



Shandong Weigao Group Medical Polymer Company Limited*

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

2008

First Quarterly Report



* For identification purposes only

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This report, for which the directors (the “Directors”) of Shandong Weigao Group Medical Polymer Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to the Company and its subsidiaries. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this 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 report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

SUMMARY

For the three months ended 31 March 2008, the unaudited turnover of Shandong Weigao Group Medical Polymer Company Limited (the “Company”) and together with its subsidiaries (the “Group”) was approximately RMB303,008,000, representing an increase of approximately 41.2% over RMB214,607,000 in the corresponding period of the previous year.

Unaudited profit attributable to the shareholders for the three months ended 31 March 2008 was approximately RMB76,399,000, representing an increase of approximately 73.8% from approximately RMB43,970,000 in the corresponding period of the previous year.

Shandong Weigao Orthopaedic Device Company Limited (“Weigao Orthopaedic”), a subsidiary of the Company, has expanded its market steadily, and cooperation with Medtronic, Inc. (“Medtronic”) has been progressing smoothly. For the three months ended 31 March 2008, the unaudited turnover of Weigao Orthopaedic was approximately RMB35,781,000, representing an increase of approximately 51.8% over approximately RMB23,571,000 in the corresponding period of the previous year.

The market share of the Group’s needle products has been growing rapidly, and generated sales of RMB43,813,000 during the period, representing a growth of 118.8% over the corresponding period of the previous year, contributed significantly to the profit of the Group.

During the period, integration of sales channels continued. The number of customers increased by 12 hospitals and 1 blood station. Less competitive distributors were being phased out, thereby the number of other medical units decreased by 15 compared with the corresponding period of the previous year, and corporate customers reduced by 28. As at 31 March 2008, the Group has a customer base of 5,393.

The board of Directors (the “Board”) did not propose to declare an interim dividend for the three months ended 31 March 2008.

UNAUDITED CONSOLIDATED RESULTS

The Board is pleased to announce the unaudited consolidated results of the Group for the three months ended 31 March 2008, together with the comparative figures for the corresponding period in 2007 as follows:

CONSOLIDATED INCOME STATEMENT

		Unaudited	
		For the three months	
		ended 31 March	
	Note	2008	2007
		RMB'000	RMB'000
Revenue	3	303,008	214,607
Cost of sales		(161,782)	(125,726)
Gross profit		141,226	88,881
Other income		7,222	6,193
Distribution costs		(50,713)	(34,404)
Administrative expenses		(23,966)	(16,446)
Finance costs	4	(5,845)	(5,525)
Share of profits in a jointly controlled company		13,540	8,675
Profit before taxation	5	81,464	47,374
Taxation	6	(5,791)	(1,015)
Profit for the year		75,672	46,359
Profit attributable to:			
Equity holders of the Company	7	76,399	43,970
Minority interests		(726)	2,389
		75,672	46,359
Dividend	8	—	—
Earnings per share (Basic)	9	RMB0.077	RMB0.046

Notes:

1. Basis of preparation and accounting policies

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (the “HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), Accounting Principles Generally Accepted in Hong Kong, Hong Kong Financial Reporting Standards (the “HKFRSs”) and the relevant disclosure requirements of the GEM Listing Rules. The accounts are prepared under the historical cost convention.

The accounting policies adopted and methods of computation used in the preparation of these unaudited consolidated financial statements are consistent with those used in the audited consolidated financial statements for the year ended 31 December 2007.

The Group has applied the new and amended Hong Kong Financial Reporting Standards (“new HKFRSs”) issued by HKICPA that are effective for accounting periods beginning on or after 1 January 2006, 1 May 2006, 1 June 2006, 1 November 2006 or 1 January 2007. The adoption of the new HKFRSs had no material effect to the presentation of the results for the current accounting periods and/or previous accounting years. Therefore, no adjustment is required to be made to the previous periods.

All significant intra-group transactions, balances, income and expenses have been eliminated upon consolidation.

