WEGO 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)

2009
Third Quarterly Report

* For identification purposes only

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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 the 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; (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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 nine months ended 30 September 2009 (the "Period"), the unaudited turnover of Shandong Weigao Group Medical Polymer Company Limited (the "Company") and its subsidiaries (the "Group") was approximately RMB1,378,303,000, representing an increase of approximately 20.5% over RMB1,143,692,000 for the same period last year.

Unaudited net profit attributable to the shareholders for the nine months ended 30 September 2009 was approximately RMB444,081,000, representing an increase of approximately 35.6% from approximately RMB327,596,000 for the same period last year.

During the Period, the Group continued the strategy in improving product mix and focusing on developing the blood purification business, increasing the sales and marketing effort on high valued-added products such as intravenous catheters, high-end infusion sets, safety auto-disable syringes, and phased out the production of some low value-added products. The result was remarkable.

During the Period, (1) turnover of single use consumables continued to grow rapidly and reached approximately RMB1,129,960,000, representing an increase of 27.4% compared with the same period last year; (2) turnover of orthopaedic manufacturing business was approximately RMB93,209,000, representing a decrease of 31.7% compared with the same period last year due to the effect of transfer pricing following the establishment of the joint venture company ("Distribution Joint Venture") with a wholly owned subsidiary of Medtronic, Inc. ("Medtronic"). The Distribution Joint Venture was running well and its attributable profit to the Group was approximately RMB24,385,000 for the nine months ended 30 September 2009; (3) turnover of blood purification business was approximately RMB47,349,000, representing an increase of 126.2% over the same period last year; and (4) attributable profit of the stent business to the Group was approximately RMB84,308,000 , representing an increase of 68.5% compared with the same period last year.

The board of Directors (the "Board") does not recommend the distribution of an interim dividend for the three months ended 30 September 2009.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited For the nine months ended 30 September		Unaudited For the three months ended 30 September	
		2009	2008	2009	2008
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	2	1,378,303	1,143,692	504,195	445,907
Cost of sales		(688,167)	(604,767)	(243,859)	(234,078)
Gross profit		690,136	538,925	260,336	211,829
Other income		47,664	24,460	16,210	7,648
Distribution costs		(229,480)	(172,129)	(79,191)	(59,752)
Administrative expenses		(124,184)	(71,706)	(42,405)	(24,507)
Finance costs	4	(3,784)	(19,548)	(1,257)	(7,354)
Share of profit in a jointly controlled entity		84,308	50,047	37,813	17,640
Share of profit of an associate		24,385	305	14,926	305
Profit before taxation	5	489,045	350,354	206,432	145,809
Income tax expense	6	(46,729)	(23,995)	(19,857)	(9,151)
Profit for the year		442,316	326,359	186,575	136,658
Other comprehensive income:					
Exchange difference on translation of foreign currency		88	(392)	(40)	(198)
		442,404	325,967	186,535	136,460

	Note	Unaudited For the nine months ended 30 September 2009 RMB'000	2008 RMB'000	Unaudited For the three months ended 30 September 2009 RMB'000	2008 RMB'000
Total Comprehensive income attributable to:					
Equity holders of the Company		**444,169**	327,204	**186,406**	136,730
Minority interests		**(1,765)**	(1,237)	**129**	(270)
		442,404	325,967	**186,535**	136,460
Attributable to:					
Equity holders of the Company	7	**444,081**	327,596	**186,446**	136,928
Minority interests		**(1,765)**	(1,237)	**129**	(270)
		442,316	326,359	**186,575**	136,658
Dividends proposed	8	**77,492**	56,747	**—**	—
Earnings per Share (Basic)	9	**RMB0.413**	RMB0.329	**RMB0.173**	RMB0.138

Notes:

1. **Basis of preparation and accounting policies**

These unaudited condensed consolidated financial information 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 "HKFRS") 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 financial statements for the year ended 31 December 2008.

The Group has applied the new and amended Hong Kong Financial Reporting Standards (the "new HKFRSs") issued by HKICPA that are effective for accounting periods beginning after 1 January 2008. 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 has been made for the previous periods.

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

The consolidated results for the nine months ended 30 September 2009 have not been audited by the Company's auditor but have been reviewed by 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 2008.

