenue when it is entitled to receive.

RESEARCH AND DEVELOPMENT EXPENDITURE

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

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

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

RETIREMENT BENEFIT COSTS

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

TAXATION

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION *(Continued)*

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVESTMENT PROPERTIES MEASURED USING THE COST MODEL

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

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

INTANGIBLE ASSETS

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

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

INTEREST IN A JOINTLY CONTROLLED ENTITY

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVENTORIES

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

IMPAIRMENT

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

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

LEASING

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

The Group as lessor

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

The Group as lessee

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

Leasehold land and building

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BORROWING COST

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

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

FOREIGN CURRENCIES

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

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

FINANCIAL INSTRUMENTS

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets

The Group's financial assets are loans and receivables.

Effective interest method

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

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

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

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

Financial liabilities and equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Derivative financial instruments

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

DERECOGNITION

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

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

PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

ESTIMATED IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The discount rate represents rate that reflects current market assessments of time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. As at 31st December, 2007, the carrying amount of goodwill is RMB28,934,000. Details of the recoverable amount calculation are disclosed in Note 20.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 26, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

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

6. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

	2007	2006
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**789,494**	467,208
Financial liabilities		
Amortised cost	**748,614**	639,844
Fair value through profit or loss - held for trading	**1,497**	—

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

6. FINANCIAL INSTRUMENTS *(Continued)*

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk

Currency risk

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

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

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

Interest rate risk

Fair value interest rate risk

The Group was exposed to fair value interest rate risk in relation to fixed-rate bank deposits and fixed-rate bank borrowings (see note 26 for details of these borrowings).

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

Cash flow interest rate risk

The Group's cash flow interest rate risk relates to the bank balances as well as variable-rate bank borrowings (see note 26 for details of bank borrowings). The Group cash flow interest rate risk is mainly concentrated on the fluctuation of lending rate promulgated by the People's Bank of China.

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

Sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease/increase by HK$1,251,000 (2006: HK$1,506,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

6. FINANCIAL INSTRUMENTS *(Continued)*

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to discharge their obligations as at 31st December, 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

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

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

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

Liquidity risk

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

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. For the derivative financial instrument, its undiscounted net cash outflows on the derivative financial instruments that settle on a net basis is RMB28,761,000 for the purchase of US$3,920,000. The amount to be settled has been fixed and the derivative financial instrument will be settled in August 2008.

6. FINANCIAL INSTRUMENTS *(Continued)*

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk (Continued)

Liquidity tables

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

	Weighted average effective interest rate	Less than 3 months	3-6 months	6 months to 1 year	1-2 year	Total undiscounted cash flows	Carrying amount at 31.12.2006
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2006							
Non-derivative financial liabilities							
Trade payables	—	88,935	—	—	—	88,935	88,935
Bills payables	—	92,750	—	—	—	92,750	92,750
Other payables	—	50,846	—	—	—	50,846	50,846
Bank borrowings - variable rate	6.59%	5,553	5,553	67,149	299,518	377,773	337,043
Bank borrowings - fixed rate	6.24%	764	764	50,529	—	52,057	49,000
		238,848	6,317	117,678	299,518	662,361	618,574

6. FINANCIAL INSTRUMENTS *(Continued)*

FAIR VALUE

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

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

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

7. REVENUE

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

8. SEGMENT INFORMATION

BUSINESS SEGMENTS

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

Principal activities are as follows:

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

8. SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

Segment information about these businesses is presented below:

2007

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

Inter-segments sales are charged at prevailing market rates.

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

8. SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

Balance sheet

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

Other information

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

8. SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

2006

	Single use medical products *RMB'000*	Orthopedic products *RMB'000*	Other products *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Revenue					
External sales	619,459	67,564	99,903	—	786,926
Inter-segment sales	—	—	36,112	(36,112)	—
	619,459	67,564	136,015	(36,112)	786,926

Inter-segments sales are charged at prevailing market rates.