The consolidated results for the three months ended 31 March 2008 have not been audited by the Company’s auditor but have been reviewed by the Audit Committee of the Company.

These financial statements should be read in conjunction with the audited annual financial statements for the year ended 31 December 2007.

2. Revenue

Revenue represents the fair value of the consideration received and receivable for goods sold by the Group to external customers, less sales tax and sales returns during the period.

3. Segment Information

The Group is principally engaged in the research and development, production and sale of single-use medical devices and operates in the PRC. All significant identifiable assets of the Group are located in the PRC. Accordingly, no segmental analysis is presented.

4. Finance costs

Finance costs for the three months ended 31 March 2008 were approximately RMB5,845,000 (corresponding period in 2007: approximately RMB5,525,000), which mainly included interest expenses for bank and other borrowings.

5. Profit before tax

Profit before tax after charging (crediting) the following:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Credit:		
Provision for bad debts	736	2,145
Amortisation of Intangible assets (including administrative expenses)	940	—
Depreciation of property, plant and equipment	13,065	11,863
Prepaid lease payments charged to income statement	646	349
Rental payments in respect of premises under operating leases	969	640
Research and development expenditure	11,544	3,637
Cost of inventory recognised as expenses	161,782	125,726
Staff costs, including directors' remuneration		
Retirement benefits scheme contributions	7,818	4,315
Wages and salaries	28,971	22,103
Total staff costs	36,789	26,418
Net loss (gain) from foreign exchange	(3,395)	54
(Gains)/losses on disposal of property, plant and equipment	76	(5)
Interest income	(887)	(99)
Rental income from investment properties	(564)	(564)
Rebate of valued-added tax	(6,303)	(5,120)
	<u>(6,303)</u>	<u>(5,120)</u>

Note: Weihai Jierui Medical Products Company Limited (“Jierui Subsidiary”) was recognised as a “Social Welfare Entity”. The Tax Bureau in Weihai granted refund on the VAT effectively paid by Jierui Subsidiary on the basis of “payment first then rebate”, with effect from 1 May 1999.

During the period, changes have been made to the preferential policy in respect of Value Added Tax (“VAT”) of social welfare enterprises by the PRC government. Pursuant to Guo Fa 2007 No.92 issued by the State Council, with effect from 1 July 2007, the Tax Bureau in Weihai implemented tax refunds on the VAT actually paid based on the number of employees with disability employed by Jierui Subsidiary and the refund limit for every employee with disability was based on six times of the local lowest standard wages approved by Weihai People’s Government, and the annual refund of each employee with disability shall be subject to a maximum of RMB35,000.

6. Taxation

No provision for Hong Kong and overseas profit tax has been made as no taxable profit has been derived from Weigao International Medical Company Limited and Weigao Medical (Europe) Company Limited, the Group’s overseas branches.

PRC Income tax is calculated based on the taxable amount, which is obtained by making corresponding adjustments to the accounting income for the current year based on the relevant requirements under the PRC Tax Law.

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 1 July 2004, the Company is entitled to an exemption from PRC income tax for the two years starting from its first profit-making year, followed by a 50% tax relief for the next three years. The Company commenced its first profit-making year in 2004. The tax charge provided for the year of 2007 and the three months ended 31 March 2008 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 1 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 year of 2007 and the three months ended 31 March 2008 were made after taking these tax incentives into account.

山東威高骨科材料有限公司 (Shandong Weigao Orthopaedic Device Company Limited) (“Weigao Orthopaedic”) is a foreign-invested enterprise operating in the PRC and is entitled to an exemption from PRC income tax for the two years starting from its first profit-making year, followed by 50% tax relief for the next three years. Weigao Orthopaedic commenced its first profit-making year in 2004. Weigao Orthopaedic 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 Orthopaedic was subject to income tax at a tax rate of 15%.