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 device products and operates in the PRC.

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

Principal activities are as follows:

Single use medical products	—	production and sale of single use consumables such as infusion sets, syringes, blood infusion sets and blood bags
Orthopaedic products	—	production and sale of orthopaedic products
Other products	—	production and sale of other products such as blood purification consumables and medical PVC granules

Segment information about these businesses is presented below:

	For the nine months ended 30 September 2009				
	Single use medical products *RMB'000*	Orthopaedic products *RMB'000*	Other products *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Revenue					
External sales	1,149,065	93,209	136,029	—	1,378,303
Inter-segment sales	—	—	44,183	(44,183)	—
	1,149,065	93,209	180,212	(44,183)	1,378,303
Segment result	412,320	37,933	22,477	(12,074)	460,656
Unallocated corporate expenses					(122,493)
Other income					45,973
Share of profit of a jointly controlled entity					84,308
Share of profit of an associate					24,385
Finance costs					(3,784)
Profit before tax					489,045
Income tax expense					(46,729)
Profit for the year					442,316

	For the nine months ended 30 September 2008				
	Single use medical products	Orthopaedic products	Other products	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue					
External sales	899,081	136,418	108,193	—	1,143,692
Inter-segment sales	—	—	41,009	(41,009)	—
	899,081	136,418	149,202	(41,009)	1,143,692
Segment result	288,019	71,087	9,318	(1,628)	366,796
Unallocated corporate expenses					(71,706)
Other income					24,460
Share of profit of a jointly controlled entity					50,047
Share of profit of an associate					305
Finance costs					(19,548)
Profit before tax					350,354
Income tax expense					(23,995)
Profit for the year					326,359

4. Finance costs

Finance costs for the nine months ended 30 September 2009 were approximately RMB3,784,000 (corresponding period in 2008: approximately RMB19,548,000), which mainly incurred from the borrowings from International Finance Corporation.

5. Profit before tax

Unaudited profit before tax after charging (crediting) the following:

	2009 *RMB'000*	2008 *RMB'000*
Provision for bad debts	5,548	4,773
Amortisation of Intangible assets (including administrative expenses)	2,335	2,335
Depreciation of property, plant and equipment	46,217	39,467
Depreciation of investment properties	414	414
Prepared lease payments charged to income statement	2,809	1,961
Rental payments in respect of premises under operating leases	3,919	3,134
Research and development expenditure	60,668	38,042
Cost of inventory recognized as expenses	688,167	604,767
Staff costs, including directors' remuneration		
Retirement benefits scheme contribution	32,959	20,886
Wages and salaries	126,158	108,039
Total staff costs	159,117	128,925
Net (gain)/loss from foreign exchange	1,041	(7,697)
(Gain)/loss on disposal of property, plant and equipment	(10)	387
Interest income	(4,599)	(3,470)
Rental income from investment properties	(1,691)	(1,691)
Rebate of value-added tax	(25,151)	(20,339)
Realised gain arising from establishing of an associate	(16,603)	—

Note: 威海潔瑞醫用製品有限公司 (Weihai Jierui Medical Products Company Limited) ("Jierui Subsidiary") was recognised as a "Social Welfare Entity". Pursuant to Guo Fa 2007 No.92 issued by the State Council, with effect from 1 July 2007, Jierui Subsidiary is subject to a statutory tax rate but an amount equivalent to the total salaries paid to staff with physical disability is deducted from the assessable profit of Jierui Subsidiary and the rebate of value added tax is exempted from the PRC income tax. 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. Jierui Subsidiary is subject to income tax at a tax rate of 15%.

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 nine months ended 30 September 2009 were made after taking these tax incentives into account.

Jierui Subsidiary was recognised as a "Social Welfare Entity". 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 subject to income tax at a tax rate of 15%. The tax charge provided for the nine months ended 30 September was 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 2006. 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%.

威海威高血液淨化製品有限公司(Weihai Weigao Blood Purified Product Company Limited) ("Weigao Blood") was recognised as "High Technology Enterprise". Pursuant to "Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Perferential Treatment Policies on Enterprise Income Tax", Weigao Blood 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 changed the tax rate from 33% to 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 will 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, companies 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 nine months ended 30 September 2009, the net profits attributable to equity holders of the Company were approximately RMB444,081,000 (Corresponding period in 2008: approximately RMB327,596,000).

