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)

09 Annual 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.

Contents

DIRECTORS AND SUPERVISORS

Executive Directors

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

Non-executive Directors

Mr. Chen Xue Li
Ms. Zhou Shu Hua
Mr. Li Bing Yung
Mr. Jean-Luc Butel

Independent non-executive Directors

Mr. Luan Jian Ping
Mr. Shi Huan
Mr. Li Jia Miao
Mr. Lo Wai Hung

Supervisors

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

CORPORATE INFORMATION

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

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

Company secretary
Ms. Wong Miu Ling, Phillis, ACIS

Compliance officer
Mr. Zhang Hua Wei

Audit committee
Mr. Lo Wai Hung
Ms. Zhou Shu Hua
Mr. Luan Jian Ping
Mr. Shi Huan
Mr. Li Jia Miao

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

Auditors
Deloitte Touche Tohmatsu
Certified Public Accountants

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

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

Website of the Company
www.weigaogroup.com

Stock Code 8199

Shandong Weigao Group Medical Polymer Company Limited

Shandong Weigao Group Medical Polymer Company Limited (the "Company") and its subsidiaries (together the "Group") is principally engaged in the research and development, production and sale of single-use medical devices. The Group has a wide range of products, which includes: i) consumables (infusion set, syringes, medical needle, blood bags, dental and anaesthetic consumables, pre-filled syringes, blood sampling products, and other consumables); ii) orthopedic materials; iii) blood purification consumables; and iv) stent. The Company is recognised as an industrialization base to commercialise products developed by the State High-tech Research and Development (863) Program, the State High-tech Enterprise and the State Technology Center. The Group's main production facilities is situated in Weihai City in Shandong Province.

The Group is incorporated in the People's Republic of China. The Group has an extensive sales network comprising 22 sales offices, 23 customer liaison centers and over 100 municipal representative offices. It has an extensive customer base of 5,140 healthcare organizations and distributors, including 2,920 hospitals, 413 blood stations, 641 other medical units and 1,166 trading companies.

The Group produces a wide range of products in four major categories, namely:-

I. Single use medical consumables and materials (including infusion (transfusion) sets, syringes, blood bags and blood component segregator consumable, blood sampling products, dental and anaesthetic consumables, pre-filled syringes for pre-pack medication and medical needles which mainly include intravenous needles, syringe needles, intravenous catheter needles, blood sampling needles and irregular needles;

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

III. Blood purification consumables, including puncture needles, extracorporeal blood circuit for blood purification sets, dialyzers and related consumables; and

IV. Cardiovascular stent, mainly including drug eluting stent and balloon.

On behalf of the board of directors (the "Board") of Shandong Weigao Group Medical Polymer Company Limited, I would like to present the audited consolidated results of the Group for the year ended 31 December 2009. The Group's results in 2009 have continued to grow steadily, with prominent effect from the optimization adjustment to product mix, which laid a foundation for our future development.

FINANCIAL SUMMARY

During the year under review, the Group recorded turnover of approximately RMB1,878,495,000 for the year ended 31 December 2009, representing an increase of approximately 24.0% over the previous year and profit attributable to equity shareholders was approximately RMB633,864,000 and basic earning per share was approximately RMB0.59. The growth in turnover and profit attributable to shareholders have been mainly due to our strategy in improving the product mix.

FINANCIAL HIGHLIGHT

	Audited		
	2009	2008	Growth %
	RMB'000	RMB'000	
Turnover	**1,878,495**	1,514,367	24.0%
Gross profit	**1,001,259**	758,233	32.1%
Net profit attributable to shareholders	**633,864**	482,394	31.4%

BUSINESS REVIEW

During the year, the Group continued the strategy of improving the product mix. The Group focused on the business development of orthopaedic products, 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, and phased out the production of some low value-added products. The result was remarkable. Due to effectiveness of product mix adjustment, the Group had further increased the gross profit margin to 53.3% from 50.1% in the previous year. The performance of the Group in four business segments was as follows:

1. Consumables: Remarkable results were achieved following the product mix adjustment on the principal products. During the year, the Group recorded turnover of RMB 1,526,908,000, representing an increase of 28.7% over the previous year. The Group recorded a continued growth in needle products, with turnover of approximately RMB328,524,000 during the year, representing an increase of 23.0% compared with last year. The Directors consider that needle products will become an important area for continued development of the Group.

   Market development of specialized infusion set with dosage control device and infusion sets made of proprietary non PVC based material has made significant progress during the year. It drove the turnover of infusion sets to RMB524,830,000, representing an increase of 40.2% over the previous year. With the keen market competition for infusion sets, manufacturers with poor quality products were phased out. The Group's favourable position in the high-end infusion set was further strengthened.

   During the year, the glass tube production line for pre-filled syringes invested by the Group has been operated smoothly. Pre-filled syringes are widely used in vaccination and pre-pack medication drug with good market potential in China. The operation of the glass tube production line has eased the bottleneck of raw material supply for the production of pre-filled syringes, relieved the Group from reliance on import and thus enhanced the Group's profitability. For the year ended 31 December 2009, turnover of pre-filled syringes amounted to approximately RMB63,822,000, representing an increase of 58.5% over the previous year.

2. Due to transfer pricing adjustment made after the establishment of the Distribution Joint Venture with Medtronic, turnover of Weigao Orthopaedic for the year ended 31 December 2009 decreased by 27.1% to approximately RMB125,262,000 from approximately RMB171,776,000 in last year. The Distribution Joint Venture, held as to 49% by the Company and 51% by Medtronic International, a wholly owned subsidiary of Medtronic, contributed approximately RMB31,604,000 to the Group for the year ended 31 December 2009 (2008: RMB8,448,000).

3. The new production line of Weigao Blood, a subsidiary of the Group operated satisfactorily. For the year ended 31 December 2009, Weigao Blood recorded turnover of approximately RMB68,887,000, representing an increase of approximately 174.7% compared with the previous year.

4. 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 year. For the year ended 31 December 2009, the attributable profit of JW Medical to the Group was approximately RMB109,369,000, representing an increase of 95.4% compared with the previous year.

Outlook

In 2009, the Group faced various challenges in the areas of operation and development. Firstly, there was a general trend to delay payments among the core direct sale customers of the Group, thereby increased the difficulty in long term credit risk control. Secondly, since the second half of the year, PVC based raw material prices increased continuously, imposing huge pressure on costs control and profitability of the conventional products of the Group. Thirdly, the collaboration with Medtronic was still at early teething stage and, as such, the value of strategic collaboration has yet to be materialised. This has led to drop in profit contribution from orthopaedic business to the Group. It has also posed severe challenge in meeting the Group's targeted growth. Fourthly, due to the rapid business expansion in recent years, there were problems relating to managing the market and sales channel. The Group took action to rectify the issues and sales growth of some products had been affected to a certain extent. However, those rectifications laid a solid foundation for the Group's further development. Lastly, underestimating the difficulty in achieving stable product quality in production since obtaining product registration in blood purification products led to the delay in production and marketing of such products. This has impacted on the sales plan. However, experience gained from the implementation of the first production line laid a strong foundation for the rapid growth of this segment in the future.

While faced with unfavorable factors, the Group leveraged from its product range and product lines diversification. The Group focused on adjusting its product mix to increase the sales in high value added products, including intravenous catheters and high end infusion sets of minimal dosage, light proof and non PVC based infusion sets, blood sampling products and safety syringes. Sales of these products raised the profitability of the Group. In dealing with the delay in settlement from customers, the Group adopted moderately tightened credit policy to control the potential expanded credit risk. The Group promoted modification in product mix with limited increase in credit granted. This will strengthen the Group's leading position in high value consumables and it paved the way for further product mix adjustment. The Group also increased its effort in collecting receivables by appropriately offering attractive terms for early settlement from the customers, resulting in a reduction of total receivables balance. This increased the proportion of the sales expenses in the short term, but the management considered that it would generate sustainable and healthy cash flow to the Group in the long run.

Looking ahead, the Directors expect that with the increase in awareness in healthcare, various level of governments' huge investment under the healthcare reform and gradual implementation of universal health care coverage, it will drive continuous, steady and rapid growth of the single-use medical devices in China. In particular, the gradual expansion of mid and low end market size and share will be most obvious. This sets the direction for strategic mergers and acquisitions and market development. Taking into account continuous changes in market conditions, with break through in product mix adjustment and external factors for industry consolidation becoming favorable, the management will continue to be proactive in business development.

In 2010, the management expects the prices of raw materials will continue to be on an upward trend. The rise in labor cost coupled with the economic recovery will also exert a greater pressure on costs. In general, easing pressure on costs will be the top priority of the Group. Moreover, with the tender opening of the high end consumables in 2010, the management expects there will have a greater pressure on cardiovascular stent prices, which will affect the earning growth of this business segment. With the increase in trade protection, there will be few progress in export market in the short term. As a result, certain verbally agreed export order may also be terminated. Therefore, it will still be a year full of challenges in 2010. The management has identified the following priorities:

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. The Group will continue to 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 in value segment market M&A strategy. The Group will adhere to the principles of reasonable valuation and stable operations. Under the premises of enhancing mutual benefits, the Group will promote negotiations with potential partners in the industry and at an appropriate timing, implements value segment market M&A strategy.

3. Continue to gradually drive the international sales. The Group will seek distribution partners in the international markets 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 consumable on price advantages. The Group will maintain and expand its overseas market share of products with competitive advantages with an aim to lay the foundation to participate in the international market competition in the future.

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 considered that, despite the fact that cooperation with Medtronic has affected the profitability of the Company in the short term, the long-term value of international cooperation will gradually emerge. Under the principle of complementary strengths and based on the China market, the Group will advance the strategic collaboration with renowned international players in other areas.

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. The Group will increase its effort in negotiating with the government for the Group to enter into the dialysis service sector and to create a new business segment. The Group strives for the opportunity to participate in blood purification service market and to provide better services to dialysis patients.

6. Continue to place further resources on research and development, and product registration in wound management, in vitro fertilization, cardiac surgery for early introduction to the market and to further expand the Group's product range.

   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 will continue to strengthen its professional management team. The Group and its employees are confident to face new challenges.

DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board has resolved to recommend a final dividend of RMB0.105 per share (inclusive of tax). The total amount of dividends to be distributed shall be approximately RMB113,010,000, of which dividends paid to non-resident corporate shareholders will be subject to the corporate tax applicable on the PRC sourced income pursuant to the PRC Corporate Income Tax Law and the Regulations on the Implementation of the PRC Corporate Income Tax Law that became effective on 1 January 2008 and the applicable tax rate is 10%. The listed issuer will be responsible for withholding the relevant amount of tax from the dividend payment and the dividends to be received by the non-resident corporate shareholders will be net of withholding tax. The proposal to declare and pay this final dividend will be submitted to the shareholders of the Company at the forthcoming annual general meeting ("AGM") to be held on Monday, 10 May 2010. Final dividend for non-listed Shares will be distributed and paid in RMB whereas dividend for H Shares will be declared in RMB and paid in Hong Kong dollars. The register of holder of H Shares of the Company will be closed from Saturday, 10 April 2010 to Monday, 10 May 2010 (both days inclusive) during which no transfer of H Shares will be registered. In order to qualify for entitlement to the proposed final dividend and for attending and for voting in the AGM of the Company, all transfers of H Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's H Share Registrar, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 9 April 2010. The final dividend will be distributed on or before Friday, 11 June 2010.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at 9:00 a.m. on Monday, 10 May, 2010 at the registered office of the Company at No. 312 Shichang Road, Weihai City, Shandong Province, PRC.

ACKNOWLEDGEMENTS

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

Chen Xue Li
15 March 2010

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. At the end of the third quarter of 2008, Medtronic and Weigao established the Distribution Joint Venture in the PRC to distribute orthopaedic products.

During the year, the operation of the Distribution Joint Venture is gradually moving on track. Facing difference in management philosophy and operation mode from the two parties, the management teams from both parties frequently engaged in discussions, which to certain extent had an impact on markets development plan and therefore imposed pressure on operating costs. For the twelve months ended 31 December 2009, profit attributable to the Group was approximately RMB31,604,000.

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.

During the year, the profit attributable from orthopaedic manufacturing business to the Group decreased by 13.5% compared with last year. However, both parties firmly believe in the long term benefit from the collaboration and strive 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 strategic collaboration to fruition. With the experience gained from the business collaboration, it provides guidance to the Group to explore other potential business collaboration opportunities in future.

OPTIMIZATION ADJUSTMENTS TO PRODUCT MIX

During the year, the Group continued the strategy of improving the product mix, focusing on the business development of orthopaedic products, 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, and phased out the production of some low value-added products. The result was remarkable. Due to effective change in product mix, the Group had further increased the gross profit margin to 53.3% from 50.1% in the previous year. The performance of the Group in four business segments was as follows:

1. Consumables: Remarkable results were achieved following the product mix adjustment on the principal products. During the year, the Group recorded turnover of RMB 1,526,908,000, representing an increase of 28.7% over the previous year. The Group recorded a continued growth in needle products, with turnover of approximately RMB328,524,000 during the year, representing an increase of 23.0% compared with last year. The Directors consider that needle products will become an important area for continued development of the Group.

Market development of specialized infusion set with dosage control device and infusion sets made of proprietary non PVC based material has made significant progress during the year. It drove the turnover of infusion sets to RMB524,830,000, representing an increase of 40.2% over the previous year. With the keen market competition for infusion sets, manufacturers with poor quality products were phased out. The Group's favourable position in the high-end infusion set was further strengthened.

During the year, the glass tube production line for pre-filled syringes invested by the Group has been operated smoothly. Pre-filled syringes are widely used in vaccination and package injectable drugs with good market potential in China. The operation of the glass tube production line has eased the bottleneck of raw material supply for the production of pre-filled syringes, relieved the Group from reliance on import and thus enhanced the Group's profitability. For the year ended 31 December 2009, turnover of pre-filled syringes amounted to approximately RMB63,822,000, representing an increase of 58.5% over the previous year.

2. Due to transfer pricing adjustment made after the establishment of the Distribution Joint Venture with Medtronic, turnover of Weigao Orthopaedic for the year ended 31 December 2009 decreased by 27.1% to approximately RMB125,262,000 from approximately RMB171,776,000 in last year. The Distribution Joint Venture, held as to 49% by the Company and 51% by Medtronic International, a wholly owned subsidiary of Medtronic, contributed approximately RMB31,604,000 to the Group for the year ended 31 December 2009.

3. The new production line of Weigao Blood, a subsidiary of the Group operated satisfactorily. For the year ended 31 December 2009, Weigao Blood recorded turnover of approximately RMB68,887,000, representing an increase of approximately 174.7% compared with the previous year.