	Single use medical products *RMB'000*	Orthopedic products *RMB'000*	Other products *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Result					
Segment result	183,200	32,501	9,146	(4,874)	219,973
Unallocated corporate expenses					(59,759)
Other income					18,191
Share of profit of a jointly controlled entity					32,462
Finance costs					(21,519)
Profit before tax					189,348
Income tax expense					(6,745)
Profit for the year					182,603

8. SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

Balance sheet

	Single use medical products *RMB'000*	Orthopedic products *RMB'000*	Other products *RMB'000*	Consolidated *RMB'000*
Assets				
Segment assets	949,067	134,005	84,783	1,167,855
Interest in a jointly controlled entity				43,805
Unallocated corporate assets				182,459
Consolidated total assets				1,394,119
Liabilities				
Segment liabilities	169,313	72,707	18,210	260,230
Unallocated corporate liabilities				386,043
Consolidated total liabilities				646,273

Other information

	Single use medical products *RMB'000*	Orthopedic products *RMB'000*	Other products *RMB'000*	Total *RMB'000*
Addition to property, plant and equipment	98,150	13,436	6,270	117,856
Allowance for bad and doubtful debts	3,391	1,790	566	5,747
Release of prepaid lease payment	1,377	—	—	1,377
Depreciation of property, plant and equipment	33,926	4,937	4,445	43,308
Loss on disposal of property, plant and equipment	54	—	—	54

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

9. FINANCE COSTS

	2007	2006
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	21,905	21,519
Less: Amount capitalised in construction in progress	(4,040)	—
	17,865	21,519

10. TAXATION

	2007	2006
	RMB'000	RMB'000
PRC income tax	9,388	6,745
Deferred taxation *(note 28)*	(6,656)	—
	2,732	6,745

The Company is recognised as a "High and New Technology Enterprise". In accordance with the "Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Preferential Treatment Policies on Enterprise Income Tax", the Company was subject to income tax at a tax rate of 15%. Commencing from 1st July, 2004, the Company is entitled to an exemption from PRC income tax for the two years starting from its first profit-making year, followed by a 50% tax relief for the next three years. The Company commenced its first profit-making year in 2004. The tax charge provided for the years ended 31st December, 2006 and 2007 were made after taking these tax incentives into account.

Weihai Jierui Medical Products Company Limited ("Jierui Subsidiary") was recognised as a "Social Welfare Entity" and was exempted from PRC income tax in year 2006 in accordance with the "Notice of Recognition of Jierui Subsidiary as a Social Welfare Entity" issued by the Civil Administration Bureau of the Shandong Province and for the six months ended June, 2007. Pursuant to Guo Fa 2007 No.92 issued by the State Council, with effect from 1st July, 2007, Jierui Subsidiary is also subject to a statutory tax rate but an amount equivalent to the total salaries paid to staff with physical disability is further deducted from the assessable profit of Jierui Subsidiary and the rebate of value added tax is exempted from the PRC income tax. Jierui Subsidiary is also recognised as a "High and New Technology Enterprise". In accordance with the "Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Preferential Treatment Policies on Enterprise Income Tax", Jierui Subsidiary is subject to income tax at a tax rate of 15%. The tax charge provided for the years ended 31st December, 2006 and 2007 were made after taking these tax incentives into account.

10. TAXATION *(Continued)*

山東威高骨科材料有限公司 (Shandong Weigao Orthopaedic Device Company Limited) ("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-marking year, followed by 50% tax relief for the next three years. Weigao Ortho commenced its first profit-making year in 2004. Weigao Ortho is recognised as a "High and New Technology Enterprise". In accordance with the "Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Preferential Treatment Policies on Enterprise Income Tax", Weigao Ortho was subject to income tax at a tax rate of 15%.

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

On 16th March, 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for certain subsidiaries from 1st January, 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

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

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

	2007	2006
	RMB'000	*RMB'000*
Profit before taxation	**332,074**	189,348
Taxation at the domestic income tax rate of 15% (2006: 15%)	**49,811**	28,402
Tax effect of share of profit of a jointly controlled entity	**(8,843)**	(4,869)
PRC income tax exemption	**(34,712)**	(19,528)
Tax losses not recognised	**1,651**	1,961
Tax effect of expenses not deductible for tax purpose	**1,491**	248
Effect of differential tax rate on the Company	**304**	522
Others	**(6,970)**	9
Taxation	**2,732**	6,745

11. PROFIT FOR THE YEAR

	2007	2006
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Allowances for bad and doubtful debts	**13,157**	5,747
Amortisation of intangible assets (included in administration expenses)	**953**	—
Auditors' remuneration	**1,662**	1,403
Depreciation of property, plant and equipment	**47,083**	43,308
Prepaid lease payments charged to consolidated income statement	**2,584**	1,377
Rental payments in respect of premises under operating leases	**3,833**	3,240
Research and development expenditure	**16,652**	8,872
Cost of inventories recognised as an expense	**594,844**	451,585
Staff costs, including directors' remuneration		
- Retirement benefits scheme contributions *(note 35)*	**25,165**	16,058
- Salaries and other allowances	**103,367**	78,298
Total staff costs	**128,532**	94,356
Net foreign exchange (gain) loss	**(615)**	220
Loss on disposals of property, plant and equipment	**27**	54
Loss on fair value changes of derivative financial instrument	**1,497**	—
Interest income	**1,704**	(751)
Rental income from investment properties	**(2,255)**	(2,255)
Rebate of value added tax (included in other income)	**(26,677)**	(14,445)

Note: As Weihai Jierui Medical Products Company Limited ("Jierui Subsidiary") was recognized 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 people's government Weihai City 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.

12. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

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

	2007				2006			
	Fee	Salaries and other allowances	Retirement benefits schemes contributions	Total	Fee	Salaries and other allowances	Retirement benefits schemes contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors								
Mr. Zhang Hua Wei	–	136	3	139	–	116	3	119
Mr. Miao Yan Guo	–	110	3	113	–	92	3	95
Mr. Wang Yi	–	112	3	115	–	101	3	104
Mr. Wang Zhi Fan	–	104	3	107	–	91	3	94
Mr. Wu Chuan Ming	–	99	3	102	–	90	3	93
	–	561	15	576	–	490	15	505
Non-executive directors								
Mr. Chen Xue Li	–	170	–	170	–	–	–	–
Ms. Zhou Shu Hua	–	132	3	135	–	–	–	–
	–	302	3	305	–	–	–	–
Independent non-executive directors								
Mr. Lau Wai Kit	–	–	–	–	–	–	–	–
Mr. Luan Jian Ping	46	–	–	46	30	–	–	30
Mr. Shi Huan	46	–	–	46	30	–	–	30
Mr. Li Jia Miao	46	–	–	46	–	–	–	–
	138	–	–	138	60	–	–	60
Supervisors								
Ms. Bi Hong Mei	–	104	3	107	–	89	2	91
Ms. Chen Xiao Yun	–	69	2	71	–	64	2	66
Mr. Miao Hai Sheng	–	87	2	89	–	74	2	76
	–	260	7	267	–	227	6	233
	138	1,123	25	1,286	60	717	21	798

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

EMPLOYEES' EMOLUMENTS

Of the five individuals with highest emoluments in the Group, two (2006: two) were directors of the Company whose emoluments are included in the disclosure above. The emoluments of the remaining three (2006: three) individual were as follows:

	2007	2006
	RMB'000	*RMB'000*
Salaries and other benefits	**354**	303
Retirement benefits schemes contributions	**6**	8
	360	311

Their emoluments were within the following band:

	2007	2006
	No. of employees	No. of employees
Nil to HK$1,000,000	**3**	3

During the year ended 31st December, 2006 and 2007, one of the independent non-executive directors, Mr. Lau Wai Kit, has agreed to waive the director's fee of approximately RMB48,000.

During the two years ended 31st December, 2007, no emoluments were paid by the Group to the directors and supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDENDS

	2007 *RMB'000*	2006 *RMB'000*
Dividends recognised as distribution during the year:		
Interim dividend paid, RMB0.034 (2006: RMB0.02) per share	**33,849**	19,311
Final dividend for 2006 paid, RMB0.033 (2005: RMB0.02) per share	**32,854**	19,311
	66,703	38,622
Final dividend proposed, RMB0.059 (2006: RMB0.033) per share	**58,738**	31,863

The final dividend of RMB0.059 (2006: RMB0.033) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to equity holders of the Company of approximately RMB308,149,000 (2006: RMB170,921,000) and on weighted average of 986,477,000 shares (2006: weighted average of 965,560,000 shares) in issue during the year.