8. Dividend

There were no dividend for the three months ended 30 September 2009 and the corresponding period in the previous year.

9. Earnings per share

For the nine months ended 30 September 2009, basic earnings per share were calculated based on net profits attributable to equity holders of the Company of approximately RMB444,081,000 (Corresponding period in 2008: approximately RMB327,596,000), and on the weighted average total number of 1,076,281,081 shares (Corresponding period in 2008: 995,560,000 shares).

No diluted earnings per share is presented for the nine months ended 30 September 2009, as no potential ordinary shares were outstanding during the Period.

10. Movement in reserves

The Group	Share capital RMB'000	Share premium reserve RMB'000	Statutory surplus reserve RMB'000 (Note b)	Foreign currency statements conversion discrepancies RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
As at 1 January 2008	99,556	618,572	111,217	(244)	498,661	1,327,762	57,233	1,384,995
Profit for the year and total income recognized	–	–	–	–	482,394	482,394	2,711	485,105
Shares issued	8,072	774,598	–	–	–	782,670	–	782,670
Dividend paid	–	–	–	–	(115,485)	(115,485)	–	(115,485)
Exchange differences arising on translation of foreign operation	–	–	–	(609)	–	(609)	–	(609)
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	(51,753)	(51,753)
As at 31 December 2008	107,628	1,393,170	111,217	(853)	865,570	2,476,732	8,191	2,484,923
Profit for the year and total income recognized	–	–	–	–	444,081	444,081	(1,765)	442,316
Dividend paid	–	–	–	–	(93,636)	(93,636)	–	(93,636)
Exchange differences arising on translation of foreign operation	–	–	–	88	–	88	–	88
As at 30 September 2009	107,628	1,393,170	111,217	(765)	1,216,015	2,827,265	6,426	2,833,691

(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 enlarged 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 30 September 2009, retained earnings distributable to shareholders was approximately RMB394,702,000.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

International Collaboration

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

Since December 2008, Medtronic holds 15% of the enlarged issued share capital of the Company. In the third quarter of 2008, Medtronic and Weigao established the Distribution Joint Venture in the PRC to distribute orthopaedic products.

As at the date of this report, the operation of the Distribution Joint Venture is gradually moving on track. With the need to adopt a unified management philosophy and mode of operation from the two parties, setting product standardization and customer requirements, frequently engaged in discussions between the management teams from both parties in integration has to certain extent had an impact on developing markets and raising operating costs. For the nine months ended 30 September 2009, profit attributable to the Group was approximately RMB24,385,000.

During the Period, both parties were working closely on trial production and producing samples under original equipment manufacturing ("OEM"). Through continuous discussions between the management and working teams from both parties, the OEM business is gradually being developed.

At the early stage of collaboration, the profit attributable from orthopaedic manufacturing business to the Group decreased by 46.7% compared with the same period last year. However, the management from both parties firmly believe in the long term benefit from the collaboration and strives for the long term win win situation for both parties.

Working with Medtronic is the first step of the Group in international strategic collaboration. The Group continues to strengthen the co-ordination and communications to bring the value in stratefic collaboration to fruition. With the experience gained from the business collaboration, it provides guidance to the Group to exploit other potential business collaboration opportunities in future.

Optimisation Adjustments to Business and Product Mix

During the period, the Group continued the strategy of improving the product mix. The Group focused on the business development of blood purification products and increased the marketing and sales effort on high value-added products such as intravenous catheters, high-end infusion sets, safety auto disable syringes. The achievement of product mix adjustment was remarkable.

Turnover of Weigao Orthopaedic for the nine months ended 30 September 2009 decreased by 31.7% to approximately RMB93,209,000 from approximately RMB136,418,000 in the same period last year due to transfer pricing adjustment made after the establishment of the Distribution Joint Venture with Medtronic.