4. 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 year. For the year ended 31 December 2009, the attributable profit of JW Medical to the Group was approximately RMB109,369,000, representing an increase of 95.4% compared with the previous year.

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%. The percentage of turnover from high value-added products (gross profit margins of over 60%) to the total turnover of the Group during the year was 44.6% (2008: 45.6%).

RESEARCH AND DEVELOPMENT

For the twelve months ended 31 December 2009, the Group obtained 13 new patents and was applying for 23 new patents. Product registration certificates for 11 new products were obtained. Research and development were completed for 20 products and application for product registration certificates are underway. By placing strong emphasis on research and development, it enhances the Company's competitiveness and allows the Group to leverage on its customer base and provides the Group with new growth drivers.

For the twelve months ended 31 December 2009, the Group had over 160 product registration certificates and over 150 patents, of which 15 were patents on invention.

In view of the need for the strategic adjustments to product mix, the Group continued to increase investments in the research and development in a number of areas, so as to further improve product series and expand product range. The Group continued to maintain its leading position in research and development capability in China. For the twelve months ended 31 December 2009, the total research and development expenses amounted to approximately RMB77,676,000 (2008: RMB58,981,000), representing 4.1% 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 Company 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 year ended 31 December 2009, production volumes of the Group's products as compared with the previous year were as follow:

		For the twelve months ended 31 December		
Product name	Measurement unit	**2009**	2008	Increase *(%)*
Infusion sets	1,000 sets	**340,538**	288,908	17.9
Medical needle	1,000 sets	**2,325,686**	2,076,655	12.0
Syringes	1,000 sets	**657,967**	526,160	25.1
Blood bags	1,000 pieces	**18,446**	15,401	19.8
Pre-filled syringes	1,000 pieces	**24,640**	13,900	77.3
Blood sampling products	1,000 pieces	**145,490**	137,290	6.0
Dental and anesthetic products	1,000 sets	**3,554**	3,007	18.2
Orthopedic products	1,000 pieces	**2,421**	2,427	(0.2)
Dialysis machines	1,000 pieces	**365**	0	N/A
PVC granules	Tons	**12,878**	11,805	9.1
Others	1,000 pieces	**280,310**	209,243	34.0

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

SALES AND MARKETING

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

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

During the year, the Group strengthened its sales management system and strengthened developing direct sales, integrated customers resources and phased out low profitability customers. For the twelve months ended 31 December 2009, the Group secured new customers of 29 hospitals and 67 corporate customers. 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 to become the second tier distributors, thereby reducing other medical units by 9. As at the date of this report, the Group has a total customer base of 5,140 (including 2,920 hospitals, 413 blood stations, 641 other medical units and 1,166 trading companies).

REVENUE BY GEOGRAPHICAL SEGMENTS

Region	**2009**		2008		Growth
	RMB'000	**%**	*RMB'000*	%	%
Eastern and Central	**563,430**	**30.0**	476,163	31.4	18.3
Northern	**448,059**	**23.9**	356,376	23.5	25.7
Northeast	**272,654**	**14.5**	222,951	14.7	22.3
Southern	**202,879**	**10.8**	163,215	10.8	24.3
Southwest	**145,814**	**7.8**	113,069	7.5	29.0
Northwest	**58,866**	**3.1**	51,379	3.4	14.6
Overseas	**65,585**	**3.5**	69,874	4.6	(6.1)
Shandong Meiwei （山東美威）(note)	**121,208**	**6.4**	61,340	4.1	97.6
Total	**1,878,495**	**100.0**	1,514,367	100.0	24.0

Note: Sales of Weigao Orthopaedic was all transferred to the Distribution Joint Venture in September 2008.

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 21.9% over last year. Continued driving higher product penetration to high-end customers is an important way to generate revenue growth and increase profit contribution.

Adjustment to product mix is another important factor in enhancing the results for the year. During the year, the Group focused on sales and marketing of high value added products such as needle products, pre-filled syringes and high valued added infusion sets. It has 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 year is as follows:

	For the twelve months ended 31 December		
Product category	**2009**	2008	Growth
	RMB'000	*RMB'000*	%
Self-produced product			
— Infusion sets	**524,830**	374,337	40.2
— Medical needle	**328,524**	267,136	23.0
— Syringes	**319,186**	264,563	20.6
— Blood bags	**139,966**	119,186	17.4
— Pre-filled syringes	**63,822**	40,257	58.5
— Blood sampling products	**42,326**	37,169	13.9
— Dental and anesthetic products	**21,966**	18,457	19.0
— Other consumables	**86,288**	65,149	32.4
Sub-total of consumables	**1,526,908**	1,186,254	28.7
Orthopedic products (Note 1)	**125,262**	171,776	(27.1)
Blood purification consumables	**68,887**	25,077	174.7
PVC granules (Note 2)	**62,976**	70,179	(10.3)
Trading products			
Medical equipment	**69,569**	44,988	54.6
Other products	**24,893**	16,093	54.7
Total	**1,878,495**	1,514,367	24.0

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

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

HUMAN RESOURCES

As at 31 December 2009, the Group employed a total of 6,862 employees. Breakdown by departments as compared with the previous year is as follows:

Department	**2009**	2008
Production	**4,770**	4,882
Sales and marketing	**904**	732
Research and development	**725**	685
Finance and administration	**242**	219
Quality control	**124**	118
Management	**68**	61
Purchasing	**29**	26
Total	**6,862**	6,723

Except for the six employees (including the company secretary) who reside in Hong Kong and Europe, all employees of the Group reside in the PRC. During the year, the total amount of staff salaries, welfare and various funds amounted to approximately RMB204,248,000 (2008:RMB 160,072,000).

REMUNERATION SYSTEM

The Group's remuneration policy has been determined based on its performance, changes in the local consumption level and the competition in the human resources market. The remuneration policy so determined has become the basis of determining the salary levels of employees recruited for different positions. The salary of each employee is determined according to the employee's performance, ability, employment conditions and the salary standards set by the Company. Remuneration of Directors is determined by the Remuneration Committee with reference to the operating results of the Company, personal performance of the Director and market competition. The proposed remuneration of Directors requires approval by shareholders at annual general meeting.

FINANCIAL REVIEW

For the year ended 31 December 2009, the Group recorded turnover of RMB1,878,495,000, representing an increase of 24.0% over the previous year and net profit attributable to shareholders of the Group was RMB633,864,000, representing an increase of 31.4% over the previous year.

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

FINANCIAL SUMMARY

	Audited		
	2009	2008	Growth
	RMB'000	*RMB'000*	*%*
Turnover	**1,878,495**	1,514,367	24.0
Gross profit	**1,001,259**	758,233	32.1
Profit before interest, tax, depreciation and amortization (note)	**642,749**	550,131	16.8
Net profit attributable to owners	**633,864**	482,394	31.4

Note: Exclude share of profits from a jointly controlled entity and an associate.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during the year ended 31 December 2009. As at 31 December 2009, the Group's cash and bank balance amounted to approximately RMB723,167,000. For the year ended 31 December 2009, net cash flow from operating activities of the Group amounted to approximately RMB479,074,000. The Group has maintained a sound cash flow position.

During the year under review, the Group repaid bank borrowings in aggregate of approximately RMB1,844,000. As at 31 December 2009, the Group has repaid all domestic bank borrowing, except the long term borrowing from the International Finance Corporation ("IFC"). As at 31 December 2009, the total amount of bank and other borrowings payable within one year was approximately RMB37,415,000 (including borrowing from IFC for RMB 22,761,000 and bank loans secured by the pledge of bill receivables for RMB 14,654,000) (2008: RMB1,716,000) and the total amount of bank and other borrowings payable after one year amounted to approximately RMB113,803,000 (2008: RMB136,692,000).

Total interest expense of the Group for the year ended 31 December 2009 was RMB4,003,000 (2008: RMB30,656,000).

GEARING RATIO

As at 31 December 2009, the total net cash of the Group amounted to RMB586,603,000 (2008: RMB692,011,000). The change in the total net cash was mainly due to the increase in capital expenditune in 2009.

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. For the year ended 31 December 2009, the Group has not encountered any material difficulty due to currency fluctuation nor shortage of the operating funds. For the twelve months ended 31 December 2009, the Group had no significant exposure to foreign exchange fluctuation or hedging for such risk.

Due to the change in exchange rates, foreign exchange loss equivalent to approximately RMB1,799,000 for the year ended 31 December 2009 was recognised (2008: total foreign exchange gain was RMB 5,517,000).

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as of 31 December 2009.

MATERIAL INVESTMENTS IN SUBSIDIARIES/ 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 year, the Group invested approximately RMB106,759,000 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 year, 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 in total 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. 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 year, so as to enable the Group to enjoy a higher scale of economy and cost advantages.

Save for the above material investment plans, the Group had no material capital commitments or any future plans of significant investments or capital assets acquisition as of 31 December 2009, and there were no material acquisition and disposal in any other subsidiary and associate during the year.

CAPITAL COMMITMENTS

As at 31 December 2009, the capital commitments of the Group contracted but not provided for in respect of the acquisition of property, plant and equipment amounted to approximately RMB230,718,000 (2008: RMB41,924,000), in which the capital commitment in respect of the re-location of a new plant amounted to RMB107,831,000.. The Group will pay the amount from the internal resources.

PLEDGE OF THE GROUP's ASSETS

As at 31 December 2009, the Group had pledged land use rights and buildings with a net book value of approximately RMB84,593,000 (2008: RMB196,744,000) and pledged bank deposits of RMB100,258,000 (2008: RMB75,020,000) to secure bills and banking facilities.

RESERVES AND DISTRIBUTABLE RESERVES

As at 31 December 2009, the total reserves of the Group amounted to RMB2,832,055,000 (2008: 2,369,104,000).

Under the PRC laws and regulations, the Company's distributable reserves will be based on the lower of the amount calculated according to the PRC accounting principles and rules and the amount calculated according to the Hong Kong generally accepted accounting principles. As at 31 December 2009, the distributable reserves of the Company were RMB409,134,000 (2008: RMB292,506,000).

OUTLOOK

In 2009, the Group faced various challenges in the areas of operation and development. Firstly, there was a general trend to delay payments among the core direct sale customers of the Group, thereby increased the difficulty in long term credit risk control. Secondly, since the second half of the year, PVC based raw material prices increased continuously, imposing huge pressure on costs control and profitability of the conventional products of the Group. Thirdly, the collaboration with Medtronic was still at early teething stage and, as such, the value of strategic collaboration has yet to be materialised. This has led to drop in profit contribution from orthopaedic business to the Group. It has also posed severe challenge in meeting the Group's targeted growth. Fourthly, due to the rapid business expansion in recent years, there were problems relating to managing the market and sales channel. The Group took action to rectify the issues and sales growth of some products had been affected to a certain extent. However, those rectifications laid a solid foundation for the Group's further development. Lastly, underestimating the difficulty in achieving stable product quality in production since obtaining product registration in blood purification products led to the delay in production and marketing of such products. This has impacted on the sales plan. However, experience gained from the implementation of the first production line laid a strong foundation for the rapid growth of this segment in the future.

While faced with unfavorable factors, the Group leveraged from its product range and product lines diversification. The Group focused on adjusting its product mix to increase the sales in high value added products, including intravenous catheters and high end infusion sets of minimal dosage, light proof and non PVC based infusion sets, blood sampling products and safety syringes. Sales of these products raised the profitability of the Group. In dealing with the delay in settlement from customers, the Group adopted moderately tightened credit policy to control the potential expanded credit risk. The Group promoted modification in product mix with limited increase in credit granted. This will strengthen the Group's leading position in high value consumables and it paved the way for further product mix adjustment. The Group also increased its effort in collecting receivables by appropriately offering attractive terms for early settlement from the customers, resulting in a reduction of total receivables balance. This increased the proportion of the sales expenses in the short term, but the management considered that it would generate sustainable and healthy cash flow to the Group in the long run.

Looking ahead, the Directors expect that with the increase in awareness in healthcare, various level of governments' huge investment under the healthcare reform and gradual implementation of universal health care coverage, it will drive continuous, steady and rapid growth of the single-use medical devices in China. In particular, the gradual expansion of mid and low end market size and share will be most obvious. This sets the direction for strategic mergers and acquisitions and market development. Taking into account continuous changes in market conditions, with break through in product mix adjustment and external factors for industry consolidation becoming favorable, the management will continue to be proactive in business development.

In 2010, the management expects the prices of raw materials will continue to be on an upward trend. The rise in labor cost coupled with the economic recovery will also exert a greater pressure on costs. In general, easing pressure will be the top priority of the Group. Moreover, with the tender opening of the high end consumables in 2010, the management expects there will have a greater pressure on cardiovascular stent prices, which will affect the earning growth of this business segment. With the increase in trade protection, there will be few progress in export market in the short term. As a result, certain verbally agreed export order may also be terminated. Therefore, it will still be a year full of challenges in 2010. The management has identified the following priorities:

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. The Group will continue to 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 in value segment market M&A strategy. The Group will adhere to the principles of reasonable valuation and stable operations. Under the premises of enhancing mutual benefits, the Group will promote negotiations with potential partners in the industry and at an appropriate timing, implements value segment market M&A strategy.

3. Continue to gradually drive the international sales. The Group will seek distribution partners in the international markets 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 consumable on price advantages. The Group will maintain and expand its overseas market share of products with competitive advantages with an aim to lay the foundation to participate in the international market competition in the future.

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 considered that, despite the fact that cooperation with Medtronic has affected the profitability of the Company in the short term, the long-term value of international cooperation will gradually emerge. Under the principle of complementary strengths and based on the China market, the Group will advance the strategic collaboration with renowned international players in other areas.

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. The Group will increase its effort in negotiating with the government for the Group to enter into the dialysis service sector and to create a new business segment. The Group strives for the opportunity to participate in blood purification service market and to provide better services to dialysis patients.

6. Continue to place further resources on research and development, and product registration in wound management, in vitro fertilization, cardiac surgery for early introduction to the market and to further expand the Group's product range.

Report of The Supervisory Committee

To all shareholders:

The Supervisory Committee (the "Supervisory Committee") of Shandong Weigao Group Medical Polymer Company Limited, in compliance with the relevant laws and regulations and the Articles of Association of the Company, has conducted its work in accordance with the fiduciary principle, and has taken up an active role to work seriously and with diligence to protect the interests of the Company and its shareholders.

During the year, the Supervisory Committee had reviewed cautiously the development plans of the Company and provided reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the Articles of Association of the Company, and in the interests of its shareholders.