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

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Buildings	Plant and machinery	Motor vehicles	Moulds	Furniture, fixtures and office equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At 1st January, 2006	33,193	317,936	180,515	10,763	2,893	31,555	576,855
Additions	88,292	1,414	15,375	5,446	3,574	3,755	117,856
Transfer	(77,973)	18,471	54,622	—	1,874	3,006	—
Disposals	—	—	(2,421)	(406)	—	(125)	(2,952)
At 31st December, 2006	43,512	337,821	248,091	15,803	8,341	38,191	691,759
Additions	256,495	2,781	5,493	3,029	2,924	3,870	274,592
Acquired on acquisition of subsidiaries	8,191	1,025	3,973	714	—	207	14,110
Transfer	(35,818)	1,649	32,009	195	—	1,965	—
Transfer to investment properties	—	(18,715)	—	—	—	—	(18,715)
Disposals	—	(202)	(129)	(2,140)	—	(122)	(2,593)
At 31st December, 2007	272,380	324,359	289,437	17,601	11,265	44,111	959,153
DEPRECIATION							
At 1st January, 2006	—	19,823	18,343	3,618	1,418	15,405	58,607
Provided for the year	—	11,918	23,359	2,498	2,027	3,506	43,308
Eliminated on disposals	—	—	(1,617)	(386)	—	(66)	(2,069)
At 31st December, 2006	—	31,741	40,085	5,730	3,445	18,845	99,846
Provided for the year	—	10,488	25,460	2,907	3,476	4,752	47,083
Eliminated on transfer to investment properties	—	(2,074)	—	—	—	—	(2,074)
Eliminated on disposals	—	(34)	(76)	(1,597)	—	(41)	(1,748)
At 31st December, 2007	—	40,121	65,469	7,040	6,921	23,556	143,107
CARRYING VALUES							
At 31st December, 2007	272,380	284,238	223,968	10,561	4,344	20,555	816,046
At 31st December, 2006	43,512	306,080	208,006	10,073	4,896	19,346	591,913

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

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

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

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

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

At 31st December, 2007, the Group has pledged buildings having a carrying value of approximately RMB86,115,000 (2006: RMB194,227,000) to banks to secure bank loans granted to the Group.

16. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1st January, 2006 and 31st December, 2006	—
Transfer from property, plant and equipment	18,715
At 31st December, 2007	18,715
IMPAIRMENT AND AMORTISATION	
At 1st January, 2006 and 31st December, 2006	—
Transfer from property, plant and equipment	2,074
At 31st December, 2007	2,074
CARRYING VALUES	
At 31st December, 2007	16,641
At 31st December, 2006	—

16. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties of approximately RMB17,588,000 as at 31 December 2007 has been determined by the Directors. No valuation has been performed by independent qualified professional valuers. The valuation performed by the Directors was arrived by reference to recent market prices for similar properties.

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

The carrying value of investment properties shown above comprise of:

	2007	2006
	RMB'000	*RMB'000*
Building in PRC		
Medium term lease	**16,641**	—

17. PREPAID LEASE PAYMENTS

	2007	2006
	RMB'000	*RMB'000*
The Group's prepaid lease payments comprise:		
Leasehold land in PRC		
Medium-term lease	**90,629**	55,317
Analysed for reporting purposes as:		
Current portion (included in trade and other receivables)	**2,584**	1,395
Non-current portion	**88,045**	53,922
	90,629	55,317

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

At 31st December, 2007, the Group has pledged land use rights having a carrying value of approximately RMB26,830,000 (2006: RMB43,175,000) to banks to secure bank loans granted to the Group.

18. INTANGIBLE ASSETS

	Registration rights
	RMB'000
COST	
At 1st January, 2006 and 31st December, 2006	—
Acquired on acquisition of subsidiaries	31,144
At 31st December, 2007	31,144
AMORTISATION	
At 1st January, 2006 and 31st December, 2006	—
Charge for the year	953
At 31st December, 2007	953
CARRYING VALUES	
At 31st December, 2007	30,191
At 31st December, 2006	—

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

19. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2007	2006
	RMB'000	*RMB'000*
Cost of unlisted investment, at cost	**13,000**	13,000
Share of post-acquisition profit	**62,039**	30,805
	75,039	43,805

Details of the Group's jointly controlled entity as at 31st December, 2007 are as follows:

Name	Form of business structure	Place of incorporation or registration/ operation	Attributable equity interest directly held by the Company	Principal activities
Shandong JW Medical Products Co., Ltd. ("JW Medical")	Incorporated	PRC	50%	Production and sales of medical products

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

	2007	2006
	RMB'000	*RMB'000*
Total assets	**175,078**	126,696
Total liabilities	**(25,000)**	(39,087)
Net assets	**150,078**	87,609
Group's share of net assets	**75,039**	43,805
Revenue	**240,290**	158,267
Profit for the year	**117,916**	64,924
Group's share of profit of a jointly controlled entity for the year	**58,958**	32,462

20. GOODWILL

	RMB'000
CARRYING AMOUNTS	
At 1st January, 2006 and 31st December, 2006	—
Arising on acquisition of additional interest in a subsidiary	28,934
At 31st December, 2007	28,934

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

The management considers the subsidiary represents a separate cash generating unit ("CGU") for the purpose of goodwill impairment testing. At the balance sheet date, the carrying amount of goodwill represents the CGU of single use medical products.