The new production line of Weigao Blood, a subsidiary of the Group operated satisfactorily. Turnover of Weigao Blood recorded approximately RMB47,349,000, representing a substantial increase of approximately 126.2% compared with the same period last year. As at the end of the Period, the trial for steady production of the new dialysis product has been successful completed and rapid growth will be achieved in the subsequent quarters.

Production and sales of drug eluting stents by 山東吉威醫療製品有限公司 (Shandong JW Medical Products Company Limited) ("JW Medical"), a 50% jointly owned entity of the Company recorded significant growth during the Period. For the nine months ended 30 September 2009, the attributable profit of JW Medical to the Group was approximately RMB84,308,000, representing an increase of 68.5% compared with the same period last year.

During the Period, the Group increased its efforts in the marketing and sales of needle products, driving record sales of approximately RMB245,216,000, representing a growth of 32.3% compared with the same period last year. The Directors believe that the needle products will become an important area for the continued development of the Group.

Market development for specialized infusion sets with dosage control device and infusion sets made of a non PVC based material, has made significant progress. Sales of the Group's infusion sets recorded an increase by 36.7% over the same period last year. With keen market competition for the product of infusion sets, manufacturers with poor quality products were phased out. The Group's market position in high end infusion set was further strengthened.

During the Period, the Group invested in glass tube production line for pre-filled syringes and the trial production has been successful. Pre-filled syringes are extensively used in vaccination and package injection drugs with good development prospects in the PRC. Currently, the glass tubes used for the production of pre-filled syringes in the market rely on import. With the production of the glass tubes in-house, it resolved the bottleneck for the production of pre-filled syringes and enhanced the Group's profitability. During the Period, turnover of pre-filled syringes amounted to approximately RMB49,021,000, representing an increase of 36.4% over the same period last year.

Benefiting from the aforesaid move of making an adjustment to the product mix, the percentage of turnover from high value-added products (gross profit margins of over 60%) to the total turnover of the Group during the Period was 42.7% (2008: 44.2%). Due to the transfer pricing adjustment made after the establishment of the Distribution Joint Venture, the gross profit margin of orthopaedic products was below 60%.

RESEARCH AND DEVELOPMENT

For the nine months ended 30 September 2009, the Group obtained 13 new patents and is applying for 34 new patents. Product registration certificates for 8 new products were obtained. Research and development were completed for 33 products and application for product registration certificates are underway. By placing strong emphasis on research and development, it enhances the Group's competitiveness and allows the Group to leverage on its customer base and provides the Group with new growth drivers.

As of 30 September 2009, the Group had over 160 product registration certificates and over 150 patents, of which 13 were patents on invention.

In view of the strategic adjustments to product mix, the Group continued to increase investments in the research and development in existing product lines and also in new medical devices to further expand its product line offerings and to maintain its leading position in research and development capability in China. For the nine months ended 30 September 2009, the total research and development expenses amounted to approximately RMB60,668,000 (2008: RMB38,042,000), representing 4.4% of the total turnover of the Group. The significant increase in research and development expenses was mainly due to the more stringent requirements of the standards on clinical trial and the increase in products types of the Group undergoing clinical trial. The Group also increased the number of research staff for product development preparing for the commercialization of newly developed products. With the raising in the standards in clinical trial, it increases the entry barrier maintaining an orderly competitive landscape which is beneficial for the long term development of the market.

Production

For the nine months ended 30 September 2009, production volume of the Group's products as compared with the corresponding period of 2008 were as follows:

Product Type	Measurement unit	For the nine months ended 30 September 2009	2008	Increase/ (Decrease) %
Infusion sets	1,000 sets	245,980	222,439	10.6%
Medical Needle	1,000 sets	1,621,582	1,612,037	0.6%
Syringes	1,000 sets	466,400	400,395	16.5%
Blood bags	1,000 sets	13,001	12,276	5.9%
Pre-filled syringes	1,000 sets	18,080	12,820	41.0%
Blood sampling products	1,000 sets	110,940	101,810	9.0%
Dental and anesthetic products	1,000 sets	2,010	1,784	12.7%
Orthopaedic products	1,000 sets	1,930	2,001	(3.5%)
PVC granules	Tons	9,369	9,022	3.8%
Others	1,000 sets	170,558	125,689	35.7%

Sales and Marketing

During the Period, the Group continued to integrate its sales channels and adjust the product mix and the results have been remarkable.