We have reviewed and agreed to the report of the Directors, audited financial statements and the dividend to be proposed by the Board for presentation at the forthcoming annual general meeting. We are of the opinion that the Directors, the chief executive officer and other senior management of the Company are able to strictly observe their fiduciary duty, to act diligently, to exercise their authority faithfully in the best interests of the Company and to work in accordance with the Articles of Association of the Company. The operation is becoming more regulated and the internal control is becoming more perfect. The transactions between the Company and connected parties are in the interests of the shareholders as a whole and under fair and reasonable price.

As of today, none of the Directors, chief executive officer and senior management staff had been found to have abused their authority, damaged the interests of the Company or infringed upon the interests of its shareholders and employees. None of them was found to be in breach of any laws and regulations or the Articles of Association of the Company.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2009 and has great confidence in the future prospect of the Company.

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

Weihai, Shandong Province, the PRC
15 March 2010

Corporate Governance Practices

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

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

The following summarizes the corporate governance practices of the Company:

A. Directors

Board of Directors

The Board meets at least quarterly. Regular meetings are convened once every three months. Directors can attend meetings in person or by means of electronic communication. Set out below is the number of Board meetings of the Company convened in year 2009 and the individual attendance of every Director:

Number of Board meetings held during the year 2009: 7

Details of individual attendance of each Director:

	Attendance in 2009 (%)
Executive Directors	
Mr. Zhang Hua Wei	100%
Mr. Wang Yi	100%
Mr. Miao Yan Guo	100%
Mr. Wang Zhi Fan	100%
Mr. Wu Chuan Ming	100%
Non-executive Directors	
Mr. Chen Xue Li	100%
Ms. Zhou Shu Hua	100%
Mr. Li Bing Yung	100%
Mr. Jean-Luc Butel	17%
Independent non-executive Directors	
Mr. Shi Huan	71%
Mr. Luan Jian Ping	100%
Mr. Lo Wai Hung (appointed on 10 August 2009)	100%
Mr. Li Jia Miao	100%
Mr. Lau Wai Kit (resigned on 25 June 2009)	100%

Notices of all regular Board meetings are issued 10 days before the meetings.

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

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

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

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

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

Chairman and Chief Executive Officer

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

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

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

Composition of the Board

The Board comprises 13 Directors, of which four are independent non-executive Directors, four are non-executive Directors and five are executive Directors. Lau Wai Kit resigned as an independent non-executive director, chairman of audit committee and a member of remuneration committee of the Company on 25 June 2009. On 10 August 2009, Mr. Lo Wai Hung was appointed as independent non-executive Director, chairman of audit committee and a member of remuneration committee of the Company. The Directors as at 31 December 2009 are:

Executive Directors:	Mr. Zhang Hua Wei, Mr. Wang Yi, Mr. Miao Yan Guo, Mr. Wang Zhi Fan and Mr. Wu Chuan Ming
Non-executive Directors:	Mr. Chen Xue Li , Ms. Zhou Shu Hua, Mr.Li Bing Yung and Mr. Jean-Luc Butel
Independent non-executive Directors:	Mr. Shi Huan, Mr. Luan Jian Ping, Mr. Li Jia Miao and Mr. Lo Wai Hung

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

Experience

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

Nomination, Appointment and removal of Directors

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

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

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

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

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

Directors' responsibility

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

The Company has adopted a code of conduct regarding transactions in securities by directors on no less exacting terms than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Specific enquiries have been made with all Directors of the Company and they have confirmed that they have fully complied with the required standard of dealings and the code of conduct of the Company regarding securities transactions throughout the year 2009.

B. Remuneration of Directors and Senior Management

Remuneration Committee

The Company established a remuneration committee on 12 August 2005 in accordance with the requirement of the Code. The remuneration committee comprises four independent non-executive Directors, namely Mr. Shi Huan, Mr. Luan Jian Ping, Mr. Li Jia Miao and Mr. Lo Wai Hung. The chairman of the remuneration committee is Mr. Shi Huan.

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

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

Remuneration of Directors is subject to annual assessment and recommendation by the Remuneration Committee to the Board for further review and approval, which subsequently require approval by the shareholders at annual general meeting. The primary goal of the remuneration policy on executive remuneration packages is to enable the Company to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives. Under the policy, a Director is not allowed to approve his own remuneration.

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

C. Accountability and Audit

Financial Reporting

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

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

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

Internal control

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

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

Audit committee

The audit committee of the Company comprises independent non-executive Directors, namely Mr. Lo Wai Hung (appointed on 10 August 2009), Mr. Shi Huan, Mr. Luan Jian Ping and Mr. Li Jia Miao and a non-executive Director, Ms. Zhou Shu Hua. The chairman is Mr. Lo Wai Hung.

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

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

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

➢ To review the adequacy of staffing of the financial reporting functions of the Company.

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

During the year of 2009, the audit committee has convened four meetings, at which, they have primarily discussed and reviewed the quarterly, interim and annual results and have discussed and considered the internal control procedures of the Group. The attendance of each Director is set out below:

	Attendance in 2009 (%)
Independent non-executive Directors	
Mr. Lo Wai Hung (appointed on 10 August 2009)	100%
Mr. Shi Huan	75%
Mr. Luan Jian Ping	100%
Mr. Li Jia Miao	100%
Mr. Lau Wai Kit (resigned on 25 June 2009)	100%
Non-executive Director	
Ms. Zhou Shu Hua	100%

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

There was no disagreement between the audit committee and the Board in respect of the selection, appointment, resignation or removal of external auditors during the year of 2009.

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

In 2009, the audit fees paid to the external auditors by the Company was approximately RMB1,916,000.

D. Mandate Granted to the Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

E. Communications with shareholders

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

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

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

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

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

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

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

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

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

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

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

Directors

Executive Directors

Mr. Zhang Hua Wei, age 46, is the vice chairman and general manager of the Company and vice chairman of Weigao Holding. Mr. Zhang studied politics and economics at the Weihai Campus of Shandong University from 1996 to 1998. Mr. Zhang was the deputy factory director of Weigao Holding from 1988 to 1998, and has been the general manager of Weigao Holding since 1998. Mr. Zhang joined the Company in December 2000.

Mr. Miao Yan Guo, age 47, is an executive Director and deputy general manager of research and development of the Company. Mr. Miao studied Business Administration at the Weihai Campus of Shandong University from 1999 to 2001. Mr. Miao joined Weigao Holding in 1988 and was sales director from 1988 to 1991, operating manager from 1991 to 1993 and head of the No. 1 branch of Weigao Holding from 1993 to 1998. He was a deputy general manager of Weigao Holding from 1998 to 2000. Mr. Miao joined the Company in December 2000.

Mr. Wang Yi, age 50, is an executive Director and deputy general manager of general affairs of the Company. Mr. Wang studied Business Administration at the Shandong Cadres Distance Learning University from 1994 to 1997. He joined Weigao Holding in 1988 and was production director from 1988 to 1989, head of the No. 2 branch of Weigao Holding from 1989 to 1992 and manager of the No. 3 branch of Weigao Holding from 1992 to 2004 of sales. Mr. Wang joined the Company in December 2000.

Mr. Wang Zhi Fan, age 54, is an executive Director and deputy general manager of sales of the Company. He joined Weigao Holding in 1988 and was the production head and the manager of foreign trade of Weigao Holding. Mr. Wang joined the Group in December 2000.

Mr. Wu Chuan Ming, age 51, is an executive Director and deputy general manager of production of the Company. Mr. Wu joined Weigao Holding in 1988. He has been the manager of the blood transfusion branch from 1996 to 2004. He joined the Group in December 2000.

Non-executive Directors

Mr. Chen Xue Li, age 58, is the Chairman of both the Company and Weigao Holding. Mr. Chen founded Weigao Holding in 1988, and was the head of it from 1988 to 1998, Mr. Chen has been elected as the chairman of the Company since December 2000. He received the award of Entrepreneur of Weihai Economy Development in June 2003.

Ms. Zhou Shu Hua, age 53, is a non-executive Director of the Company and financial deputy general manager of Weigao Holding. Ms. Zhou studied Business Administration at the Weihai Campus of Shandong University from 1999 to 2001. Ms. Zhou joined Weigao Holding in 1989 and held a number of positions such as head of the finance division in the finance department, manager of the finance department and deputy general manager of Weigao Holding.

Mr. Li Bing Yung, age 60, is and has been the President of Medtronic's operations in the Greater China region since February 2007. Prior to his current position, Mr. Li served as vice president of the commercial operations section of Medtronic's operations in the greater China region. Mr. Li has extensive experience in management in the Asia Pacific region. From 1996 to 2005, Mr. Li was with Johnson & Johnson Medical (China) Co. Ltd. where he held a number of executive positions and he was subsequently promoted to International Vice President in North Asia. Mr. Li graduated with a bachelor degree in Social Sciences from the University of Hong Kong in 1976 and obtained a master degree in Business Administration from Henley Management School of the United Kingdom in 1989. Mr. Li was appointed as a non-executive Director of the Company on 15 December 2008.

Mr. Jean-Luc Butel, age 53, is executive vice president of Medtronic, Inc. ("Medtronic") and the President of Medtronic International Limited. Mr. Butel is responsible for all of Medtronic's operations outside of the United States. Prior to holding his current position, Mr. Butel served as President of Medtronic in Asia Pacific region and he was responsible for managing and driving all business activities for Medtronic in the Asia Pacific region. Prior to joining Medtronic, he was the president of Independence Technology, a Johnson & Johnson company, where he focused on providing mobility systems for the movement impaired. From 1991 till 1999, he worked for Becton Dickinson, initially as the general manager of its microbiology business in Japan and then as President of Nippon Becton Dickinson. From 1985 to 1991, Mr. Butel was with Johnson & Johnson and served multiple roles including general manager of Fiji, China project manager and marketing director of Johnson & Johnson's ophthalmic business in Southeast Asia. Mr. Butel has a bachelor degree in International Affairs from George Washington University and a master degree in Business and Administration from American Graduate School of International Management (Thunderbird). Mr. Butel was appointed as a non-executive Director of the Company on 15 December 2008.

Independent non-executive Directors

Mr. Shi Huan, age 73, is an independent non-executive Director. Mr. Shi is the president of China Pharmaceutical Association of Plant Engineering, a senior engineer and a former deputy head of State Pharmaceutical Administrative Bureau. He was appointed as an independent non-executive Director in September 2002.

Mr. Luan Jian Ping, age 56, is an independent non-executive Director. Mr. Luan studied philosophy and logic at the People's University of China from 1979 to 1986. He also studied Business Administration at the Aston University in the United Kingdom from 1992 to 1994. He obtained a PRC Lawyer's License issued by the Ministry of Justice of the PRC in October 1996 and is currently a partner of Beijing De Run Law Firm. He was appointed as an independent non-executive Director of the Company in September 2002.

Mr. Li Jia Miao, age 70, is an independent non-executive Director. Mr. Li is a senior economist and obtained a degree in economics and management in Hohai University in 1998. Mr. Li has over 30 years of pharmaceutical related management experiences and has been an assistant general manager and a general manager in Nanjing Pharmaceutical Company since he joined NPC in 1965. Prior to the retirement of Mr. Li in 2005, he was the chairman of Nanjing Pharmaceutical Company Limited since 2000. He was appointed as an independent non-executive director of the Company on 28 February 2007.

Mr. Lo Wai Hung, age 50, obtained a bachelor degree in Commerce from James Cook University of North Queensland, Australia. Mr. Lo is an associate member of Institute of Chartered Accountants in Australia and a fellow member of Hong Kong Institute of Certified Public Accountants. Mr. Lo was appointed as an independent-non-executive director, chairman of audit committee and a member of remuneration committee of the Company on 10 August 2009.

Supervisors

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

Ms. Bi Dong Mei, age 46, is a supervisor of the Company and the director of the purchase department. Ms. Bi graduated from the Economic Management Department of Shandong Cadres Distance Learning University in 1997. She joined Weigao Holding in December 1988 and has been the head of the finance division and the deputy manager of the infusion sets branch from 2001 to 2004. She joined the Company in December 2000.

Mr. Miao Hai Sheng, age 37, is a supervisor of the Company and the project manager of auxiliary pre-filled syringe branch. Mr. Miao graduated from the Weihai Campus of Shandong University in 1997, majoring in operation management. He joined Weigao Holding in 1991 and has been the accountant, finance director, the labour and management officer of Weigao Holding. He joined the Company in December 2000.

Ms. Chen Xiao Yun, age 36, is a supervisor of the Company and the manager of marketing and finance department. Ms. Chen studied financial accounting at the Shandong Broadcast and Television University from 1994 to 1998. She joined Weigao Holding in July 1991 and was the head of the finance division in finance department and the assistant to the manager of infusion sets branch. She joined the Company in December 2000.

Senior Management

Mr. Jiang Qiang, age 37, is the head of corporate strategy and the deputy general manager of the Company. Mr. Jiang obtained a master degree in Accounting from Northeast University of Finance and Economics in the PRC in 1998. He has extensive experience in accounting and financial management. Mr. Jiang joined the Company in June 2002.

Mr. Chen Xiao Tong, age 43, is the head of production of the Company. Mr. Chen obtained a diploma in economics and management from Shandong Broadcasting and Television University and Mr. Chen join the Group in 1992 and has been the sales manager and deputy general manager in subsidiaries of the Group. Mr Chen has over 20 years of valuable experiences in medical device industry.

Mr. Song Xiu Shan, age 46, is the head of sales department of the Company. Mr. Song was graduated from University of Shandong, major in corporate administration in 2001, and studied in an advanced business administration program administered by the People University of China from 2002 to 2004. Mr. Song joined Weigao Holding in June 1992, and has been the manager of the Beijing sales branch of Weigao Holding, marketing manager of infusion device branch of Weigao Holding, and has extensive experience in corporate marketing. He joined the Company in December 2000.

Mr. Ju Hong Feng, age 35, is the chief financial officer of the Company. Mr. Ju graduated from in industry and commerce management from University of Shandong and studied in an advanced business administration program administered by the People's University of China from 2002 to 2004. Mr. Ju joined the Company in 2002 and has been the manager of financial and accounts department of the Company. Mr. Ju has over 10 years of valuable experiences in finance and accounting industry.

Mr Zhou De Jun, age 51, is the deputy general manager (blood transfusion division) of the Company. Mr. Zhou obtained a diploma of economics and management from the Communist Party Colleague of Shandong province. Mr. Zhou joined the Company in November 1992 and has been the deputy manager and deputy general manager of the subsidiaries of the Company. Mr. Zhou has about 20 years of valuable experience in medical device industry in China.

Ms. Chan Yuk Ying, Phyllis, age 49, is the head of business developement and investor relations and is a chartered accountant with the Institute of Chartered Accountants in Australia and joined the Company in May 2006. Ms. Chan has over 20 years of experience in accounting and corporate finance.