The recoverable amount of the CGU has been determined on the basis of value in use calculations. The recoverable amount is based on the financial budget approved by management for the next year and extrapolates cash flows for the following four years based on an estimated constant growth rate of 10%. This rate does not exceed the long-term growth rate for the relevant markets. The rate used to discount the forecast cash flows is 22%. Cash flow projection during the budget period for the CGU is based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

21. INVENTORIES

	2007	2006
	RMB'000	*RMB'000*
At cost:		
Raw materials	**122,861**	75,251
Finished goods	**126,078**	90,934
	248,939	166,185

22. TRADE AND OTHER RECEIVABLES

	2007	2006
	RMB'000	*RMB'000*
Trade receivables	**432,214**	298,523
Less: Allowance for bad and doubtful debts	**(38,410)**	(16,137)
	393,804	282,386
Bills receivables	**7,239**	3,991
Other receivables	**45,397**	43,372
Deposits and prepayments	**40,521**	26,086
	486,961	355,835

All the bills receivables will be matured within 90 days.

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

	2007	2006
	RMB'000	*RMB'000*
0 to 90 days	**237,205**	177,029
91 to 180 days	**90,835**	55,073
181 to 365 days	**48,537**	39,975
Over 365 days	**17,227**	10,309
Trade receivables	**393,804**	282,386

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. 60% of the trade receivables that are neither past due nor impaired.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB50,284,000 and RMB65,764,000 as at 31st December, 2006 and 31st December, 2007 respectively, 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 289 days and 273 days in the year of 2006 and 2007 respectively.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2007	2006
	RMB'000	*RMB'000*
181 to 365 days	**48,537**	39,975
Over 365 days	**17,227**	10,309
	65,764	50,284

Movement in the allowance for bad and doubtful debts:

	2007	2006
	RMB'000	*RMB'000*
Balance at beginning of year	**16,137**	10,940
Acquisition of subsidiaries	**10,684**	—
Impairment losses recognised on receivables	**12,003**	5,197
Amounts written off as uncollectible	**(414)**	—
Balance at end of year	**38,410**	16,137

The ageing analysis of other receivables net of allowance for bad and doubtful debts is stated as follows:

	2007	2006
	RMB'000	*RMB'000*
0 to 90 days	**15,233**	24,066
91 to 180 days	**13,929**	14,989
181 to 365 days	**13,113**	2,312
Over 365 days	**3,122**	2,005
	45,397	43,372

22. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for bad and doubtful debts:

	2007	2006
	RMB'000	*RMB'000*
Balance at beginning of year	**2,532**	1,982
Impairment losses recognised on receivables	**1,154**	550
Balance at end of year	**3,686**	2,532

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances. The Group does not hold any collateral over these balances.

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

23. PLEDGED BANK DEPOSITS

The amounts represented deposits pledged to banks to secure banking facilities granted to the Group. The amounts had been pledged to secure short-term bank loans and banking facilities and were therefore classified as current assets. The deposits carried fixed interest rate ranging from 0.7% to 0.8% (2006: 0.7% to 2.3%) per annum.

24. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest rate of 0.7% (2006: 0.7%) per annum.

25. TRADE AND OTHER PAYABLES

The ageing analysis of trade payables is stated as follows:

	2007 *RMB'000*	2006 *RMB'000*
0 to 90 days	**90,239**	68,816
91 to 180 days	**11,125**	12,242
181 to 365 days	**4,346**	5,110
Over 365 days	**9,479**	2,767
Trade payables	**115,189**	88,935
Bills payables	**159,530**	92,750
Other payables and accrued expenses	**135,468**	72,116
	410,187	253,801

All the bills payables will be matured within six months.

26. BORROWINGS

	2007 *RMB'000*	2006 *RMB'000*
Secured bank loans	**109,227**	90,343
Unsecured bank loans	**229,200**	260,700
Unsecured other loan	**—**	35,000
	338,427	386,043
The loans are repayable as follows:		
On demand or within one year	**127,627**	105,043
More than one year but not exceeding two years	**210,800**	281,000
	338,427	386,043
Less: Amount due within one year shown under current liabilities	**(127,627)**	(105,043)
Amount due after one year	**210,800**	281,000

26. BORROWINGS *(Continued)*

Fixed-rate borrowings:

	2007	2006
	RMB'000	*RMB'000*
Within one year	**18,489**	56,043
More than one year but not exceeding two years	**139,800**	281,000
	158,289	337,043

	2007	2006
	RMB'000	*RMB'000*
Variable-rate borrowings:	**180,138**	49,000

As at 31st December, 2007, the unsecured bank loans of the Group amounting to RMB229,200,000 (2006: RMB260,700,000) were under the guarantee jointly provided by independent third parties.