During the Period, the Group strengthened its sales management system, strengthened developing direct sales, integrated customers resources and phased out low profitability customers. For the nine months ended 30 September 2009, the Group has newly secured new customers of 26 hospitals. The Group transferred a number of community medical units to be covered by distributors and some distributors of less competitiveness were being phased out or merged and become the second tier distributors, thereby reducing one other medical units and 36 corporate customers. As at the date of this report, the Group has a customer base of 5,042 (including 2,917 hospitals, 413 blood stations, 649 other medical units and 1,063 trading companies).

Comparison of the sales by geographical areas over the same period last year is set out as follows:

REVENUE BY GEOGRAPHICAL SEGMENTS

Region	2009		2008		Growth
	RMB'000	*%*	*RMB'000*	*%*	*%*
Eastern and Central	517,873	37.6	432,811	37.8	19.7
Northern	325,798	23.6	244,342	21.4	33.3
Northeast	193,388	14.0	163,696	14.3	18.1
Southern	135,491	9.8	122,728	10.7	10.4
Southwest	108,632	7.9	94,822	8.3	14.6
Overseas	57,414	4.2	50,185	4.4	14.4
Northwest	39,707	2.9	35,108	3.1	13.1
Total	1,378,303	100.0	1,143,692	100.0	20.5

Integration of sales channels has strengthened the Group's market penetration in and influence over direct sales to high-end customers. It enhanced sales contribution per customer significantly and reduced selling expenses. The average sales per customer increased by approximately 28.2% over the same period last year. Continued driving higher product penetration to high-end customers is an important way to generate revenue growth.

Adjustment in product mix is another important factor in enhancing the results for the Period. During the Period, the Group focused on sales and marketing of high value added products such as needle products, pre-filled syringes, high valued added infusion sets. It has significantly increased the proportion of sales generated from high value added products. Comparison of the sales of the principal products with that of the previous period is set as follows:

	For the nine months ended 30 September		
Product category	**2009**	2008	Growth
	RMB'000	*RMB'000*	
Self-produced products			
– Infusion sets	**378,996**	277,307	36.7%
– Medical needles	**245,216**	185,390	32.3%
– Syringes	**242,672**	205,242	18.2%
– Blood bags	**99,963**	84,599	18.2%
– Pre-filled syringes	**49,021**	35,926	36.4%
– Blood sampling products	**35,913**	31,157	15.3%
– Dental and anesthetic products	**15,823**	14,388	10.0%
– Other consumables	**62,356**	52,602	18.5%
Subtotal for consumables	**1,129,960**	886,611	27.4%
Orthopaedic products (Note 1)	**93,209**	136,418	(31.7%)
Blood purification consumables	**47,349**	20,933	126.2%
PVC granules (Note 2)	**45,902**	56,730	(19.1%)
Trading			
– Medical equipment	**42,778**	30,530	40.1%
– Other products	**19,105**	12,470	53.2%
Total	**1,378,303**	1,143,692	20.5%

Note 1: Sales of orthopaedic products has decreased due to the transfer pricing arrangement after the establishment of the Distribution Joint Venture

Note 2: Sales of PVC granules has decreased due to increase in internal consumption of PVC for production of single use consumables

HUMAN RESOURCES

As at 30 September 2009, the Group employed a total of 7,051 employees. Breakdown by departments is as follows:

Department	Number of employees
Research	719
Sales and marketing	898
Production	4,983
Purchasimg	29
Quality control	124
Management	65
Finance and administration	233

Save as the two employees (including the company secretary) who reside in Hong Kong, all employees of the Group reside in the PRC. For the nine months ended 30 September 2009, the total amount of staff salaries, welfare and various funds amounted to approximately 159,117,000.

FINANCIAL REVIEW

Financial summary

For the nine months ended 30 September 2009, unaudited turnover and net profit recorded by the Group were approximately RMB1,378,303,000 and RMB444,081,000 respectively, representing a growth of 20.5% and 35.6% as compared with approximately RMB1,143,692,000 and RMB327,596,000 in the corresponding period of 2008 respectively.