Ms. Wong Miu Ling, Phillis, age 41, is the company secretary of the Company. Ms. Wong joined the Company in May 2006. She is an associate member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Ms. Wong has over 15 years of experience in corporate finance and management.

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2009.

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

PRINCIPAL ACTIVITIES

Based in Shandong province, the Company is principally engaged in the research and development, production and sale of single-use medical devices. The Group has a wide range of products, which includes: 1) consumables (infusion set, syringes, medical needle, blood bags, dental and anaesthetic consumables, blood sampling products, and other consumables); 2) orthopedic materials; 3) blood purification consumables; and 4) stent. The Group's products are sold under its own brand names, including "Jierui" and "Wego Ortho". The products are sold throughout the PRC and exported to overseas. The Company has a nationwide sales network and an extensive customer base of over 5,140 healthcare organizations, including over 2,900 hospitals and 410 blood stations.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 49 of this annual report.

An interim dividend of RMB0.072 per share amounting to approximately RMB77,493,000 was paid during the year. The Directors now recommend the payment of a final dividend of RMB0.105 per shares to the shareholders on the register of members on Monday, 10 May 2010 amounting to approximately RMB113,010,000 and the retention of the remaining profit for the year of approximately RMB520,384,000.

PROPERTY, PLANT AND EQUIPMENT

The Group acquired property, plant and equipment during the year of 2009 at an aggregate cost of approximately RMB325,944,000 (including RMB409,134,000 being the deposit for acquisition of property) in order to enhance its production capacity. Details of movements in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL

As at 31 December 2009, there was a total issued share capital of 1,076,281,081 shares of the Company (the "Shares") which include:

	Number of Shares	Approximate percentages
Non-listed Shares	648,160,000	60.2%
H Shares	428,121,081	39.8%

The changes in share capital of the Company is set out in note 30 to the Financial Statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2009, an amount of approximately RMB409,134,000 (2008: RMB292,506,000) standing to the credit of the Company's reserve account, which is computed based on the lower of , (i) in accordance with the PRC accounting standards and regulation, the aggregate amount of profit after taxation for the year and (ii) in accordance with Hong Kong accounting standards and regulation, the retained profit brought forward after deduction of the current year's appropriation to the statutory surplus reserve and statutory public welfare fund.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year were:

EXECUTIVE DIRECTORS:

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

NON-EXECUTIVE DIRECTORS

Mr. Chen Xue Li
Ms. Zhou Shu Hua
Mr. Li Bing Yung
Mr. Jean-Luc Butel

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Luan Jian Ping
Mr. Shi Huan
Mr. Li Jia Miao
Mr. Lo Wai Hung (appointed on 10 August 2009)
Mr. Lau Wai Kit (resigned on 25 June 2009)

Each of the executive and non-executive directors entered into service agreements with the Company. The service contracts were signed for an initial term of three years, unless and until terminated by either party by giving notice to the other party with three months' notice in writing. In accordance with the Company's articles of association, the service agreements of all directors are renewable for successive three-year terms upon expiry.

The service agreements for executive and non-executive directors do not stipulate for any amount of remuneration or bonus payment to be paid for services provided. The executive directors are paid with a fixed sum of annual salaries for holding positions in the Company and entitled to welfare benefits (including retirement benefits and medical insurance) in accordance with the relevant laws and regulations in the PRC. All four non-executive directors waived their directors' remuneration for the year ended 31 December 2009 and accepted a nominal annual fee of RMB1.00.

According to the respective service agreements entered into between the Company and each of the three independent non-executive directors, Mr. Luan Jian Ping, Mr. Li Jia Miao and Mr. Shi Huan who receive an annual fee of RMB66,000. Mr. Lo Wai Hung received an annual fee of HK$120,000.

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS AND LONG POSITIONS IN SHARES

As at 31 December 2009, the interests of the directors in the share capital of the Company and their associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the registered required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of Rule 5.46 of the GEM Listing Rules, were as follows:

(i) Long positions of non-listed 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 holder of the Company's 50,000 non-listed Shares, representing 0.005% of the issue share capital of the Company.

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

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

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 issued share capital of the Company.

Name of Shareholder	Capacity	Number of non-listed shares	Percentage of issued non-listed Shares	Number of H Shares	Percentage of total issued share capital
Weigao Holding	Beneficial owner	532,438,919	82.1%	—	49.5%
Medtronic Inc.	Beneficial owner	80,721,081	12.5%	80,721,081	15.0%

Save as disclosed above, the following shareholders have disclosed their relevant interests or long positions in the issued share capital of the Company.

Name of substantial shareholder	Number of H shares interested	% of issued H share capital
Medtronic, Inc.	80,721,081(L)	23.24(L)
Atlantis Investment Management Limited	47,306,000(L)	11.05(L)
JPMorgan Chase & Co.	46,746,000(L)	10.92(L)
	44,726,356(P)	10.45(P)
FMR LLC	25,338,000(L)	5.92(L)

* *Notes: (L) - Long Position, (P) - Lending Pool*

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 8.7% of the total sales for the year and sales to the largest customer included therein accounted for 6.1% of the total sales of the year. Purchases from the Group's five largest suppliers accounted for 28.1% of the total purchases for the year and purchases to the largest supplier included therein accounted for 8.0% of the total sales of the year. During the year, none of the directors of the Company or any of their associates or any shareholders (which to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the top five customers and suppliers of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive right under the Company's articles of association 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.

COMPETITION AND CONFLICT OF INTERESTS

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Company recorded transactions under the following announced agreements which constitute connected transactions and continuing connected transactions, and are subject to reporting and announcement requirements and exempt from independent shareholders' approval requirements under Rule 20.34 of the GEM Listing Rules.

CONNECTED TRANSACTIONS

1. On 19 August 2009, Weigao Blood, a 70% owned subsidiary of the Company entered into the first sale and purchase agreement with Weigao Holding, a substantial shareholder of the Company which holds 49.5% equity interest in the Company. Under the first sale and purchase agreement, Weigao Holdings agreed to sell the land use rights of a parcel of land located at 威海市初村鎮地號 14-2-56-4 (No 14-2-56-4, Zhu Cun Zhen, Weihai, Shandong Province, the PRC) to Weigao Blood at a consideration of approximately RMB 11.2 million. The land shall be used for construction of production plant of blood purification products.

2. On 19 August 2009, the Company entered into the second sale and purchase agreement with Weigao Holding. Under the second sale and purchase agreement, Weigao Holdings agreed to sell the land use rights of a parcel of land located at 威海市初村鎮地號14-2-56-3 (No 14-2-56-3, Zhu Cun Zhen, Weihai, Shandong Province, the PRC) to the Company at a consideration of approximately RMB 10.6 million. The land shall be used for construction of test centers for medical consumable products.

CONTINUING CONNECTED TRANSACTIONS

1. On 18 December 2007, the Company and Medtronic International Limited entered into a distribution joint venture agreement ("Distribution JV Agreement") in respect of the establishment of the distribution joint venture in the PRC which specialize in the sale and distribution of orthopedic medical device products in the PRC. Following the completion of the Distribution JV Agreement, the entering of the transaction between the Distribution JV and the Company constitutes continuing connected transaction for the Company and the annual cap for the year ended 31 December 2009 was RMB230.0 million. During the year under review, the actual amount of products sold by the Company to the Distribution JV was approximately RMB118.3 million.

2. On 20 March 2008, the Company entered into a supplemental agreement with Weihai Weigao Fusen Medical Materials Company Limited (" Weigao Fusen"), a 70% owned subsidiary of Weigao Holding, pursuant to which the Company purchased from Weigao Fusen surgical suture, medical dressing and surgical tape with an annual cap of less than RMB 12.0 million during the three years contract period from 1 February 2008 to 31 January 2011. For the year under review, the actual amount of transaction was approximately RMB11.7 million.

3. On 20 March 2008, Weihai Weigao Blood Purification Products Company Limited, ("Weigao Blood"), a 70% owned subsidiary of the Company entered into the peritoneal dialysis fluid supply agreement with Shandong Weigao Pharmaceutical Company Limited ("Weigao Pharmaceutical"), a non-wholly owned subsidiary of Weigao Holding for the purchase of peritoneal dialysis fluid, substitution liquid, potassium power and calcium power with an annual cap of less than RMB3.0 million during the contract period of 3 years from 1 April 2008 to 31 March 2011. For the year under review, the actual transaction amount was approximately RMB 2.3 million.

4. On 20 March 2008, Weigao Holding, a controlling shareholder of the Company as the landlord entered into the tenancy agreement with the Company as the tenant in respect of the lease of premises located at 369 Wenhua Road West, Weihai, Shandong, the PRC. The annual rental paid by the Company was RMB1.7 million in 2009.

5. On 30 December 2008, Weigao Jierui Medical Products Company Limited ("Jierui Subsidiary") , a wholly owned subsidiary of the Company entered into the packaging material supply agreement for a period of three years from 1 January 2009 to 31 December 2011 with Weigao Pharmaceutical, a non wholly owned subsidiary of Weigao Holding, for the sales of packaging materials from Jierui Subsidiary to Weigao Pharmaceutical with an annual cap of less than RMB9.0 million. For the year under review, the actual transaction amount was approximately RMB 4.0 million.

6. On 29 July 2009, Weigao Orthopaedic and Medtronic SD entered into OEM agreement regarding the manufacturing and sale of orthopaedic products by Weigao Orthopaedic to Medtronic SD during the contract period from 29 July 2009 to 31 December 2009 with a cap of less than RMB30.0 million. The actual amount of transaction for the year was approximately RMB6.9 million.

7. On 11 December 2009, Weigao Medical Materials Company Limited ("Weigao Medical Materials") entered into a supply agreement with Jierui Subsidiary regarding the supply of packaging materials and printing ink by Weigao Medical Materials to the Company during the period from15 December 2009 to 31 December 2009 with a cap of less than RMB 3.0 million. For the year under review, the actual transaction amount was approximately RMB1.1 million.

8. On 11 December 2009, HeZe Weigao entered into a medical supplies agreement with the Company regarding the supply of medical products for an annual cap of less than RMB 5.0 million for a period from 1 January 2010 to 31 December 2011. For the year under review, there was no transactions recorded under the agreement.

9. On 4 May 2009, Weihai Weigao Biotech Company Limited ("Weigao Biotech"), a wholly owned subsidiary of Weigao Holding entered into a supply agreement with the Company for the supply of sterilizers to the Company by Weigao Biotech with an annual cap of less than RMB 2.0 million. During the year under review, there was no transaction recorded under the agreement.

The above connected transactions and continuing connected transactions have been reviewed by the independent non-executive directors of the Company. The independent non-executive directors have confirmed that the continuing connected transactions have been entered into (a) in the ordinary and usual course of business of the Company; (b) on normal commercial terms or on terms no less favourable than those available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests the shareholders of the Company as a whole.

The Directors, including the independent non-executive directors, of the Company are of the view that all of the above transactions were on normal commercial terms and in the ordinary and usual course of business of the Company and that the terms of the relevant agreements were fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company confirms that the continuing connected transactions as disclosed above fall under the definition of continuing connected transactions in Chapter 20 of the GEM Listing Rules and that the Company has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company set up an audit committee with terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company. The audit committee has five members comprising Mr. Lo Wai Hung, Mr. Shi Huan, Mr Luan Jian Ping and Mr Li Jia Miao, being independent non-executive directors and Ms. Zhou Shu Hua, a non-executive director.

During the Year, the audit committee held four meetings and the committee had reviewed and approved the annual report for the year ended 31 December 2008 and the first three quarterly reports of the year 2009. On 15 March 2010, the audit committee had reviewed and approved the financial statements for the year ended 31 December 2009.

The unaudited quarterly and interim results and audited annual results for the year ended 31 December 2009 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

AUDITORS

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

On behalf of the Board
Chen Xue Li

Chairman

Weihai, Shandong, the PRC
15 March 2010

Deloitte.
德勤

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

We have audited the consolidated financial statements of Shandong Weigao Group Medical Polymer Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 114, which comprise the consolidated statement of financial position as at 31st December, 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
15th March, 2010

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2009

	NOTES	2009	2008
		RMB'000	*RMB'000*
Revenue	7	**1,878,495**	1,514,367
Cost of sales		**(877,236)**	(756,134)
Gross profit	11a	**1,001,259**	758,233
Other income, gains and losses		**68,991**	78,074
Distribution costs		**(321,319)**	(208,747)
Administrative expenses		**(180,941)**	(137,251)
Finance costs	9	**(4,003)**	(30,656)
Share of profit of a jointly controlled entity		**109,369**	55,981
Share of profit of an associate		**31,604**	8,448
Profit before taxation		**704,960**	524,082
Income tax expense	10	**(71,782)**	(38,977)
Profit for the year	11b	**633,178**	485,105
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**216**	(609)
Total comprehensive income for the year		**633,394**	484,496
Profit for the year attributable to:			
Owners of the Company		**633,864**	482,394
Minority interests		**(686)**	2,711
		633,178	485,105
Total comprehensive income attributable to:			
Owners of the Company		**634,080**	481,785
Minority interests		**(686)**	2,711
		633,394	484,496
Earnings per share - basic	14	**RMB0.59**	RMB0.48

Consolidated Statement of Financial Position

At 31st December, 2009

	NOTES	2009 *RMB'000*	2008 *RMB'000*
Non-current assets			
Property, plant and equipment	15	**1,166,751**	922,475
Investment properties	16	**15,497**	16,090
Prepaid lease payments	17	**232,521**	130,844
Intangible assets	18	**23,963**	27,077
Interest in a jointly controlled entity	19	**240,389**	131,020
Interest in an associate	20	**65,268**	14,070
Goodwill	21	**202,900**	202,900
Deferred tax asset	29	**9,887**	7,867
		1,957,176	1,452,343
Current assets			
Inventories	22	**319,002**	292,118
Trade and other receivables	23	**852,192**	690,766
Pledged bank deposits	24	**100,258**	75,020
Bank balances and cash	25	**723,167**	830,419
		1,994,619	1,888,323
Current liabilities			
Trade and other payables	26	**771,565**	646,944
Bank borrowings - repayable within one year	27	**37,415**	1,716
Tax payable		**56,363**	31,665
		865,343	680,325
Net current assets		**1,129,276**	1,207,998
		3,086,452	2,660,341
Capital and reserves			
Share capital	30	**107,628**	107,628
Reserves		**2,832,055**	2,369,104
Equity attributable to owners of the Company		**2,939,683**	2,476,732
Minority interests		**3,183**	8,191
Total equity		**2,942,866**	2,484,923
Non-current liabilities			
Bank borrowings - repayable after one year	27	**113,803**	136,692
Other payable	28	**29,783**	38,726
		143,586	175,418
		3,086,452	2,660,341