Taxations for other subsidiaries are calculated at a tax rate of 25%.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% 25% for certain subsidiaries from 1 January 2008. Article 57 stipulates that enterprises approved for establishment prior to the announcement of the New Law are subject to the provisions of the tax law and regulations then prevailing and enjoy preferential low tax rates. Pursuant to the State Council provisions, such enterprises may transit to the tax rate under the regime of the New Law within 5 years after implementation of the New Law. For those enjoying fixed period of tax exemption and preferential tax rates, pursuant to the State Council provisions, may continue to enjoy the preferential tax treatment until expiry after the implementation of the New Law. However, the preferential period for unutilized preferential treatment due to the absence of profits shall run from the year of implementation of the New Law.

7. Profit attributable to equity holders of the Company

For the three months ended 31 March 2008, the net profits attributable to equity holders of the Company were approximately RMB76,399,000 (Corresponding period in 2007: approximately RMB43,970,000).

8. Dividend

There were no dividend for the three months ended 31 March 2008 and the corresponding period in the previous year.

9. Earnings per share

For the three months ended 31 March 2008, basic earnings per share were calculated based on profits attributable to equity holders of the Company of approximately RMB76,399,000 (Corresponding period in 2007: approximately RMB43,970,000), and on the weighted average total number of 995,560,000 shares (Corresponding period in 2007: 965,560,000 shares).

No diluted earnings per share is presented for the three months ended 31 March 2008, as no potential ordinary shares were outstanding during the period.

10. Movements in reserves

The Group	Share premium reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i> <i>(Note b)</i>	Foreign currency statements conversion discrepancies <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2006	233,752	70,326	—	298,106	602,184
Issue of H Shares	384,820	—	—	—	384,820
Total profit and revenue recognised during the year	—	—	—	308,149	308,149
Exchange gains or losses arising from foreign currency transactions	—	—	(244)	—	(244)
Dividends paid	—	—	—	(66,703)	(66,703)
Appropriation	—	40,891	—	(40,891)	—
As at 31 December 2007	<u>618,572</u>	<u>111,217</u>	<u>(244)</u>	<u>498,661</u>	<u>1,228,206</u>
Total profit and revenue recognised during the year	—	—	—	76,399	76,399
Exchange gains or losses arising from foreign currency transactions	—	—	86	—	86
Dividends paid	—	—	—	—	—
As at 31 March 2008	<u>618,572</u>	<u>111,217</u>	<u>(158)</u>	<u>575,060</u>	<u>1,304,691</u>

(a) Bases for appropriation to reserves

Appropriation to statutory surplus reserve and statutory public welfare fund have been calculated based on the net profits in the financial statement prepared under the generally accepted accounting principles of the PRC ("PRC GAAP").

(b) Statutory surplus reserve

The Articles of Association of the Companies under the Group (other than Weigao International Medical Company Limited and Weigao Medical (Europe) Company Limited) requires that 10% of the profit after taxation should be transferred to the statutory surplus reserve in accordance with the PRC GAAP, until it has reached 50% of the registered capital. Pursuant to the Articles of Association of the Companies under the Group, under normal circumstances, statutory surplus reserves can only be used to make up for losses, convert into share capital by way of capitalisation, and for the expansion of the Company's production and operation. In the event of conversion of the statutory surplus reserve into share capital by way of capitalisation, the balance of the reserve shall not be less than 25% of the registered capital.

(c) Statutory public welfare fund

According to the Company Law and regulations of the PRC and the amended Articles of Association of the Company, from 1 January 2006, the companies under the Group ceased to transfer from statutory public welfare fund. As at 31 December 2005, the statutory public welfare fund is part of the share capital of the shareholders, which cannot be distributed other than for the purpose of liquidation. The Board of Directors resolved that under the Company Law of the PRC, the statutory public welfare fund of RMB17,147,000 as at 1 January 2006 was transferred to the statutory surplus reserve.

According to the laws and regulations of the PRC, distributable profit of the Company was determined at the lower of such amount calculated based on the accounting principles and regulations of the PRC or the generally accepted accounting principles of Hong Kong. As at 31 March 2008, retained earnings distributable to shareholders was approximately RMB212,027,000.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

International collaboration

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

During the period, the Group achieved significant progress regarding collaboration with international players.