The significant growth in turnover and profit was mainly due to the adjustments to product mix, raising operation efficiency and development of new product line.

Liquidity and Financial Resources

The Group has maintained a sound financial position for the nine months ended 30 September 2009. As at 30 September 2009, the Group has a cash balance of approximately RMB740,615,000.

During the Period, the Group repaid bank borrowings of RMB1,716,000. As at 30 September 2009, the Group has repaid all domestic bank borrowing, except the long term borrowing from the International Finance Corporation. As at 30 September 2009, the total amount of borrowings payable after one year amounted to RMB136,580,000 (the corresponding period of 2008: RMB381,566,000).

Total interest expenses of the Group for the nine months ended 30 September 2009 was approximately RMB3,784,000 (the corresponding period of 2008: RMB19,548,000).

Gearing Ratio

As at 30 September 2009, the Group had a net cash position of approximately RMB 604,035,000. (The gearing ratio of the Peiod: Nil and the ratio of total borrowing of the Group in 2008 after deducting cash and balance balances to the total equity attributable to shareholders was 0.16). The change in the ratio was mainly due to the new capital injection from Medtronic in late 2008 and the profit generated during the Period.

Foreign Exchange Risks

The Group's purchases and sales are mainly conducted in the PRC. All 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 nine months ended 30 September 2009, the Group had no significant exposure to foreign exchange fluctuation or hedging for such risk.

In 2008, the Company drew down a long term loan from the International Finance Corporation in the amount of US$20 million. Due to the change in exchange rate, foreign exchange loss equivalent to approximately RMB1,041,000 for the nine months ended 30 September 2009 was recognized.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 30 September 2009.

Material Investment and Future Material Investment Plans

1. According to the city planning of Weihai City, the industrial zone of the Group's existing consumable production plant will be re-zoned as commercial and residential within 5 years. During the Period, the Group invested approximately RMB 80 million on land acquisition as land bank for the re-location of all of the consumables production plants in the coming 5 years. Based on the auction of commercial land sale in Weihai, it is estimated that the proceeds from the sale of the current properties will be sufficient to cover the cost of re-location and the new plant construction.

2. During the Period, the Group signed a co-operative agreement with Xin Qiao Hospital under the Third Army Medical University ("XQ Hospital"). Under the agreement, the Group sponsored XQ Hospital RMB 20 million for the purchase of equipment for the establishment of a dialysis center, and in return, the XQ Hospital will purchase medical devices from the Group of no less than RMB 35 million per year in the coming 10 years. The management of the Group considered that such collaboration enhances the sales of the Group and the long term relationship with customers. Such form of business collaboration is a trial to the Group. The Directors considered that leveraging the wide product ranges, efficient logistics and advanced technology support, it will better position the Group to participate in various new ways of procurement under the healthcare reform, thereby enhancing the long term competitiveness of the Group.

3. Weigao Blood, a 70% held subsidiary of the Group entered into a memorandum of understanding ("MOU") with an independent European company during the Period. Under the MOU, Weigao Blood and the European company agreed to establish a joint venture company to produce dialysis machines. The joint venture company will be held as to 66% by Weigao Blood and 34% by the European company. The registered capital of the joint venture company will be approximately Euro 5.35 million.

4. In light of the strong market potential of pre-filled syringes, the Group planned to invest approximately RMB70,000,000 in introducing the second pre-filled syringe production line during the Period, so as to enable the Group to enjoy a higher scale of economy and cost advantages.

Save as disclosed above, the Group had no material investments or acquisition or disposal of subsidiaries and associated companies during the Period.

Capital Commitment

As at 30 September 2009, the capital commitment of the Group contracted but not provided for in respect of the acquisition of property, plan and equipment amounted to approximately RMB160,021,000. The amounts will be paid by the Group out of proceeds from the issue of new shares to Medtronic and internal resources of the Group.

Outlook

With the tightening of credit, the trend in the improvement in the delay in settlement of accounts in the first half of the year by the Group's core customers turned worsened in the third quarter of 2009. This has led to increase in the difficulty in controlling long term credit risk. Meanwhile, PVC based raw material prices continued to increase, adding significant pressure on managing costs and profitability on conventional single use consumable products. Therefore, the quarter became the period posed the highest pressure on the Company's development.