The consolidated financial statements on pages 49 to 114 were approved and authorised for issue by the Board of Directors on 15th March, 2010 and are signed on its behalf by:

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

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium reserve RMB'000	Statutory surplus reserve RMB'000 (Note)	Translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January, 2008	99,556	618,572	111,217	(244)	498,661	1,327,762	57,233	1,384,995
Profit for the year	—	—	—	—	482,394	482,394	2,711	485,105
Other comprehensive income for the year	—	—	—	(609)	—	(609)	—	(609)
Total comprehensive income for the year	—	—	—	(609)	482,394	481,785	2,711	484,496
Shares issued	8,072	774,598	—	—	—	782,670	—	782,670
Dividend paid	—	—	—	—	(115,485)	(115,485)	—	(115,485)
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	(51,753)	(51,753)
At 31st December, 2008	107,628	1,393,170	111,217	(853)	865,570	2,476,732	8,191	2,484,923
Profit for the year	—	—	—	—	633,864	633,864	(686)	633,178
Other comprehensive income for the year	—	—	—	216	—	216	—	216
Total comprehensive income for the year	—	—	—	216	633,864	634,080	(686)	633,394
Dividend paid (Note 13)	—	—	—	—	(171,129)	(171,129)	—	(171,129)
Disposal of a subsidiary (Note 31)	—	—	—	—	—	—	(4,822)	(4,822)
Capital injection from minority shareholder							500	500
At 31st December, 2009	107,628	1,393,170	111,217	(637)	1,328,305	2,939,683	3,183	2,942,866

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

	NOTES	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		**704,960**	524,082
Adjustments for:			
Interest income		**(5,989)**	(3,841)
Interest expense		**4,003**	30,227
Depreciation of property, plant and equipment		**71,052**	56,586
Depreciation of investment properties		**593**	551
Prepaid lease payments charged to profit or loss		**3,675**	2,543
Allowances for bad and doubtful debts		**12,911**	4,487
Amortisation of intangible assets		**3,114**	3,114
Share of profit of a jointly controlled entity		**(109,369)**	(55,981)
Share of profit of an associate		**(31,604)**	(8,448)
Unrealised profit on sales to associate		**271**	9,136
Gain arising from establishing of an associate	20	**—**	(14,758)
Gain arising from increase in share of net assets of an associate	20	**(22,137)**	—
(Gain) loss on disposal of property, plant and equipment		**(200)**	497
Loss on fair value changes of derivative financial instrument		**—**	429
Loss on disposal of a subsidiary	31	**356**	—
Operating profit before working capital changes		**631,636**	548,624
Increase in inventories		**(30,326)**	(43,179)
Increase in trade and other receivables		**(176,436)**	(208,292)
Increase in trade and other payables		**103,304**	156,178
Decrease in derivative financial instrument		**—**	(1,926)
Net cash generated from operations		**528,178**	451,405
PRC income tax paid		**(49,104)**	(13,923)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**479,074**	437,482
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(318,396)**	(202,413)
Prepaid lease payments made		**(89,346)**	(4,928)
Acquisition of additional interest in a subsidiary		**(11,000)**	(106,414)
Dividend income received from an associate		**2,272**	—
Proceeds from disposal of property, plant and equipment		**5,494**	3,391
Interest received		**5,989**	3,841
(Increase) decrease in pledged bank deposits		**(25,238)**	12,462
Disposal of a subsidiary	31	**6,126**	—
NET CASH USED IN INVESTING ACTIVITIES		**(424,099)**	(294,061)

	2009 *RMB'000*	2008 *RMB'000*
FINANCING ACTIVITIES		
New borrowings raised	**14,654**	485,397
Repayments of borrowings	**(1,844)**	(685,416)
Issue of shares	**—**	782,670
Interest paid	**(4,624)**	(35,131)
Dividend paid	**(171,129)**	(115,485)
Capital injection from minority shareholder	**500**	—
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	**(162,443)**	432,035
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(107,468)**	575,456
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**830,419**	255,572
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET	**216**	(609)
CASH AND CASH EQUIVALENTS AT END OF YEAR, representing bank balances and cash	**723,167**	830,419

1. GENERAL

The Company was established and registered as a joint stock company with limited liability in the People's Republic of China (the "PRC") under the Company Law of the PRC on 28th December, 2000. Its immediate and ultimate parent is Weigao Holding Company Limited ("Weigao Holding"), a company registered in the PRC with limited liability. The address of the registered office and principal place of business of the Company is 312 Shi Chang Road, Weihai, Shandong Province, PRC.

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

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the research and development, production and sale of single-use medical products, orthopaedic products and blood products.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) - INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) - INT 13	Customer loyalty programmes
HK(IFRIC) - INT 15	Agreements for the construction of real estate
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation
HK(IFRIC) - INT 18	Transfers of assets from customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1st July, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

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

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

NEW AND REVISED HKFRSs AFFECTING PRESENTATION AND DISCLOSURE ONLY

HKAS 1 (Revised 2007) Presentation of financial statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 8) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

Improving disclosures about financial instruments (amendments to HKFRS 7 Financial instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The adoption of the amendments to HKFRS 7 does not have any impact to the Group.

NEW AND REVISED HKFRSs AFFECTING THE REPORTED RESULTS AND/OR FINANCIAL POSITION

HKAS 23 (Revised 2007) Borrowing costs

HKAS 23 (Revised) requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. The option of immediately expensing those borrowing costs is removed. The adoption of HKAS 23 (Revised) does not have any impact to the Group as the Group has already applied the accounting policy of capitalising the borrowing costs which is consistent with HKAS 23 (Revised).

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

NEW AND REVISED HKFRSs AFFECTING THE REPORTED RESULTS AND/OR FINANCIAL POSITION *(Continued)*

Amendments to HKAS 40 Investment property

As a result of amendments to HKAS 40 Investment property, investment property which is under construction will be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Any gain or loss will be recognised in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. Previously, such property was carried at cost until the construction was completed, at which time it was fair valued with any gain or loss being recognised in profit or loss. As the Group does not currently have any investment property under construction, this change in policy has no impact on net assets or profit or loss for any of the periods presented.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs May 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs April 2009[2]
HKAS 24 (Revised)	Related party disclosures[6]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of rights issues[4]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[5]
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions[3]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial instruments[7]
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners[1]
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments[5]

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

NEW AND REVISED HKFRSs AFFECTING THE REPORTED RESULTS AND/OR FINANCIAL POSITION *(Continued)*

1 Effective for annual periods beginning on or after 1st July, 2009.

2 Amendments that are effective for annual periods beginning on or after 1st July, 2009 and 1st January, 2010, as appropriate.

3 Effective for annual periods beginning on or after 1st January, 2010.

4 Effective for annual periods beginning on or after 1st February, 2010.

5 Effective for annual periods beginning on or after 1st July, 2010.

6 Effective for annual periods beginning on or after 1st January, 2011.

7 Effective for annual periods beginning on or after 1st January, 2013.

The application of HKFRS 3 (Revised) may affect the Groups accounting for business combination for which the acquisition date is on or after 1st January, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 "Financial instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

BASIS OF CONSOLIDATION

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

GOODWILL

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

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

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

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

REVENUE RECOGNITION

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INTANGIBLE ASSETS

Intangible assets acquired separately

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

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

RESEARCH AND DEVELOPMENT EXPENDITURE

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

RETIREMENT BENEFIT COSTS

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

TAXATION

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

LEASEHOLD LAND AND BUILDINGS UNDER DEVELOPMENT FOR FUTURE OWNER-OCCUPIED PURPOSE

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

INVESTMENT PROPERTIES MEASURED USING THE COST MODEL

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction. Investment properties under construction are stated at cost less any accumulated impairment losses.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

GOVERNMENT GRANTS

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions associated with the grant. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

JOINTLY CONTROLLED ENTITY

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the jointly controlled entity. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

ASSOCIATE

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint controlled entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

INVENTORIES

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS OTHER THAN FINANCIAL ASSETS AND GOODWILL (SEE THE ACCOUNTING POLICY IN RESPECT OF GOODWILL ABOVE AND FINANCIAL ASSETS BELOW)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

LEASING

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

The Group as lessor

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BORROWING COST

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

FOREIGN CURRENCIES

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

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

Financial assets

The Group's financial assets are loans and receivables.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial assets (Continued)

Impairment of financial assets

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS *(Continued)*

Financial liabilities and equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

Derivative financial instruments

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

DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

ESTIMATED IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The discount rate represents the rate that reflects current market assessments of time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. As at 31st December, 2009, the carrying amount of goodwill is RMB202,900,000. Details of the recoverable amount calculation are disclosed in note 21.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 27, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

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

6. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

	2009	2008
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,604,028**	1,509,746
Financial liabilities		
Amortised cost	**883,475**	754,768

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Market risk

Currency risk

At the end of the reporting period, the major financial liabilities of the Group denominated in currencies other than the functional currency of the respective group entities are bank borrowings and the amounts are disclosed in note 27.

The carrying amounts of the Group's foreign currency denominated monetary liabilities at the end of the reporting date are as follows:

	Liabilities	
	2009	2008
	RMB'000	*RMB'000*
United States Dollars ("USD")	**136,564**	138,408

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

6. FINANCIAL INSTRUMENTS *(Continued)*

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a 10% (2008: 10%) increase and decrease in RMB against USD. 10% (2008: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% (2008: 10%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB strengthen 10% against USD for both years. For a 10% weakening of RMB against USD, there would be an equal and opposite impact on the post-tax profit.

	2009	2008
	RMB'000	*RMB'000*
Profit	**11,608**	11,765

Note: This is mainly attributable to the exposure on outstanding USD denominated bank borrowings of the Group at the end of the reporting period.

Interest rate risk

The Group's cash flow interest rate risk relates to the bank balances, pledged bank deposits as well as variable-rate bank borrowings (see note 27 for details of bank borrowings). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of lending rate promulgated by the People's Bank of China.

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

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

6. FINANCIAL INSTRUMENTS *(Continued)*

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk (Continued)

Sensitivity analysis

The sensitivity analysis below is prepared assuming the bank balances, pledged bank deposits as well as variable-rate bank borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and it represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31st December, 2009 would increase/decrease by RMB2,919,000 (2008: RMB3,260,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances, pledged bank deposits and variable-rate bank borrowings.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to discharge their obligations as at 31st December, 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

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

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

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

6. FINANCIAL INSTRUMENTS *(Continued)*

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

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

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity and interest risk tables

	Weighted average effective interest rate	Less than 1 year	1-2 year	2-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2009
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2009							
Non-derivative financial liabilities							
Trade payables	—	230,843	—	—	—	230,843	230,843
Bills payable	—	251,215	—	—	—	251,215	251,215
Other payables	—	139,387	—	—	—	139,387	139,387
Other payable relating to the acquisition of additional interest in a subsidiary	5.31%	83,086	11,000	22,000	—	116,086	110,812
Bank borrowings-variable rate	3.56%	41,466	26,407	74,359	23,166	165,398	151,218
		745,997	37,407	96,359	23,166	902,929	883,475

6. FINANCIAL INSTRUMENTS *(Continued)*

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk (Continued)

	Weighted average effective interest rate	Less than 1 year	1-2 year	2-5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2008
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2008							
Non-derivative financial liabilities							
Trade payables	—	242,612	—	—	—	242,612	242,612
Bills payable	—	171,356	—	—	—	171,356	171,356
Other payables	—	83,087	—	—	—	83,087	83,087
Other payable relating to the acquisition of additional interest in a subsidiary	5.31%	83,086	11,000	33,000	—	127,086	119,305
Bank borrowings-variable rate	5.12%	8,714	28,614	80,594	47,897	165,819	138,408
		588,855	39,614	113,594	47,897	789,960	754,768

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

FAIR VALUE

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using inputs for the assets or liabilities that are not based on observable market data.

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

7. REVENUE

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

8. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1st January, 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 and changed the basis of measurement of segment profit or loss. For the year ended 31st December, 2008, Other Products (including production and sale of other products such as blood purification consumables, medical equipment and medical PVC granules) was defined as one of the three operating divisions of the Group. In current year, as the chief operating decision makers, represented by the executive directors, are in the view that Blood Products (including production and sale of blood purification consumables and medical equipment) constitutes a significant component for the purpose of resources allocation, it has been separately defined as a new operating division. The remaining components of Other Products division (including production and sale of other products such as medical PVC granules) is considered as insignificant and has been reclassified into "Single Use Medical Products" division. The revised reportable segments and measurement of segment profit or loss are applied retrospectively for the year ended 31st December, 2008.

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

The Group's operating and reporting segments under HKFRS 8 are as follows:

Single use medical products	—	production and sale of single use consumables such as infusion sets, syringes, blood transfusion sets and blood bags.
Orthopaedic products	—	production and sale of orthopaedic products.
Blood products	—	production and sale of blood purification consumables, medical equipment.

8. SEGMENT INFORMATION *(Continued)*

SEGMENT REVENUES AND RESULTS

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

2009

	Single use medical products *RMB'000*	Orthopaedic products *RMB'000*	Blood products *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Revenue					
External sales	1,620,448	125,262	132,785	—	1,878,495
Inter-segment sales	5,530	—	2,235	(7,765)	—
Total	1,625,978	125,262	135,020	(7,765)	1,878,495
Segment profit (loss)	476,628	29,577	(4,090)	—	502,115
Unallocated expenses					(674)
Unallocated other income, gain and losses					62,546
Share of profit of a jointly controlled entity					109,369
Share of profit of an associate					31,604
Profit before tax					704,960

Inter-segments sales are charged at prevailing market rates.