- (1) On 18 December 2007, the Company signed an agreement with Medtronic Inc (“Medtronic”) in relation to the issue of 80,721,081 new H Shares by the Company to Medtronic, and the sale of 80,721,081 existing Domestic Shares by Weigao Holding and management shareholders to Medtronic, representing 7.5% of the Company’s enlarged share capital respectively, and in aggregate representing 15% of the Company’s enlarged share capital.

On 18 December 2007, the Company signed an agreement with Medtronic in relation to the establishment of a distribution joint venture in the PRC which will specialize in the sales and distribution of orthopaedic products. The distribution joint venture will be held as to 49% by the Company and 51% by Medtronic.

On 20 March 2008, the Company and Medtronic agreed on the agreement on agreed forms of certain distribution joint venture documentations, pursuant to which the Company and Medtronic agreed on the forms of the equity transfer contract for the 100% equity interest in Weigao Orthopaedic and for a 49% equity interest in the distribution joint venture. In addition, the Company and Medtronic agreed on the protocol for establishing the operation of the distribution joint venture.

Medtronic is a global leader in medical technology. The Directors are of the view that Medtronic as a strategic shareholder will strengthen the Company's management and operational skills, and enhance the reputation of the Company in the global market. With Medtronic's brandname and technologically advanced spinal product portfolio, and coupled with Weigao Orthopaedic's extensive product portfolio in spinal, artificial joints and trauma, advanced manufacturing capabilities, extension sales network in the PRC and good customer relationship, the distribution joint venture and Weigao Orthopaedic will be able to realize complementary advantages, and be in excellent market positions to capture opportunities in the fast growing orthopaedic industry in China.

- (2) On 2 March 2007, the Company entered into an eight years long term loan agreement for US\$20 million with International Finance Corporation ("IFC"), a member of World Bank Group. During the Period, the loan had been remitted to the account of the Company. This cooperation can strengthen the Company's financial capability.
- (3) On 9 January 2008, the Company and Biosensors International Group Limited ("Biosensors International") entered into a sale and purchase agreement, pursuant to which Biosensors International agreed to purchase and the Company agreed to sell 30% equity interest in JW Medical Systems Limited ("JW Medical"). The consideration for the sale of 30% shall consist of the issuance to the Company of 120 million new ordinary shares of Biosensors International. In addition, Biosensors International also agreed to grant to the Company a put option in respect of its remaining 20% equity interest in JW Medical. Pursuant to the put option agreement, the consideration for the sale of 20% equity interest of JW Medical by the Company to Biosensors International, shall consist of

the issuance to the Company of 40 million new ordinary shares. Up to the date of this report, the share and purchase agreement is awaiting the approval from the PRC government. The Directors are of the view that Biosensors International is a leader in innovative technology in drug eluting stent market, and the Company targets to become the leader in drug eluting stents business in the Asia Pacific region leveraging the technology of Biosensors International.

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

Optimisation Adjustments to Business and Product Mix

During the period, 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 orthopaedic products, blood purification products and increased the sales and marketing effort on the products of high value-added products such as intravenous catheter, high-end infusion sets and safety auto disable syringes and phased out the production of some low value-added products. It achieved remarkable result.

During the period, Weigao Orthopaedic, a subsidiary of the Company, solidly expanded its market and developed international markets in America and Europe. For the three months ended 31 March 2008, Weigao Orthopaedic recorded a turnover of RMB35,781,000, representing an increase of 51.8% over approximately RMB23,571,000 in the corresponding period of last year.

On 18 December 2007, the Company acquired 22% and 25% equity interests in Weigao Orthopaedic from Weihai Fumaite Trading Company (“Fumaite”) and Howell (Hong Kong) Limited (“Howell”) at a consideration of RMB110,000,000 and RMB125,000,000 respectively, with the aim to consolidate the shareholding of the Company in Weigao Orthopaedic. As at the date of this report, acquisition has been completed.