As at 31st December, 2007, the bank loans of the Group amounting to RMB110,338,000 (2006: RMB90,343,000) were secured by the pledge of buildings and land use rights.

As at 31st December, 2006, the bank loans of the Group amounting to RMB343,000 were secured by bills receivable.

The bank loans carry interest ranging from 6.1% to 7.3% (2006: 4.7% to 6.7%) per annum.

27. DERIVATIVE FINANCIAL INSTRUMENT

	2007	2006
	RMB'000	*RMB'000*
Foreign currency forward contract	**1,497**	—

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

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

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

28. DEFERRED TAXATION

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

	Excess of Depreciation over Tax depreciation	**Allowance for bad and doubtful debts**	**Unrealised profit**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1st January, 2006, 31st December, 2006 and 1st January, 2007	—	—	—	—
Credited to consolidated income statement	1,198	4,319	1,139	6,656
At 31st December, 2007	1,198	4,319	1,139	6,656

At the balance sheet date, the Group has estimated unused tax losses of approximately RMB26,813,000 (2006: RMB16,873,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward for 5 years. Included in unrecognised tax losses are losses of RMB3,895,000 that will expire in 2010, losses of RMB12,574,000 that will expire in 2011 and other losses will expire in 2011.

29. SHARE CAPITAL

	Nominal value of each share	Number of domestic shares	Number of H shares	Total number of shares	Value
	RMB	*(Note c)*	*(Note c)*		*RMB'000*
At 1st January, 2006, 31st December, 2006 and 1st January, 2007	0.1	648,160,000	317,400,000	965,560,000	96,556
Issue of H shares (Note a)	0.1	—	30,000,000	30,000,000	3,000
At 31st December, 2007 (Note b)	0.1	648,160,000	347,400,000	995,560,000	99,556

Notes:

(a) On 19th April, 2007, 30,000,000 H shares of RMB0.1 each were issued by the Company at HK$13.62 per share for cash by way of placing. The net proceeds of approximately RMB387,820,000 were used for purchase of production machinery of orthopedics, cardio vascular strut business and blood purification products, for expansion of production capacity of single use products and for working capital of the Group.

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

(b) Pursuant to the terms and conditions of an agreement dated 18th December, 2007, the Company agreed to allot and issue 80,721,081 new H shares of RMB0.10 each to Medtronic Holding Switzerland GmbH at HK$11.138 per share. The transaction has not been completed up to the date of this report.

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

30. ACQUISITION OF SUBSIDIARIES

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

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

30. ACQUISITION OF SUBSIDIARIES *(Continued)*

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

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

31. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2007, deposits for property, plant and equipment amounting to RMB45,000,000 was transferred to property, plant and equipment.

32. LEASE COMMITMENTS

THE GROUP AS LESSEE

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

	2007	2006
	RMB'000	*RMB'000*
Within one year	**3,254**	2,146
In the second to fifth year inclusive	**1,722**	2,299
Over five years	**750**	1,000
	5,726	5,445

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

THE GROUP AS LESSOR

Property rental income earned during the year was approximately RMB2,254,000 (2006: RMB2,254,000). At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments.

	2007	2006
	RMB'000	*RMB'000*
Within one year	**1,503**	2,254
In the second to fifth year inclusive	**—**	1,383
	1,503	3,637

Operating lease payments represent rentals receivable by the Group from a portion of its office premises. Leases are negotiated and rentals are fixed for a period ranging from two to five years.