8. SEGMENT INFORMATION *(Continued)*

SEGMENT REVENUES AND RESULTS *(Continued)*

2008

	Single use medical products *RMB'000*	Orthopaedic products *RMB'000*	Blood products *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Revenue					
External sales	1,274,151	171,776	68,440	—	1,514,367
Inter-segment sales	2,359	—	2,985	(5,344)	—
Total	1,276,510	171,776	71,425	(5,344)	1,514,367
Segment profit	331,649	62,318	464	—	394,431
Unallocated expenses					(730)
Unallocated other income, gain and losses					65,952
Share of profit of a jointly controlled entity					55,981
Share of profit of an associate					8,448
Profit before tax					524,082

Inter-segments sales are charged at prevailing market rates.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of unallocated other income, gains and losses, unallocated expenses, share of profit of a jointly controlled entity and share of profit of an associate. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

8. SEGMENT INFORMATION *(Continued)*

SEGMENT ASSETS AND LIABILITIES

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

2009

	Single use medical products *RMB'000*	Orthopaedic products *RMB'000*	Blood products *RMB'000*	Consolidated *RMB'000*
Assets				
Segment assets	2,093,715	451,820	251,794	2,797,329
Interest in an associate				65,268
Interest in a jointly controlled entity				240,389
Investment properties				15,497
Deferred tax assets				9,887
Pledged bank deposits				100,258
Bank balances and cash				723,167
Consolidated assets				3,951,795
Liabilities				
Segment liabilities	745,275	34,817	38,893	818,985
Bank borrowings				151,218
Other payable relating to the acquisition of additional interest in a subsidiary (note 28)				38,726
Consolidated liabilities				1,008,929

8. SEGMENT INFORMATION *(Continued)*

SEGMENT ASSETS AND LIABILITIES *(Continued)*

2008

	Single use medical products *RMB'000*	Orthopaedic products *RMB'000*	Blood products *RMB'000*	Consolidated *RMB'000*
Assets				
Segment assets	1,629,671	464,814	171,695	2,266,180
Interest in an associate				14,070
Interest in a jointly controlled entity				131,020
Investment properties				16,090
Deferred tax assets				7,867
Pledged bank deposits				75,020
Bank balances and cash				830,419
Consolidated assets				3,340,666
Liabilities				
Segment liabilities	607,087	46,050	16,979	670,116
Bank borrowings				138,408
Other payable relating to the acquisition of additional interest in a subsidiary (note 28)				47,219
Consolidated liabilities				855,743

8. SEGMENT INFORMATION *(Continued)*

SEGMENT ASSETS AND LIABILITIES *(Continued)*

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

- all assets are allocated to reportable segments other than investment properties, pledged bank deposits, bank balances and cash, deferred tax assets, interest in an associate and interest in a jointly controlled entity. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and
- all liabilities are allocated to reportable segments other than bank borrowings and other payable relating the acquisition of additional interest in a subsidiary. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

OTHER SEGMENT INFORMATION

2009

	Single use medical products *RMB'000*	Orthopaedic products *RMB'000*	Blood products *RMB'000*	Total *RMB'000*
Amounts included in the measure of segment profit or segment assets:				
Additions to property, plant and equipment	260,002	18,427	47,515	325,944
Additions to prepaid lease payments	97,830	—	8,929	106,759
Allowance for bad and doubtful debts	8,864	2,833	1,214	12,911
Release of prepaid lease payment	3,378	193	104	3,675
Amortisation of intangible assets	—	3,114	—	3,114
Depreciation of property, plant and equipment	53,107	11,454	6,491	71,052
(Gain) loss on disposal of property, plant and equipment	(244)	26	18	(200)
Research and development expenditure	63,644	11,050	2,982	77,676
Government grant	—	—	(6,581)	(6,581)
Rebate of value added tax ("VAT")	(33,434)	—	—	(33,434)

8. SEGMENT INFORMATION *(Continued)*

OTHER SEGMENT INFORMATION *(Continued)*

2008

	Single use medical products *RMB'000*	Orthopaedic products *RMB'000*	Blood products *qRMB'000*	Total *RMB'000*
Amounts included in the measure of segment profit or segment assets:				
Additions to property, plant and equipment	121,017	32,918	53,382	207,317
Additions to prepaid lease payments	41,880	—	4,387	46,267
Allowance for bad and doubtful debts	2,252	2,076	159	4,487
Release of prepaid lease payment	2,332	211	—	2,543
Amortisation of intangible assets	—	3,114	—	3,114
Depreciation of property, plant and equipment	43,862	10,657	2,067	56,586
Loss (gain) on disposal of property, plant and equipment	498	(1)	—	497
Research and development expenditure	53,426	5,555	—	58,981
Government grant	—	—	(18,350)	(18,350)
Rebate of VAT	(31,208)	—	—	(31,208)

REVENUE FROM MAJOR PRODUCTS

	2009 *RMB'000*	2008 *RMB'000*
Sale of single use medical products	**1,620,448**	1,274,151
Sale of orthopaedic products	**125,262**	171,776
Sale of blood products	**132,785**	68,440
	1,878,495	1,514,367

8. SEGMENT INFORMATION *(Continued)*

INFORMATION ABOUT MAJOR CUSTOMERS

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

GEOGRAPHICAL INFORMATION

The Group's operations, assets and most of the customers are located in the PRC. Accordingly, no further analysis of revenue from external customers and non-current assets by geographical location is presented.

9. FINANCE COSTS

	2009	2008
	RMB'000	*RMB'000*
Interest on bank borrowings wholly repayable within five years	**6,308**	33,227
Interest on bank borrowings wholly repayable after five years	**823**	2,333
Less: Amount capitalised in construction in progress	**(3,128)**	(4,904)
	4,003	30,656

10. INCOME TAX EXPENSE

	2009	2008
	RMB'000	*RMB'000*
PRC Enterprise Income Tax	**73,802**	40,188
Deferred taxation (note 29)	**(2,020)**	(1,211)
	71,782	38,977

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

In accordance with the "Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Preferential Treatment Policies on Enterprise Income Tax", New and High Technical Enterprise was subject to income tax at a tax rate of 15%.

The Company, Weihai Jierui Medical Products Company Limited ("Jierui Subsidiary"), Shandong Weigao Orthopaedic Device Company Limited ("Weigao Ortho") and Weihai Weigao Blood Purified Product Company Limited ("Weigao Blood") were recognised as Shandong Province New and High Technical Enterprises (山東省高新技術企業) for the years ended 31st December, 2009 and 2008. Therefore, they were subject to income tax at a tax rate of 15% for both years.

Commencing from 1st July, 2004, the Company is entitled to an exemption from PRC income tax for the two years starting from its first profit-making year, followed by a 50% tax relief for the next three years. The Company commenced its first profit-making year in 2004. For the year ended 31st December, 2008, the Company was subject to income tax at a tax rate of 7.5%. Starting from the year ended 31st December, 2009, the Company was subject to income tax at a tax rate of 15%.

Jierui Subsidiary was recognised as a "Social Welfare Entity" and pursuant to Guo Fa 2007 No. 92 issued by the State Council, with effect from 1st July, 2007, Jierui Subsidiary is subject to a statutory tax rate but an amount equivalent to the total salaries paid to staff with physical disability is further deducted from the taxable income of Jierui Subsidiary and the rebate of value added tax is exempted from the PRC income tax. Jierui Subsidiary is subject to income tax at a tax rate of 15%. The tax charge provided for the years ended 31st December, 2009 and 2008 were made after taking these tax incentives into account.

10. INCOME TAX EXPENSE *(Continued)*

Weigao Ortho is a foreign-invested enterprise operating in the PRC and is entitled to an exemption from PRC income tax for the two years starting from its first profit-making year, followed by 50% tax relief for the next three years. Weigao Ortho commenced its first profit-making year in 2006. For the year ended 31st December, 2009, Weigao Ortho was subject to income tax at a tax rate of 7.5% (2008: 7.5%)

Taxation for other PRC subsidiaries are calculated at a tax rate of 25% (2008: 25%).

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

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

	2009 *RMB'000*	2008 *RMB'000*
Profit before taxation	**704,960**	524,082
Taxation at the domestic income tax rate of 15% (2008: 15%)	**105,744**	78,612
Tax effect of share of profit of a jointly controlled entity	**(16,405)**	(8,397)
Tax effect of share of profit of an associate	**(4,741)**	(1,267)
Tax effect of income not taxable for tax purpose	**(7,059)**	(4,925)
PRC income tax concession	**(11,842)**	(30,153)
Utilisation of estimated tax losses previously not recognised	**(1,049)**	(2,151)
Tax effect of expenses not deductible for tax purpose	**5,334**	5,763
Effect of differential tax rate on the Company	**492**	731
Others	**1,308**	764
Taxation	**71,782**	38,977

11a. OTHER INCOME, GAINS AND LOSSES

	2009 *RMB'000*	2008 *RMB'000*
Rebate of VAT (note a)	**33,434**	31,208
Government grant (note b)	**6,581**	18,350
Gain arising from capital contributed by majority shareholder of an associate (note 20)	**—**	14,758
Gain arising from increase in share of net assets of an associate (note 20)	**22,137**	—
Bank interest income	**5,989**	3,841
Rental income	**2,255**	2,335
Net exchange (loss) gain	**(1,799)**	5,517
Others	**394**	2,065
	68,991	78,074

Notes:

(a) As Weihai Jierui Medical Products Company Limited ("Jierui Subsidiary") was recognised as a "Social Welfare Entity", the Tax Bureau in Weihai granted a rebate of the value added tax paid by Jierui Subsidiary with effect from 1st May, 1999 on the basis of "payment first then rebate". Pursuant to Guo Fa 2007 No.92 issued by the State Council, with effect from 1st July, 2007, Jierui Subsidiary was granted a rebate of value added tax determined with reference to the number of staff with physical disability. For each staff with physical disability, six times of the minimum salary approved by the local government in Weihai is granted to Jierui Subsidiary as rebate of value added tax but subject to an annual maximum limit of RMB35,000 per staff with physical disability.

(b) During the year, a government grant of RMB6,581,000 (2008: RMB18,350,000) was awarded to the Group for the research and development projects completed during the year.

11b. PROFIT FOR THE YEAR

	2009 RMB'000	2008 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Allowances for bad and doubtful debts	**12,911**	4,487
Amortisation of intangible assets (included in administration expenses)	**3,114**	3,114
Auditors' remuneration	**1,916**	1,389
Depreciation of property, plant and equipment	**71,052**	56,586
Depreciation of investment properties	**593**	551
Prepaid lease payments charged to profit or loss	**3,675**	2,543
Rental payments in respect of premises under operating leases	**1,716**	2,854
Research and development expenditure (including RMB10,945,000 staff costs (2008: RMB9,876,000)) (included in administrative expenses)	**77,676**	58,981
Cost of inventories recognised as an expense	**829,504**	737,845
Staff costs, including directors' and supervisors' remuneration		
– Retirement benefits scheme contributions (note 36)	**41,812**	30,263
– Salaries and other allowances	**162,436**	129,809
Total staff costs	**204,248**	160,072
(Gain) loss on disposal of property, plant and equipment	**(200)**	497
Loss on fair value changes of derivative financial instrument	**—**	429
Loss on disposal of a subsidiary	**356**	—

12. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

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

	2009				2008			
	Fee	Salaries and other allowances	Retirement benefits schemes contributions	Total	Fee	Salaries and other allowances	Retirement benefits schemes contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors								
Mr. Zhang Hua Wei	—	184	6	190	—	149	6	155
Mr. Miao Yan Guo	—	151	5	156	—	115	5	120
Mr. Wang Yi	—	168	5	173	—	115	5	120
Mr. Wang Zhi Fan	—	149	5	154	—	110	5	115
Mr. Wu Chuan Ming	—	149	5	154	—	106	5	111
	—	801	26	827	—	595	26	621
Non-executive directors								
Mr. Chen Xue Li	—	—	—	—	—	—	—	—
Ms. Zhou Shu Hua	—	—	—	—	—	—	—	—
Mr. Li Ping Yung (Note 1)	—	—	—	—	—	—	—	—
Mr. Jean-Luc Butel (Note 1)	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—
Independent non-executive directors								
Mr. Lau Wai Kit (Note 2)	—	—	—	—	—	—	—	—
Mr. Luan Jian Ping	66	—	—	66	46	—	—	46
Mr. Shi Huan	66	—	—	66	46	—	—	46
Mr. Li Jia Miao	66	—	—	66	46	—	—	46
Mr. Lo Wai Hung (Note 3)	105	—	—	105	—	—	—	—
	303	—	—	303	138	—	—	138
Supervisors								
Ms. Bi Hong Mei	—	120	4	124	—	101	4	105
Ms. Chen Xiao Yun	—	92	4	96	—	73	4	77
Mr. Miao Hai Sheng	—	99	4	103	—	85	4	89
	—	311	12	323	—	259	12	271
	303	1,112	38	1,453	138	854	38	1,030

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

DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(Continued)*

Notes:

1. Mr. Li Ping Yung and Mr. Jean-Luc Butel were appointed as non-executive directors on 15th December, 2008.

2. Mr. Lau Wai Kit resigned as independent non-executive director on 25th June, 2009.

3. Mr. Lo Wai Hung was appointed as independent non-executive director on 10th August, 2009.

EMPLOYEES' EMOLUMENTS

Of the five individuals with highest emoluments in the Group, two (2008: two) were directors of the Company whose emoluments are included in the disclosure above. The emoluments of the remaining three (2008: three) individuals were as follows:

	2009	2008
	RMB'000	*RMB'000*
Salaries and other benefits	**1,121**	1,207

Their emoluments were within the following band:

	2009	2008
	No. of employees	No. of employees
Nil to HK$1,000,000	**3**	3

During the year ended 31st December, 2008, one of the independent non-executive directors, Mr. Lau Wai Kit, has agreed to waive the director's fee of RMB48,000 (2008: RMB48,000) and took a nominal annual fee of RMB1.

During the two years ended 31st December, 2009, no emoluments were paid by the Group to the directors and supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDENDS

	2009	2008
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2009 Interim - RMB0.072 (2008: 2008 interim dividend – RMB0.057) per share	**77,493**	56,747
2008 Final - RMB0.087 (2008: 2007 final dividend – RMB0.059) per share	**93,636**	58,738
	171,129	115,485

A final dividend of RMB0.105 per share in respect of the year ended 31st December, 2009 (2008: final dividend of RMB0.087 per share in respect of the year ended 31st December, 2008) amounting to RMB113,010,000 (2008: RMB93,636,000) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to owners of the Company of approximately RMB633,864,000 (2008: RMB482,394,000) and on the number of approximately 1,076,281,000 shares (2008: weighted average of 998,435,000 shares) in issue during the year.