威海威高血液淨化製品有限公司 (Weihai Weigao Blood Purification Product Company Limited) (“Weigao Blood”) is in the process of obtaining product registration for plasma segregator, lavage set and recombinant protein adsorption column. In 2007, Weigao Blood invested approximately RMB105,780,000 to purchase a polymer membrane dialysis device 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, which is 50% held by the Company, recorded significant growth during the period. Development of international sales is progressing well. During the period, the attributable profit of JW Medical to the Group was approximately RMB13,540,000, representing an increase of approximately 56.1% over the corresponding period in last year.

The Group's needle products, such as intravenous catheters, have strong growth potentials. During the period, the Group increased its efforts in the marketing and sales of needle products, driving record sales of approximately RMB43,813,000, representing a growth of 118.8% compared with the corresponding period of last year. The Directors believe that the needle products will become an important sector for the continued development of the Group.

The infusion set with specific drug adding device and TPE infusion set make up of proprietary non-PVC materials of the Group have been launched to the market with significant progress during the period. The development of these products has further consolidated the Group's advantage position in the market of high-end infusion set.

During the period, the Group benefited from the adjustments to the product mix, the percentage of the operating incomes derived from high value-added products to the total operating incomes of the Group increased to 41.9% (2007: 32.1%). The Directors believe that with the enhancement in the Group's research and development, manufacturing and marketing capabilities, operating incomes derived from high value-added products will be further increased to over 50% in the future.

Research and Development

For the three months ended 31 March 2008, the Group obtained 6 new patents and is applying for 10 new patents. Product registration certificates for 9 new products were obtained and application for registration for 23 newly developed products are underway. By placing strong emphasis on research and development, it enhances the Group's competitiveness and allows the Group to leverage on its customer base and to provide the Group with new growth drivers.

As at 31 March 2008, the Group has over 160 product registration certificates, over 120 patents, of which 11 are patents on invention.

During the period, the Company cooperated with Changchun Applied Chemistry Institute of China Academy of Sciences ("Changchun Applied Chemistry Institute"), and developed polylactide bio-degradable single-use syringe, which was a new product both in the PRC and overseas markets. The development of the product is environmental friendly and could reduce the risk in cross-contamination. The relative low cost of polylactic also enhances the competitiveness of the Group.

For the three months ended 31 March 2008, the total research and development expenses amounted to approximately RMB11,544,000, representing 3.8% of the total turnover of the Group.

Production

For the three months ended 31 March 2008, production volume of the Group's products as compared with the corresponding period in 2007 were as follows:

Product Type	Measurement Unit	For the three months ended 31 March		
		2008	2007	Increase/ decrease
Needle products	10,000 sets	41,444	35,337	17.3%
Syringes	10,000 sets	11,551	9,604	20.3%
Infusion (Transfusion) sets	10,000 sets	5,592	4,914	13.8%
Blood sampling products	10,000 sets	2,780	1,638	69.7%
PVC granules	Tons	2,455	2,665	(7.9%)
Pre-filled syringes	10,000 sets	363	121	199.9%
Transfusion consumables	10,000 sets	217	193	12.4%
Dental and anesthetic products	10,000 sets	72	64	12.1%
Orthopaedic products	10,000 pieces	95	31	206.5%
Others		4,006	2,695	48.7%

During the period, the Group implemented adjustment strategies to the product mix, enhanced production of high value-added products, phased out production plans of products with low rate of returns, and enhanced contribution rate of single-type products to the Company's profits, and ultimately enhanced the overall profitability of the Company.

Production output of orthopaedic products increased significantly over the corresponding period of the previous year, which was mainly driven by the increase in sales of orthopaedic products and the increase in the production volume of orthopaedic surgical devices.

Marketing and Sales

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

The results from the integration of the Group's sales channel and adjustment in product mix have been remarkable.

During the period, the Group strengthened its sales management system, integrated customers resources, phasing out low profitability customers. For the three months ended 31 March 2008, the Group has secured 12 hospitals and 1 blood station as new customers, and a number of small community medical units were transferred to be covered by distributors. Distributors that were less competitive were being phased out and become the second tier distributors, thereby the number of other medical units decreased by 15, and corporate customers reduced by 28. As at the date of the report, the Group has a customer base of 5,393 (including 2,817 hospitals, 413 blood stations, 682 other medical units and 1,481 trading companies).