33. CAPITAL COMMITMENTS

At 31st December, 2007, the Group had commitments which were contracted for but not provided in the consolidated financial statements:

	2007	2006
	RMB'000	*RMB'000*
Acquisition of property, plant and equipment	119,182	31,578
Acquisition of additional interest in a subsidiary	235,000	—
	354,182	31,578

34. RELATED PARTY TRANSACTIONS

(a) The Group had the following related party transactions during the two years ended 31st December, 2007:

	2007	2006
	RMB'000	*RMB'000*
Sales to a fellow subsidiary	**6,858**	3,207
Purchases from fellow subsidiaries	**6,074**	759
Purchases from a minority shareholder	**—**	3,298
Rental payments to fellow subsidiaries	**—**	48
Rental payments to a minority shareholder	**—**	250
Rental income from a fellow subsidiary	**1,496**	1,496
Rental income from a jointly controlled entity	**759**	759

(b) Compensation of key management personnel

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

	2007	2006
	RMB'000	*RMB'000*
Short-term benefits	**1,806**	947
Post-employment benefits	**32**	40
	1,838	987

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

35. RETIREMENT BENEFITS SCHEMES

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

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

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

36. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group has entered into the following significant transactions:

(a) On 9th January, 2008, the Company and Biosensors International Group, Ltd. ("Biosensors"), a company listed on Singapore Exchange Securities Trading Limited entered into an agreement pursuant to which Biosensors agreed to purchase and the Company agreed to sell 30% equity interest in JW Medical. The consideration for the sale of 30% equity interest in JW Medical to Biosensors shall consist of the issuance to the Company of 120 million new ordinary shares of Biosensors at S$1.08 (equivalent to HK$5.89) per new share which amounts to S$129.60 million (equivalent to HK$ 706.32 million) in aggregate. The transaction has not been completed up to the date of this report.

On 9th January, 2008, the Company and Biosensors also entered into a put option agreement. Pursuant to the put option agreement, Biosensors agreed to grant to the Company a put option in respect of its remaining 20% equity interest in JW Medical. The put option is exercisable commencing on the completion date of the agreement and expiring on 30th July, 2009.

The consideration for the sale of 20% equity interest of JW Medical to Biosensors under the put option agreement shall consist of the issuance to the Company or its designated nominee(s) of 40 million new ordinary shares at S$1.08 (equivalent to HK$5.89) per new share, which amounts to S$43.20 million (equivalent to HK$235.44 million) in aggregate.

37. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries as at 31st December, 2007 are as follows:

Name	Form of business structure	Country of incorporation or registration/ operations	Registered capital	Proportion ownership interest held by the Group Directly	Proportion ownership interest held by the Group Indirectly	Principal activities
威海潔瑞醫用製品有限公司 (Weihai Jierui Medical Products Co., Limited)	Incorporated	PRC	32,000,000	96%	—	Manufacturing of medical PVC granules, plastic packing bags and carton boxes
威海威高血液淨化製品有限公司 (Weihai Weigao Blood Purified Product Co., Limited)	Incorporated	PRC	20,000,000	70%	—	Manufacturing of medical blood purification treatments and related consumables
瀋陽威高金寶商貿有限公司 (Shenyang Weigao Jinbao Trading Co., Limited)	Incorporated	PRC	6,000,000	90%	—	Trading of medical products
威海威高集團模具有限公司 (Weihai Weigao Group Mould Co., Limited)	Incorporated	PRC	8,000,000	90%	10%	Manufacturing of moulds
山東威高骨科材料有限公司 (Shandong Weigao Orthopedic Device Co., Limited) (Note)	Incorporated	PRC	40,000,000	53%	—	Manufacturing of medical bone material products

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

Particulars of the Company's subsidiaries as at 31st December, 2007 are as follows: *(Continued)*

Name	Form of business structure	Country of incorporation or registration/ operations	Registered capital	Proportion ownership interest held by the Group		Principal activities
				Directly	Indirectly	
福州帆順醫療器械技術有限公司 (Fuzhou Fanzhou Medical Device Technology Company Limited)	Incorporated	PRC	500,000	95%	—	Trading of medical products
山西威高華鼎醫療器械製造有限公司 (Shanxi Huading Medical Equipment Manufacturing Co., Limited)	Incorporated	PRC	15,500,000	—	51.6%	Manufacturing of medical blood purification treatments and related consumables
Weigao International Medical Company Limited (威高國際醫療有限公司)	Incorporated	HK	999,690	100%	—	Trading of medical products
常州邦德醫療器械有限公司 (Changzhon Jianli Bangda Medical Devices Co. Ltd)	Incorporated	PRC	8,000,000	—	53%	Manufacturing of Orthopedic products

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

Particulars of the Company's subsidiaries as at 31st December, 2007 are as follows: *(Continued)*