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

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Buildings	Plant and machinery	Motor vehicles	Moulds	Furniture, fixtures and office equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At 1st January, 2008	272,380	324,359	289,437	17,601	11,265	44,111	959,153
Additions	173,945	105	18,767	8,280	139	6,081	207,317
Transfer	(219,033)	117,148	57,650	904	—	2,917	(40,414)
Disposals	—	—	(4,824)	(1,136)	—	(1,584)	(7,544)
At 31st December, 2008	227,292	441,612	361,030	25,649	11,404	51,525	1,118,512
Additions	268,546	6,509	25,192	11,625	—	14,072	325,944
Transfer	(232,937)	59,327	170,455	179	—	2,976	—
Disposals	(2,481)	(219)	(2,899)	(1,481)	—	(1,134)	(8,214)
Disposal of a subsidiary	—	—	(7,660)	(337)	—	(33)	(8,030)
At 31st December, 2009	260,420	507,229	546,118	35,635	11,404	67,406	1,428,212
DEPRECIATION							
At 1st January, 2008	—	40,121	65,469	7,040	6,921	23,556	143,107
Provided for the year	—	11,901	28,701	4,260	3,892	7,832	56,586
Eliminated on disposals	—	—	(2,106)	(629)	—	(921)	(3,656)
At 31st December, 2008	—	52,022	92,064	10,671	10,813	30,467	196,037
Provided for the year	—	12,354	41,016	4,793	234	12,655	71,052
Eliminated on disposals	—	(26)	(1,206)	(730)	—	(958)	(2,920)
Disposal of a subsidiary	—	—	(2,574)	(116)	—	(18)	(2,708)
At 31st December, 2009	—	64,350	129,300	14,618	11,047	42,146	261,461
CARRYING VALUES							
At 31st December, 2009	260,420	442,879	416,818	21,017	357	25,260	1,166,751
At 31st December, 2008	227,292	389,590	268,966	14,978	591	21,058	922,475

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

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

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

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

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

At 31st December, 2009, the Group has pledged buildings having a carrying value of approximately RMB49,507,000 (2008: RMB134,777,000) to banks to secure bank borrowings granted to the Group.

16. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1st January, 2008, 31st December, 2008 and 31st December, 2009	18,715
DEPRECIATION	
At 1st January, 2008	2,074
Provided for the year	551
At 31st December, 2008	2,625
Provided for the year	593
At 31st December, 2009	3,218
CARRYING VALUES	
At 31st December, 2009	15,497
At 31st December, 2008	16,090

16. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties of approximately RMB18,000,000 as at 31st December, 2009 (2008: RMB18,000,000) has been determined by the Directors. No valuation has been performed by independent qualified professional valuers. The valuation performed by the Directors was arrived by reference to recent market prices for similar properties in the same location and conditions.

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

The carrying value of investment properties shown above comprise of:

	2009	2008
	RMB'000	*RMB'000*
Land in PRC		
Medium term lease	**15,497**	16,090

17. PREPAID LEASE PAYMENTS

	2009	2008
	RMB'000	*RMB'000*
The Group's prepaid lease payments comprise:		
Leasehold land in PRC		
Medium-term lease	**237,437**	134,353
Analysed for reporting purposes as:		
Current portion (included in trade and other receivables)	**4,916**	3,509
Non-current portion	**232,521**	130,844
	237,437	134,353

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

At 31st December, 2009, the Group has pledged land use rights having a carrying value of approximately RMB35,086,000 (2008: RMB61,967,000) to banks to secure bank borrowings granted to the Group.

18. INTANGIBLE ASSETS

	Registration rights
	RMB'000
COST	
At 1st January, 2008, 31st December, 2008 and 31st December, 2009	31,144
AMORTISATION	
At 1st January, 2008	953
Charge for the year	3,114
At 31st December, 2008	4,067
Charge for the year	3,114
At 31st December, 2009	7,181
CARRYING VALUES	
At 31st December, 2009	23,963
At 31st December, 2008	27,077

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

19. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2009	2008
	RMB'000	*RMB'000*
Cost of unlisted investment, at cost	**13,000**	13,000
Share of post-acquisition profit	**227,389**	118,020
	240,389	131,020

Details of the Group's jointly controlled entity as at 31st December, 2009 and 2008 are as follows:

Name	**Form of business structure**	**Place of incorporation or registration/ operation**	**Proportion of nominal value of registered capital held by the Group**		**Principal activities**
			2009	2008	
Shandong JW Medical Products Co., Ltd. ("JW Medical")	Incorporated	PRC	**50%**	50%	Production and sales of drug eluting stents

The summarised financial information in respect of the Group's interests in the jointly controlled entity which is accounted for using equity method is set out below:

	2009	2008
	RMB'000	*RMB'000*
Current assets	**214,985**	109,871
Non-current assets	**48,794**	39,136
Current liabilities	**23,390**	17,987
Non-current liabilities	**—**	—
Income recognised in profit or loss	**213,822**	146,379
Expenses recognised in profit or loss	**104,453**	90,398
Other comprehensive income	**—**	—

20. INTEREST IN AN ASSOCIATE

	2009	2008
	RMB'000	*RMB'000*
Cost of unlisted investment in an associate, at cost (note)	**—**	—
Gain arising on increase in share of net assets of an associate	**22,137**	—
Gain arising from establishing of an associate	**14,758**	14,758
Share of post-acquisition profit and other comprehensive income, net of dividends received	**37,780**	8,448
Unrealised profit on sales to an associate	**(9,407)**	(9,136)
	65,268	14,070

Note:

On 18th December 2008, the Company and Medtronic International Limited ("Medtronic International") entered into an agreement in respect of establishing a joint venture (the "Distribution JV") in the PRC with a total registered capital of RMB147,580,000 to undertake the sale and distribution of orthopaedic medical device products in the PRC (the "Distribution JV Agreement").

The Distribution JV will take the form of a Sino-foreign co-operative joint venture limited liability company.

Pursuant to the terms in the Distribution JV Agreement, the registered capital of RMB147,580,000 were contributed by Medtronic International while the Company is entitled to 49% voting right and is entitled to share 49% of the result of Distribution JV since its incorporation.

The Company is entitled to share the remaining net assets of the Distribution JV in the following percentage, when the Distribution JV is dissolved under the agreement of the Company and Medtronic International:

0 - 1 year since incorporation	10%
1 - 2 year since incorporation	25%
More than 2 years since incorporation	49%

During the year ended 31st December, 2009, 15% of the registered capital of the Distribution JV of RMB14,758,000 was recognised as a gain arising from establishing of an associate and credited to profit or loss.

During the year ended 31st December, 2009, an additional 15% of the registered capital of the Distribution JV of RMB22,137,000 (2008: nil) was recognised as a gain arising from increase in the Group's share of capital contributed by majority shareholder of an associate and credited to profit or loss.

20. INTEREST IN AN ASSOCIATE *(Continued)*

Details of the Group's associate as at 31st December, 2009 and 2008 are as follows:

Name	Form of business structure	Place of incorporation or registration/ operation	Attributable equity interest directly held by the Company		Principal activities
			2009	2008	
Medtronic Weigao Orthopaedic Device Company Limited	Incorporated	PRC	**49%**	49%	Sale and distribution of orthopaedic medical device products

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

	2009	2008
	RMB'000	*RMB'000*
Total assets	**310,140**	293,462
Total liabilities	**(86,612)**	(128,642)
Net assets	**223,528**	164,820
Group's share of net assets of an associate	**65,268**	14,070
Revenue	**433,082**	102,692
Profit for the year	**64,498**	17,240
Other comprehensive income	**—**	—
Group's share of profit and other comprehensive income of an associate for the year	**31,604**	8,448

21. GOODWILL

	RMB'000
CARRYING AMOUNTS	
At 1st January, 2008	28,934
Arising on acquisition of additional interest in a subsidiary	173,966
At 31st December, 2008 and 31st December, 2009	202,900

IMPAIRMENT TESTING ON GOODWILL

As explained in note 8, the Group uses operating divisions as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill has been allocated to the following cash generating units ("CGUs"). The carrying amounts of goodwill as at 31st December, 2009 and 2008 are as follows:

	Goodwill	
	2009	2008
	RMB'000	*RMB'000*
Single use medical products	**28,934**	28,934
Orthopaedic products	**173,966**	173,966
	202,900	202,900

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

The management considers the reportable segment represents a separate CGU for the purpose of goodwill impairment testing.

The recoverable amounts of the CGUs of single use medical products have been determined based on a value in use calculation. The recoverable amount is based on the financial budget approved by management for the next year and extrapolates cash flows for the following four years based on an estimated constant growth rate of 10% (2008: 10%). This rate does not exceed the long-term growth rate for the relevant markets. The rate used to discount the forecast cash flows is 15%. (2008: 15%). A key assumption for the value in use calculations is the budgeted growth rate, which is determined based on past performance and management's expectations for the market development.

21. GOODWILL *(Continued)*

IMPAIRMENT TESTING ON GOODWILL *(Continued)*

The recoverable amounts of the CGUs of orthopaedic products have been determined based on a value in use calculation. The recoverable amount is based on the financial budget approved by management for the next year and extrapolates cash flows for the following four years based on an estimated constant growth rate of 20% (2008: 20%). This rate does not exceed the long-term growth rate for the relevant markets. The rate used to discount the forecast cash flows is 15% (2008: 15%). A key assumption for the value in use calculations is the budgeted growth rate, which is determined based on past performance and management's expectations for the market development.

Management believes that any reasonably possible change in any of the assumption would not cause the aggregate carrying amount of the above CGUs to exceed the aggregate recoverable amount of the above CGUs, thus there is no impairment on goodwill.

22. INVENTORIES

	2009	2008
	RMB'000	*RMB'000*
At cost:		
Raw materials	**144,940**	136,681
Finished goods	**174,062**	155,437
	319,002	292,118

23. TRADE AND OTHER RECEIVABLES

	2009 *RMB'000*	2008 *RMB'000*
Trade receivables	**774,007**	602,116
Less: Allowance for bad and doubtful debts	**(56,467)**	(43,735)
	717,540	558,381
Bills receivable	**63,063**	45,926
Other receivables	**27,977**	45,564
Deposits and prepayments	**43,612**	40,895
	852,192	690,766

Included in trade receivables is an amount due from the associate of RMB4,225,000 (2008:RMB10,866,000). The amount is unsecured, interest-free and repayable on demand.

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

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

	2009 *RMB'000*	2008 *RMB'000*
0 to 90 days	**458,531**	330,972
91 to 180 days	**142,176**	121,040
181 to 365 days	**68,238**	73,640
Over 365 days	**48,595**	32,729
Trade receivables	**717,540**	558,381

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

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB116,833,000 (2008: RMB106,369,000) which are past due at the end of reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these trade receivables is 382 days and 353 days in the year of 2009 and 2008 respectively.

23. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2009	2008
	RMB'000	*RMB'000*
181 to 365 days	**68,238**	73,640
Over 365 days	**48,595**	32,729
	116,833	106,369

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

Movement in the allowance for bad and doubtful debt:

	2009	2008
	RMB'000	*RMB'000*
Balance at beginning of year	**43,735**	38,410
Impairment losses recognised on receivables	**13,013**	5,359
Impairment losses reversed	**(60)**	—
Amounts written off as uncollectible	**(221)**	(34)
Balance at end of year	**56,467**	43,735

Bills receivables of approximately RMB27,186,000 (2008: RMB20,386,000) was endorsed with recourse to third parties at 31st December, 2009 and corresponding trade payables of RMB27,186,000 (2008: RMB20,386,000) were included in the consolidated statement of financial position accordingly.

23. TRADE AND OTHER RECEIVABLES *(Continued)*

At 31st December, 2009, the Group has pledged bills receivables having a carrying value of approximately RMB14,654,000 (2008: nil) to banks to secure bank borrowings granted to the Group.

Other receivables are unsecured, non-interest bearing and have no fixed term of repayment. In the opinion of the directors of the Company, the amounts are expected to be recovered in the next twelve months. The ageing analysis of other receivables net of allowance for bad and doubtful debts is stated as follows:

	2009	2008
	RMB'000	*RMB'000*
0 to 90 days	**20,741**	36,867
91 to 180 days	**904**	4,251
181 to 365 days	**432**	—
Over 365 days	**5,900**	4,446
	27,977	45,564

Included in other receivables is an amount due from immediate holding company of RMB4,417,000 (2008: RMB4,417,000). The amount is unsecured, interest-free and repayable on demand.

Movement in the allowance for bad and doubtful debt:

	2009	2008
	RMB'000	*RMB'000*
Balance at beginning of year	**2,814**	3,686
Impairment losses recognised on receivables	**78**	92
Impairment losses reversed	**(120)**	(964)
Amounts written off as uncollectible	**(2)**	—
Balance at end of year	**2,770**	2,814

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances and with good credit quality.

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

24. PLEDGED BANK DEPOSITS

The amounts represented deposits pledged to banks to secure banking facilities granted to the Group. The amounts had been pledged to secure bank borrowings repayable within one year and banking facilities and were therefore classified as current assets. The deposits carrry variable interest rate ranging from 0.36% - 1.15% (2008: 0.36% - 1.98%) per annum.

25. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest rate at an average of 0.58% (2008: 0.7%) per annum.

26. TRADE AND OTHER PAYABLES

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

	2009 ***RMB'000***	2008 *RMB'000*
0 to 90 days	**127,115**	210,354
91 to 180 days	**58,136**	21,980
181 to 365 days	**36,491**	3,008
Over 365 days	**9,101**	7,270
Trade payables	**230,843**	242,612
Bills payable	**251,215**	171,356
Consideration payable for the acquisition of additional interest in a subsidiary	**81,029**	80,579
Other payables and accrued expenses	**208,478**	152,397
	771,565	646,944

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

27. BANK BORROWINGS

	2009 *RMB'000*	2008 *RMB'000*
Secured bank loans	**151,218**	138,408
The loans are repayable as follows:		
On demand or within one year	**37,415**	1,716
More than one year, but not exceeding two years	**22,761**	22,782
More than two years, but not exceeding more than five years	**68,282**	68,346
More than five years	**22,760**	45,564
	151,218	138,408
Less: Amount due within one year shown under current liabilities	**(37,415)**	(1,716)
Amount due after one year	**113,803**	136,692
Fixed-rate borrowings:		
Within one year	**22,761**	—
More than one year but not exceeding two years	**22,761**	22,786
More than two years, but not exceeding five years	**68,282**	68,346
More than five years	**22,760**	45,560
	136,564	136,692
Variable-rate borrowing	**14,654**	1,716

As at 31st December, 2009, the bank borrowings of the Group amounting to RMB136,564,000 (2008: RMB136,692,000) were secured by the pledge of buildings and land use rights.

As at 31st December, 2009, the bank borrowings of the Group amounting to RMB14,654,000 (2008: nil) were secured by the pledge of bills receivables.

The bank loans carry interest of 3.56% to 5.12% (2008: 5.12% to 7.43%) per annum.

At 31st December, 2009, RMB136,564,000 (2008: RMB138,408,000) are denominated in USD, which are not denominated in functional currency of the respective group entities.

28. OTHER PAYABLE

As at 31st December, 2009, the remaining consideration relating to the acquisition of additional interest in a subsidiary, Weigao Ortho payable by the Group amounted to RMB110,812,000 (2008: RMB119,305,000). The amount was unsecured interest-free, and RMB72,086,000 (2008: RMB72,086,000) of which was payable on demand and had been included in other payables as current liabilities (note 26). The remaining RMB38,726,000 (2008: RMB47,219,000) was repayable by five installments from year 2009 until year 2013. The present value of the instalment due in the next 12 months amounted to RMB8,943,000 (2008: RMB8,493,000) and it has been included in other payables of the current liabilities (note 26). The imputed interest rate was 5.31% (2008: 5.31%) per annum.