Integration of channels has strengthened the Group's market penetration and the customer relationship with high-end customers. It enhanced contribution and reduced the selling expenses of a single customer. The average turnover of single customer increased by approximately 43.6% over the corresponding period of last year.

Comparison of the sales by geographical areas over the corresponding period in the previous year is set out as follows:

Region	Revenue by geographical segments				
	As at 31 March				
	2008		2007		Growth
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	%
Eastern and Central	99,869	33.0	76,959	35.9	29.8
Northern	70,450	23.3	47,637	22.2	47.9
Northeast	46,818	15.5	34,062	15.9	37.4
Southern	37,580	12.4	22,657	10.6	65.9
Southwest	27,518	9.1	14,392	6.7	91.2
Northwest	10,658	3.5	9,243	4.3	15.3
Overseas	10,115	3.2	9,657	4.4	4.7
Total	303,008	100.0	214,607	100.0	41.2

Adjustment in product mix is another important factor in enhancing the results for the period. During the period, the Group focused on sale and marketing of high value-added products such as orthopaedic products, intravenous catheter needles, CT developer sterile syringes and pain killing pumps. It has significantly increased the proportion of sales generated from high value-added

products and increased the gross profit margin of products sales to 46.6%. Comparison of the sales of the principal products with that of the previous period is set out as follows:

Product category	For the three months ended		
	2008	2007	Growth
	RMB'000	RMB'000	%
<i>Self-produced products</i>			
Consumables			
– Infusion set/transfusion set	75,174	52,575	43.0%
– Syringes	58,084	45,065	28.9%
– Medical needles	43,813	20,028	118.8%
– Blood bags	25,271	21,747	16.2%
– Blood sampling products	8,099	4,624	75.2%
– Pre-filled syringes	5,600	3,706	51.1%
– Dental and anesthetic products	3,815	2,688	41.9%
– Other consumables	12,097	11,000	10.0%
Subtotal for consumables	231,953	161,433	43.7%
Orthopaedic products	35,781	23,571	51.8%
Blood purification consumable	5,326	2,985	78.4%
PVC granules	15,133	14,606	3.6%
<i>Trading</i>			
Medical equipment	12,080	10,793	11.9%
Other products	2,735	1,219	124.4%
Total	303,008	214,607	41.2%

HUMAN RESOURCES

As at 31 March 2008, the Group employed a total of 6,256 employees. Breakdown by departments is as follows:

Departments	Number of employees
Production	4,806
Sales and marketing	742
Research and development	308
Finance and administration	213
Quality control	106
Management	58
Purchasing	23

During the period, the Group increased its resources placed in research and development and recruited 97 employees in research and development department, to strengthen the Group's competitive advantages in the area of research and development.

During the period, the Group expanded the production capacities in conventional consumables and orthopaedic products, consolidated the Group's leading position in the single-use consumable market in the PRC, and implemented internationalization strategy. The Group increased the number of production workers by 749 compared with the beginning of the period.

Save as the qualified accountant and the company secretary, who reside in Hong Kong, all employees of the Group resided in the PRC. For the three months ended 31 March 2008, total amount of staff salaries, welfare and various funds amounted to approximately RMB36,789,000.

FINANCIAL REVIEW

FINANCIAL SUMMARY

During the reporting period, the Group recorded significant growth in both turnover and net profit attributable to shareholders.

For the three months ended 31 March 2008, unaudited turnover and net profit recorded by the Group were approximately RMB303,008,000 and RMB76,399,000 respectively, representing a growth of 41.2% and 73.8% as compared with approximately RMB214,607,000 and RMB43,970,000 in the corresponding period of 2007 respectively. The significant growth in turnover and profit was mainly due to the adjustments to the business and product mix, enhancement in the operation efficiency and efforts in exploring new businesses.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position for the three months ended 31 March 2008. As at 31 March 2008, the Group had a cash balance of approximately RMB271,532,000.