While faced with unfavorable factors, the Group leveraged on its diversified product range and product lines. It actively adjusted its product mix and increased sales in high value added products in intravenous catheters, high end infusion sets of minimal dosage and/or light proof, infusion sets made of non PVC based materials, blood sampling products and safety syringes. This has raised the profitability of the Group. In dealing with the delay in settlement from customers, the Group continued to adopt tightened credit policy to control potential expanded credit risk. With limited increase in credit to promote change in product mix, it further strengthens the Group's leading position in high end consumables. It also paves the way for further product mix adjustment. The Group also increased in its effort in collecting receivables by offering appropriate discount on settling outstanding balances to reduce the overall balance of receivables. This will increase the portion of selling expenses in short term but the management considered that it will assure a continuous healthy operating cash flow of the Group in the long term.

However, during this quarter, with the credit constraint on a macro level, measures adopted by the Group for controlling credit expansion such as imposing stringent control on the delivery of goods since the fourth quarter of the last year and the granting of cash discounts to expedite the collection of payments for goods have been applied up to their limits and the effectiveness was diminishing. Certain organic growth of the business was forgone in order to control credit risk and additional selling expenses were incurred to encourage cash collection. However, the effectiveness of these measures for controlling the credit amount and the credit settlement period became limited. In view of the situation, the Group has begun to adjust the strategy striking a balance between revenue growth and credit risk control in the fourth quarter of this year.

Looking ahead, the Directors expect that with the increase in people's awareness in healthcare, various level of governments' huge spending in implementing the healthcare reform, gradual implementation of universal healthcare coverage, it will drive continuous, steady and rapid growth of the single-use medical devices market in China. The most obvious growth will be in the gradual expansion in the market size and share in the middle and low end markets. This sets a clear strategic direction in the Group's mergers and acquisitions and market development. Taking into consideration changing market conditions, with the breakthrough in product mix adjustment and suitable external conditions for market consolidation, the management will continue to be proactive in driving a sustainable development of the Group. In the near future, the Company will focus on the following aspects:

1. Continue to consolidate position in the high-end market. With the foundation of the existing engineering centers, and research and development centers, the Group plans to consolidate the domestic research resources, including research institutions, universities and hospitals through extensive collaborations; focus its research and development on high margin and high value single use consumables to substitute imported products from international medical device players. With the Group's advantageous position in local market and sound financial position, through various channels including distribution arrangements, acquisitions and licensing arrangements to seek technologies from overseas, raising the Group's research and development capability so as to minimize the gap in the technology with players of developed countries, and to expand product ranges. This will continue to strengthen the Group's leading position in high end consumables market in China;

2. Continue the mergers and acquisitions strategy for the value segment market. During the quarter, with the launching of the China's growth enterprise market, the entire PRC healthcare market valuation surged significantly, reaching an irrationally high level. This has increased in difficulty and pressure on the Company in negotiations on mergers and acquisitions. However, the Group believes that there are only risks and responsibility in the medical device industry, without the existence of any myths. Any value should derive from the continued growth and sustainable profitability. With such irrationally high valuation, the Group will continue to adhere to a reasonable valuation and the

principle of sustainable prudent operations. The Company would seek cooperation with potential partners to exploring development for mutual benefits. The Company will continue the merger and acquisition strategy for the value segment market but will adhere to the principle of reasonable valuation in investment;

3. Continue and gradually drive the international sales. The Group will explore strategic collaboration opportunities with overseas hospital sourcing groups under the principles of mutual trust, win win situation and long term relationship. The Group aims to expand the export opportunities of its owned branded single use consumables and to participate in the international medical device industry;

4. Continue to drive and seek international cooperation. The Group will continue to work closely with Medtronic in the area of orthopaedic, striving for the joint venture company to become a model for international collaboration. With accumulated experience, the Group will continue to strive for international collaboration. The Group believes that although the cooperation with Medtronic has affected the profitability of the Company in the short term, the long-term value of international cooperation will gradually emerge; and

5. Setting blood purification products as a direction for strategic product mix adjustment. The Group will continue to expand the production capacity of dialysers for the Group to become a major integrated supplier of dialyser related consumables in China.