Included in other payables is an amount due to immediate holding company of RMB21,833,000 (2008: RMB4,389,000). The amount is unsecured, interest-free and repayable on demand.

29. DEFERRED TAXATION

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

	Excess of depreciation over tax depreciation	Allowance for bad and doubtful debts	Unrealised profit	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1st January, 2008	1,198	4,319	1,139	6,656
Credited to profit or loss	225	315	671	1,211
At 31st December, 2008	1,423	4,634	1,810	7,867
Credited to profit or loss	58	1,296	666	2,020
At 31st December, 2009	1,481	5,930	2,476	9,887

At the end of the reporting period, the Group has estimated unused tax losses of approximately RMB9,958,000 (2008: RMB16,948,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward from the date it incurred for 5 years. Included in unrecognised tax losses are losses of RMB7,016,000 that will expire in 2012, losses of RMB124,000 that will expire in 2013 and other losses will expire in 2014.

30. SHARE CAPITAL

	Nominal value of each share	Number of non-listed shares	Number of H shares	Total number of shares	Value
	RMB	*(Note b)*	*(Note b)*		*RMB'000*
At 1st January, 2008	0.1	648,160,000	347,400,000	995,560,000	99,556
Issue of H shares *(Note a)*		—	80,721,081	80,721,081	8,072
At 31st December, 2008 and 31st December, 2009		648,160,000	428,121,081	1,076,281,081	107,628

Notes:

(a) On 19th April, 2008, 30,000,000 H shares of RMB0.1 each were issued by the Company at HK$13.62 per share for cash by way of placing. The net proceeds of approximately RMB368,068,000 were used for purchase of production machinery of orthopaedics, cardio vascular strut business and blood purification products, for expansion of production capacity of single use medical products and for working capital of the Group.

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

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

31. DISPOSAL OF A SUBSIDIARY

On 30th July, 2009, the Group disposed 51.6% of the equity interest of Shanxi Huading Medical Device Manufacturing Co., Ltd ("Shanxi Huading"). The net assets of Shanxi Huading at the date of disposal were as follows:

	30th July, 2009
	RMB'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	5,322
Inventories	3,442
Trade and other receivables	3,506
Bank balances and cash	4
Trade and other payables	(966)
Minority interest	(4,822)
	6,486
Loss on disposal	(356)
Total consideration	6,130
Satisfied by:	
Cash	6,130
Net cash inflow arising on disposal:	
Cash consideration	6,130
Bank balances and cash disposed of	(4)
	6,126

No significant profit or loss and contribution to cash flow was noted from Shanxi Huading before disposal during the year.

32. MAJOR NON-CASH TRANSACTION

(i) As at 31st December, 2009, consideration for the acquisition of land use right of RMB17,413,000 and buildings of RMB4,420,000 from ultimate holding company were not paid and included in other payables.

(ii) As at 31st December, 2008, remaining consideration for the acquisition of the additional interest in a subsidiary of RMB119,305,000 was not paid and included in other payables.

(iii) During the year ended 31st December, 2008, construction in progress of RMB40,414,000 was transferred to prepaid lease payments.

33. LEASE COMMITMENTS

THE GROUP AS LESSEE

At the end of the reporting period, the Group had the following future minimum payments under non-cancellable operating leases which fall due as follows:

	2009	2008
	RMB'000	*RMB'000*
Within one year	**2,916**	1,490
In the second to fifth year inclusive	**289**	1,916
	3,205	3,406

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

THE GROUP AS LESSOR

Property rental income earned during the year was approximately RMB2,255,000 (2008: RMB2,335,000). At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments.

	2009	2008
	RMB'000	*RMB'000*
Within one year	**—**	1,459

Operating lease payments represent rentals receivable by the Group from a portion of its office premises. Leases are negotiated and rentals are fixed for one year.

34. CAPITAL COMMITMENTS

At 31st December, 2009, the Group had commitments which were contracted for but not provided in the consolidated financial statements:

	2009	2008
	RMB'000	*RMB'000*
Acquisition of property, plant and equipment	**230,718**	41,924

35. RELATED PARTY TRANSACTIONS

(a) The Group had the following related party transactions during the two years ended 31st December, 2009:

	2009	2008
	RMB'000	*RMB'000*
Sales to a fellow subsidiary	**4,047**	3,416
Sales to an associate	**118,252**	61,340
Sales to a subsidiary of a shareholder of the Company	**6,866**	—
Purchases from fellow subsidiaries	**15,270**	13,506
Purchases from a jointly controlled entity	**7,222**	12,235
Acquisition of land use right from ultimate holding company	**17,413**	4,387
Acquisition of buildings from ultimate holding company	**4,420**	—
Rental payments to ultimate holding company	**1,683**	1,262
Rental income from a jointly controlled entity	**759**	759

Details of amounts due from/to related parties are set out in notes 23 and 28.

35. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management personnel

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

	2009	2008
	RMB'000	*RMB'000*
Short-term employee benefits	**3,129**	3,174
Post-employment benefits	**56**	76
	3,185	3,250

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

36. RETIREMENT BENEFITS SCHEMES

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

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

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

37. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries as at 31st December, 2009 and 2008 are as follows:

	Name	Form of business structure	Country of incorporation or registration/ operations	Registered capital	Proportion ownership interest held by the Group Directly	Proportion ownership interest held by the Group Indirectly	Principal activities
1.	威海潔瑞醫用製品有限公司 (Weihai Jierui Medical Products Co., Ltd)	Incorporated	PRC	RMB 32,000,000	100%	—	Manufacturing of medical PVC granules, plastic packing bags and carton boxes
2.	威海威高血液淨化製品有限公司 (Weihai Weigao Blood Purification Product Co., Ltd)	Incorporated	PRC	RMB 20,000,000	70%	—	Manufacturing of medical blood purification treatments and related consumables
3.	瀋陽威高金寶商貿有限公司 (Shenyang Weigao Jinbao Trading Co., Ltd)	Incorporated	PRC	RMB 15,000,000	90%	—	Trading of medical products
4.	威海威高集團模具有限公司 (Weihai Weigao Group Mould Co., Ltd)	Incorporated	PRC	RMB 8,000,000	90%	10%	Manufacturing of moulds
5.	山東威高骨科材料有限公司 (Shandong Weigao Orthopedic Device Co., Ltd)	Incorporated	PRC	RMB 60,000,000	75%	25%	Manufacturing of orthopaedic medical device products
6.	福州帆順醫療器械技術有限公司 (Fuzhou Fanshun Medical Device Technology Co., Ltd)	Incorporated	PRC	RMB 500,000	95%	—	Trading of medical products

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

Particulars of the Company's subsidiaries as at 31st December, 2009 and 2008 are as follows: *(Continued)*

	Name	Form of business structure	Country of incorporation or registration/ operations	Registered capital	Proportion ownership interest held by the Group Directly	Indirectly	Principal activities
7.	威高國際醫療有限公司 (Weigao International Medical Co., Ltd)	Incorporated	Hong Kong	HK$ 1,000,000	100%	—	Trading of medical products
8.	常州邦德醫療器械有限公司 (Changzhou Jianli Bangde Medical Devices Co., Ltd)	Incorporated	PRC	RMB 8,000,000	—	100%	Manufacturing of orthopaedic products
9.	北京亞華人工關節開發公司 (Beijing Yahua Artificial Joints Development Company)	Incorporated	PRC	RMB 12,000,000	—	100%	Manufacturing of orthopaedic products
10.	Weigao Medical (Europe) Co., Ltd.	Incorporated	The United Kingdom	US$ 945,200	100%	—	Trading of medical products
11.	四川潔瑞威高醫療器械有限公司 Sichuan Jierui Weigao Medical Device Co., Ltd.	Incorporated	PRC	RMB 2,000,000	100%	—	Trading of medical products
12.	山東威高新生醫療器械有限公司 Shandong Weigao New Life Medical Device Company Limited.	Incorporated	PRC	RMB 5,000,000	100%	—	Manufacturing of medical products

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

Particulars of the Company's subsidiaries as at 31st December, 2009 and 2008 are as follows: *(Continued)*

	Name	Form of business structure	Country of incorporation or registration/ operations	Registered capital	Proportion ownership interest held by the Group		Principal activities
					Directly	Indirectly	
13.	山東威高自動化設備有限公司 Shandong Weigao Automatic Equipment Company Limited	Incorporated	PRC	RMB 5,000,000	—	100%	Manufacturing of industrial automatic equipments and parts
14.	山東威高集團物流有限公司 Shandong Weigao Group Logistic Company Limited	Incorporated	PRC	RMB 20,000,000	100%	—	Provision of logistics and storage services
15.	山東威高醫療控股有限公司 Shandong Weigao Medical Holding Company Limited	Incorporated	PRC	RMB 20,000,000	100%	—	Manufacturing of medical products
16.	山西威高華鼎醫療器械製造有限公司 (Shanxi Weigao Huading Medical Device Manufacturing Co., Ltd) (note)	Incorporated	PRC	RMB 15,500,000	—	36%	Manufacturing of medical blood purification products and related consumables

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

Note: Disposed on 30th July, 2009.

	For the year ended 31st December,				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*MB'000*	*RMB'000*	*RMB'000*
RESULTS					
Revenue	**1,878,495**	1,514,367	1,095,109	786,926	569,987
Profit before taxation	**704,960**	524,082	332,074	189,348	102,580
Taxation	**(71,782)**	(38,977)	(2,732)	(6,745)	(2)
Profit for the year	**633,178**	485,105	329,342	182,603	102,578
Profit attributable to:					
Owners of the Company	**633,864**	482,394	308,149	170,921	101,200
Minority interests	**(686)**	2,711	21,193	11,682	1,378
	633,178	485,105	329,342	182,603	102,578

	As at 31st December,				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES					
Total assets	**3,951,795**	3,340,666	2,140,506	1,394,119	1,132,230
Total liabilities	**(1,008,929)**	(855,743)	(755,511)	(646,273)	(534,209)
Minority interests	**(3,183)**	(8,191)	(57,233)	(49,106)	(31,580)
	2,939,683	2,476,732	1,327,762	698,740	566,441

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting (the "**AGM**") of Shandong Weigao Group Medical Polymer Company Limited 山東威高集團醫用高分子製品股份有限公司 (the "**Company**") will be held at 9:00 a.m. on Monday, 10 May 2010 at the registered office of the Company at No. 312 Shichang Road, Weihai City, Shandong Province, PRC for the purpose of considering the following resolutions:

ORDINARY RESOLUTIONS

1. To consider and approve the audited consolidated financial statements of the Group (including the Company and its subsidiaries) for the year ended 31 December 2009;

2. To consider and approve the report of the board of directors of the Company (the "Board") for the year ended 31 December 2009;

3. To consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2009;

4. To consider and approve the profit distribution plan for the year ended 31 December 2009, and the final distribution plan of the Company for the year ended 31 December 2009 and to authorise the Board for the distribution of the final dividends to the shareholders of the Company for the year ended 31 December 2009;

5. To consider and approve the proposal for the re-appointment of Deloitte Touche Tohmatsu as the auditor of the Company for the year ending 31 December 2010, and to authorise the Board to determine his remuneration;

6. To consider and approve the re-appointment of the following directors for another term of three years (the biographical details of the respective director are set out on pages 32 and 34 of this annual report);

    i. to re-elect Mr. Chen Xue Li as a non-executive director of the Company;

    ii. to re-elect Ms. Zhou Shu Hua as a non-executive director of the Company;

    iii. to re-elect Mr. Zhang Hua Wei as an executive director of the Company;

    iv. to re-elect Mr. Wang Yi as an executive director of the Company;

    v. to re-elect Mr. Miao Yan Guo as an executive director of the Company;

    vi. to re-elect Mr. Wang Zhi Fan as an executive director of the Company;

    vii. to re-elect Mr. Wu Chuan Ming as an executive director of the Company;

viii. to re-elect Mr. Shi Huan as an independent non-executive director of the Company;

ix. to re-elect Mr. Luan Jian Ping as an independent non-executive director of the Company; and

x. to re-elect Mr. Li Jia Miao as an independent non-executive director of the Company;

7. To consider and approve the re-appointment of the following supervisors for another term of three years (the biographical details of the respective supervisor are set out on page 35 of this annual report);

   i. to re-elect Ms. Bi Dong Mei as a supervisor of the Company; and

   ii. to re-elect Mr. Miao Hai Sheng as a supervisor of the Company;

8. To consider and authorise the Board to approve the remuneration of the directors and supervisors of the Company for the year ending 31 December 2010; and

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

SPECIAL RESOLUTION

"THAT:

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

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

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

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

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

f) for the purpose of this resolution;

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

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

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

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

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

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

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

Weihai, Shandong, the PRC
24 March 2010

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

As at the date of this announcement, the Board comprises:

Mr. Zhang Hua Wei (Executive Director)
Mr. Miao Yan Guo (Executive Director)
Mr. Wang Yi (Executive Director)
Mr. Wang Zhi Fan (Executive Director)
Mr. Wu Chuan Ming (Executive Director)
Mr. Chen Xue Li (Non-executive Director)
Ms. Zhou Shu Hua (Non-executive Director)
Mr. Li Bing Yung (Non-executive Director)
Mr Jean-Luc Butel (Non-executive Director)
Mr. Lo Wai Hung (Independent non-executive Director)
Mr. Li Jia Miao (Independent non-executive Director)
Mr. Luan Jian Ping (Independent non-executive Director)
Mr. Shi Huan (Independent non-executive Director)

Notes:

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

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

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

(iv) The register of members in Hong Kong will be closed from Saturday, 10 April 2010 to Monday, 10 May 2010, both days inclusive, during which no transfer of shares will be effected. In order to be eligible to attend the AGM, to vote and to entitle the final dividend thereat as shareholders, all transfers of H shares together with the relevant share certificates must be delivered at the Company's H Share Registrars, Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:00 p.m. on Friday, 9 April 2010.

(v) The holders of the Company's H shares who intend to attend the AGM should complete and return the reply slip to the Company's H share Registrars in Hong Kong, Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong no later than Monday, 19 April 2010 by hand, by post, by telegraph or by fax to (852) 2528 3158,

(vi) The holders of the Company's non-listed Shares who intend to attend the AGM should complete and return the reply slip to the Company's registered address at No. 312 Shichang Road, Weihai, Shandong Province, PRC no later than Monday, 19 April 2010 by hand, by post, by telegraph or by fax to (86) 631 5622419.

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

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