During the period, the Group obtained additional bank borrowings of approximately RMB203,548,000 and repaid bank borrowings of approximately RMB62,257,000. As at 31 March 2008, the total amount of short-term loans was approximately RMB128,538,000 and the total amount of long-term loans was approximately RMB351,180,000.

Total interest expense of the Group during the period was approximately RMB5,845,000.

GEARING RATIO

As at 31 March 2008, the Group's gearing ratio was 0.15, calculated on the basis of the Group's total borrowings (after deducting cash and bank balances) to the total capital attributable to shareholders (corresponding period in 2007 was 0.39). Decrease in the ratio was mainly due to the Groups' issue of H shares and the increase in the profits generated by the Group in 2007.

FOREIGN EXCHANGE RISKS

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

CONTINGENT LIABILITIES

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

MATERIAL INVESTMENTS AND FUTURE MATERIAL INVESTMENT PLANS

On 18 December 2007, the Company acquired 22% and 25% equity interests in Weigao Orthopaedic from Fumaite and Howell at a consideration of RMB110,000,000 and RMB125,000,000 respectively, with the aim to enhance the control of the Company in Weigao Orthopaedic. As at the date of this report, an amount of approximately RMB115,000,000 has been paid, and acquisition of equity interests in Weigao Orthopaedic from Fumaite and Howell has been completed.

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

CAPITAL COMMITMENTS

As at 31 March 2008, the capital commitments of the Group contracted but not provided for in respect of the acquisition of property, plant and equipment amounted to approximately RMB100,568,000, including the outstanding amount in respect of the acquisition of polymer membrane dialyser production line. The amounts will be paid by the Group out of the proceeds from the issue of new shares and internal resources of the Group.

OUTLOOK

On an outlook to the future, the Directors expect that with the increase in awareness in healthcare and demand in medical treatment, it will drive the rapid growth of the single-use medical devices in the PRC. At the same time, the Directors anticipate that process of restructuring of the medical device industry in the PRC will continue and intensify, presenting opportunities and risks.

With the tightening in product registration reviews and production manufacturing by the medical registration regulatory authorities, it will provide opportunities in strategic integration in the industry. The Group will leverage on its capital and management advantages, and actively participate in the market integration.

1. Focusing on research and development and sale of high margin, high value single use consumables to replace products of international medical device companies, and to position the Group to become a leading high-end consumables suppliers in the PRC.

2. Expanding the production capacity of conventional consumables by mergers and acquisitions, and expanding the business particularly in the fast growing county-level medical device market in the PRC, and to position the Group to become a leader of single use consumables suppliers and to provide enhanced services in the PRC market.
3. Active seeking for strategic cooperation with medical supplies purchasing companies of major overseas hospitals and expanding the market share in single-use consumables in overseas markets, and participating in the market sharing of the global medical device industry.
4. Active cooperating with Medtronic in the orthopaedic sector, so as to enable Weigao Orthopaedic and the future distribution joint venture to become the major suppliers in the orthopaedic device market in the PRC, and progressively enhancing product design, manufacturing capability in the orthopaedic instrument, and participating in the competition in the global orthopaedic instrument market.
5. Upgrading blood purifying product equipment and facilities, and progressively expanding production capacity of dialyser products, thereby enabling the Group to become a major comprehensive supplier of dialysis related consumables in the PRC.

The Board has full confidence on the future development. The Group will continue to strengthen its professional management team. By leveraging on the Group's in-depth understanding and the application of advanced technology and the continued innovation in operation management concept, the Group and its employees are confident to face new challenges.