By leveraging on the Group's in-depth knowledge of the domestic market and the application of advanced technology and the continued innovation in operation management, the Group and its employees are confident to face new challenges.

Breakdown on the Use of Proceeds

Statement of business objectives, as set out in the announcement for the issue of H Shares in 2008 ("New Issue")

Project	Actual business progress as at 30 September 2009
1. To apply approximately RMB88,190,000 of the proceeds from the 2008 New Issue for the purchase of machinery and equipment for Weigao Orthopaedic	Actual invested amount as at 30 September March 2009 was approximately RMB88,190,000
2. To apply approximately RMB70,552,000 of the proceeds from the 2008 New Issue for the purchase of machinery and equipment for blood purification products	Actual invested amount as at 30 September 2009 was approximately RMB70,552,000
3. To apply approximately RMB220,475,000 of the proceeds from the 2008 New Issue for the repayment of bank borrowing	As at 30 September 2009, bank borrowing of approximately RMB220,475,000 was repaid
4. To apply approximately RMB401,617,000 of the proceeds from the 2008 New Issue for general working capital	As at 30 September 2009, approximately RMB401,617,000 was applied to general workng capital

DISCLOSURE OF INTERESTS

Directors' Interests and Long Positions in Shares

As at 30 September 2009, 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	Types of interests	Capacity	Total number of non-listed shares	Approximate percentage of the issued share capital of the Company
Mr. Zhang Hua Wei	Personal	Beneficial owner	8,100,000	0.75%
Mr. Miao Yan Guo	Personal	Beneficial owner	5,850,000	0.54%
Mr. Wang Yi	Personal	Beneficial owner	5,850,000	0.54%
Ms. Zhou Shu Hua	Personal	Beneficial owner	3,825,000	0.36%
Mr. Wang Zhi Fan	Personal	Beneficial owner	2,025,000	0.19%
Mr. Wu Chuan Ming	Personal	Beneficial owner	1,800,000	0.17%

In addition, Mr. Chen Lin, son of Mr. Chen Xue Li is a shareholder of the Company's 50,000 non-listed Shares, representing 0.005% of the issue share capital of the Company.

(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 capital contributed	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 long positions in any shares, underlying shares and debentures of the Company or any of its associated corporations as at the date of this report.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2009, 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 non-listed shares and H shares of the issued share capital of the Company.

Name of Shareholder	Capacity	Number of non-listed shares	Approximate percentage of the Company's non-listed shares	Number of H Shares	Approximate percentage of the Company's total issued share capital
Weigao Holding	Beneficial owner	532,438,919	82.10%	–	49.50%
Medtronic Inc.	Beneficial owner	80,721,081	12.50%	80,721,081	15.00%

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

Names of Shareholders	Number of H shares interested	Percentage of issued H share capital
Atlantis Investment Management Ltd	51,184,000(L)	12.0%
JPMorgan Chase & Co.	38,696,680(L)	9.0%
	36,328,680(P)	8.5%
FMR LLC	34,142,000(L)	8.0%
FIL Limited	29,340,753(L)	6.9%

Note: L- Long Position, P-Lending Pool

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Since the commencement of dealings in the H shares of the Company on GEM on 27 February 2004, the Company placed 52,900,000 new H Shares on 30 November 2005 and 30,000,000 new H shares on 19 April 2007. On 18 December 2008, the Company issued 80,721,081 new H Shares to Medtronic Holding Switzerland GmbH. Save as disclosed above, 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. Lo Wai Hung, Mr. Li Jia Miao, being independent non-executive Directors and Mrs. Zhou Shu Hua, a non-executive Director. Mr. Lo Wai Hung is the chairman of the Committee.

The Company's financial statements for the nine months ended 30 September 2009 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.

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

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 30 September 2009, 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 nine months ended 30 September 2009, 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 November 2009

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, Mrs. Zhou Shu Hua, Mr Li Bing Yung and Mr. Jean-Lue Butel as the non-executive Directors, and Mr. Luan Jian Ping, Mr. Shi Huan, Mr. Li Jia Miao and Mr. Lo Wai Hung as the independent non-executive Directors.