Name	Form of business structure	Country of incorporation or registration/ operations	Registered capital	Proportion ownership interest held by the Group Directly	Proportion ownership interest held by the Group Indirectly	Principal activities
北京亞華人工關節開發公司 (Beijing Yahua Artificial Joints Development Limited)	Incorporated	PRC	720,000	—	53%	Manufacturing of joints products
Weigao Medical (Europe) Company Limited	Incorporated	The United Kingdom	3,825,850	100%	—	Import and export trading
四川潔瑞威高醫療器械有限公司	Incorporated	PRC	2,000,000	100%	—	Trading of medical products

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

Note: An agreement dated 18th December, 2007 was entered into between the Company and Weihai Fumaite Trading Company in respect of the acquisition by the Company of 22% equity interest in Weigao Ortho, Ltd. and an agreement dated 18th December, 2007 was entered into between the Company and Howell (Hong Kong) Limited in respect of the acquisition by the Company of 25% equity interest in Weigao Ortho. The transaction has not been completed up to the date of this report.

Financial Summary

	For the year ended 31st December,				
	2007	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
Revenue	**1,095,109**	786,926	569,987	407,823	317,935
Profit before taxation	**332,074**	189,348	102,580	69,867	56,802
Taxation	**(2,732)**	(6,745)	(2)	(3,040)	(4,572)
Profit for the year	**329,342**	182,603	102,578	66,827	52,230
Attributable to:					
Equity holders of the Company	**308,149**	170,921	101,200	65,888	50,454
Minority interests	**21,193**	11,682	1,378	939	1,776
	329,342	182,603	102,578	66,827	52,230

	As at 31st December,				
	2007	2006	2004	2003	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES					
Total assets	**2,140,506**	1,394,119	1,132,230	735,998	517,587
Total liabilities	**(755,511)**	(646,273)	(534,209)	(358,481)	(359,383)
Minority interests	**(57,233)**	(49,106)	(31,580)	(8,920)	(2,741)
	1,327,762	698,740	566,441	368,597	155,463

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting (the "AGM") of Shandong Weigao Group Medical Polymer Company Limited 山東威高集團醫用高分子製品股份有限公司 (the "Company") will be held at 9:00 a.m. on Monday, 2 June 2008 at the registered office of the Company at No. 312 Shichang Road, Weihai City, Shandong Province, PRC for the purpose of considering the following resolutions:

ORDINARY RESOLUTIONS

1. To consider and approve the audited consolidated financial statements of the Group (including the Company and its subsidiaries) for the year ended 31 December 2007;

2. To consider and approve the report of the board of directors of the Company (the "Board") for the year ended 31 December 2007;

3. To consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2007;

4. To consider and approve the profit distribution plan for the year ended 31 December 2007, and the final distribution plan of the Company for the year ended 31 December 2007 and to authorise the Board for the distribution of the final dividends to the shareholders of the Company for the year ended 31 December 2007;

5. To consider and approve the proposal for the re-appointment of Deloitte Touche Tohmatsu as the auditor of the Company for the year ending 31 December 2008, and to authorise the Board to determine its remuneration;

6. To consider and authorise the Board to approve the remuneration of the directors and supervisors of the Company for the year ending 31 December 2008; and

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

SPECIAL RESOLUTION

"THAT:

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

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

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

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

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

f) for the purpose of this resolution;

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

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

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

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

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

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

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

Weihai, Shandong, the PRC
28 March 2008

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

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

Notes:

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

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

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

(iv) The register of members in Hong Kong will be closed from Saturday, 3 May 2008 to Monday, 2 June 2008, both days inclusive, during which no transfer of shares will be effected. In order to be eligible to attend the AGM and to vote thereat as shareholders, all transfers of shares together with the relevant share certificates must be delivered at the Company's H Share Registrars, Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:00 p.m. on Friday, 2 May 2008.

(v) The holders of the Company's H shares who intend to attend the AGM should complete and return the reply slip to the Company's H share Registrars in Hong Kong, Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong no later than Friday, 9 May 2008 by hand, by post, by telegraph or by fax to (852) 2528 3158,

(vi) The holders of the Company's Domestic Shares who intend to attend the AGM should complete and return the reply slip to the Company's registered address at No. 312 Shichang Road, Weihai, Shandong Province, PRC no later than Friday, 9 May 2008 by hand, by post, by telegraph or by fax to (86) 631 5622419.

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

(viii) Pursuant to Article 80 of the Company's Articles of Association, a poll may be demanded by the following persons:

(a) the chairman of the meeting;

(b) at least two shareholders entitle to vote present in person or by proxy;

(c) one or more shareholders present in person or by proxy representing more than 10% of all shares carrying the voting rights at the meeting.

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