DISCLOSURE OF INTERESTS

DIRECTORS' INTERESTS AND LONG POSITIONS IN SHARES

As at 31 March 2008, the interests of Directors and their associates in the share capital of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register 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, were as follows:

- (1) Long positions in domestic shares of RMB0.10 each of the Company:

Name of Director	Capacity	Number of domestic shares	Approximate percentage of the Company's issued share capital
Mr. Zhang Hua Wei	Beneficial owner	10,800,000	1.08%
Mr. Miao Yan Guo	Beneficial owner	7,800,000	0.78%
Mr. Wang Yi	Beneficial owner	7,800,000	0.78%
Mrs. Zhou Shu Hua	Beneficial owner	5,100,000	0.51%
Mr. Wang Zhi Fan	Beneficial owner	2,700,000	0.27%
Mr. Wu Chuan Ming	Beneficial owner	2,400,000	0.24%

In addition, Mr. Chen Lin, son of Mr. Chen Xue Li (the Chairman), is a holder of the Company's domestic shares, holding 23,400,000 Domestic Shares, representing 2.35% of the issued share capital.

- (2) 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%

Save as disclosed above, as at the date of this report, none of the Directors or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDER

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

Name of shareholder	Capacity	Number of domestic shares	Approximate percentage of the Company's issued share capital
Weigao Holding	Beneficial owner	578,160,000	58.07%

Other than disclosed above, the following shareholders have disclosed their relevant interests or short positions in the issued share capital of the Company:

Names	Capacity	Number of H shares with interests held	Percentage of issued H shares	Percentage of total registered share capital
Atlantis Investment Management Ltd	Beneficial Owner	80,000,000	23.03%	8.04%
Fidelity International Limited	Beneficial Owner	27,920,000	8.04%	2.80%
Martin Currie China Hedge Fund Limited	Beneficial Owner	18,856,000	5.43%	1.89%
New-Alliance Asset Management (Asia) Limited	Beneficial Owner	18,692,000	5.38%	1.87%
DnB NOR Asset Management (Asia) Limited	Beneficial Owner	18,277,000	5.26%	1.83%
UBS AG	Beneficial Owner	15,917,000	5.01%	1.60%

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

Except for the commencement of dealings in the H shares of the Company on GEM on 27 February 2004, the placing of 52,900,000 new H shares of the Company on 30 November 2005 and placing of 30,000,000 new H shares of the Company on 19 April 2007, the Company and its subsidiaries did not purchase, sell or redeem any listed shares of the Company.

CORPORATE GOVERNANCE

The Company is dedicated to maintain a high standard of corporate governance. The Board considers that this is the commitment necessary to balance the interests among the shareholders, customers and the employees, as well as maintaining accountability and transparency.

The Board considers that the Company has complied with all the provisions as set out in the Code on Corporate Governance Practices in Appendix 15 of the GEM Listing Rules during the period.

AUDIT COMMITTEE

The Company has set up an Audit Committee (the "Committee") on 1 September 2002 with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Company. The Committee comprises Messrs. Luan Jian Ping, Mr. Shi Huan, Mr. Lau Wai Kit, Mr. Li Jia Miao, being independent non-executive Director and Mrs. Zhou Shu Hua, a non-executive Director. Mr. Lau is the chairman of the Committee.

The Company's financial statements for the three months ended 31 March 2008 have been reviewed by the Committee. The Committee considered that the relevant financial statements have been prepared in compliance with the applicable accounting principles and requirements of the Stock Exchange and other laws, and disclosures have been made.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association and the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the period was the Company, its ultimate holding company or any subsidiaries of its ultimate holding company, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

COMPETING INTERESTS

So far as the Directors are aware, as at 31 March 2008, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates has an interest in a business which competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

CODE OF MODEL CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 31 March 2008, the Company had adopted the code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings. The Company also had made specific enquiry of all Directors and the Company was not aware of any noncompliance with the required standard of dealings and the model code of conduct regarding securities transactions by Directors.

By order of the Board

Shandong Weigao Group Medical Polymer Company Limited

Chen Xue Li

Chairman

Weihai, Shandong, 13 May 2008

As at the date of this report, the Board 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. Luan Jian Ping, Mr. Shi Huan, Mr. Li Jia Miao and Mr. Lau Wai Kit as the independent non-executive Directors.