Shandong Weigao Group Medical Polymer Company Limited*

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

(Stock Code : 1066)

2010 Third Quarterly Report

* For identification purposes only

SUMMARY

For the three months and nine months ended 30 September 2010, the unaudited turnover of Shandong Weigao Group Medical Polymer Company Limited (the "Company") and its subsidiaries (the "Group") were approximately RMB655,795,000 and RMB1,793,429,000, representing an increase of approximately 30.1% and 30.1% over approximately RMB504,195,000 and RMB1,378,303,000 respectively for the same period last year.

Unaudited net profit attributable to the shareholders for the three months and nine months ended 30 September 2010 were approximately RMB224,451,000 and RMB 559,976,000, representing an increase of approximately 20.4% and 26.1% from approximately RMB186,446,000 and RMB444,081,000 respectively for the same period last year.

During the nine months ended 30 September 2010 (the "Period"), the Group continued the strategy in improving product mix and focusing on developing the blood purification business, increasing the sales and marketing effort on high valued-added products such as intravenous catheters, high-end infusion sets and pre-filled syringes. The result was remarkable.

For the three months and nine months ended 30 September 2010, (1) growth momentum continued for the turnover of single use consumables and reached approximately RMB533,941,000 and RMB1,457,830,000, representing an increase of 31.3% and 29.0% respectively compared with the same period last year; (2) turnover of orthopaedic business for the three months and nine months ended 30 September 2010 were approximately RMB46,095,000 and RMB123,338,000, representing a growth of 22.3% and 32.3% respectively compared with the same period last year. The Distribution Joint Venture with Medtronic, Inc. ("Medtronic") in orthopaedic

product was running well and net profit attributable to the Group for the three months and nine months ended 30 September 2010 were approximately RMB10,428,000 and RMB33,215,000 respectively, representing a decrease of 30.1% and an increase of 36.2% respectively compared with the same period last year. The inventory provision of RMB7,230,000 made in the second quarter of last year was written back in the third quarter of last year. Discounting the effect of inventory write back in the third quarter of last year, profit contribution decreased by 15.0% for the three months ended 30 September 2010 compared with the same period last year; (3) turnover of blood purification business for the three months and nine months ended 30 September 2010 were approximately RMB35,313,000 and RMB90,911,000, representing an increase of 66.6% and 92.0% respectively over the same period last year; and (4) attributable profit of the stent business to the Group for the three months and nine months ended 30 September 2010 were approximately RMB35,655,000 and RMB110,546,000, representing a decrease of 5.7% and an increase of 31.1% respectively compared with the same period last year.Discounting the effect of the government subsidize of RMB24,000,000 recorded in the third quarter of last year in JW Medical, the attributable profit contribution from JW Medical increased by 30.5% and 49.8% compared with the same period last year.

The board of Directors (the "Board") does not recommend the distribution of an interim dividend for the nine months ended 30 September 2010.

UNAUDITED CONSOLIDATED RESULTS

The Board is pleased to announce the unaudited consolidated results of the Group for the three months and nine months ended 30 September 2010, together with the comparative figures for the same period in 2009 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited For the nine months ended 30 September		Unaudited For the three months ended 30 September	
	Note	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Revenue	*2*	1,793,429	1,378,303	655,795	504,195
Cost of sales		(807,229)	(688,167)	(269,237)	(243,859)
Gross profit		986,200	690,136	386,558	260,336
Other income		69,307	47,664	24,174	16,210
Distribution costs		(376,513)	(229,480)	(138,163)	(79,191)
Administrative expenses		(199,141)	(124,184)	(69,115)	(42,405)
Finance costs	*4*	(3,177)	(3,784)	(680)	(1,257)
Share of profit in a jointly controlled entity		110,546	84,308	35,655	37,813
Share of profit of an associate		33,215	24,385	10,428	14,926
Profit before taxation	*5*	620,437	489,045	248,857	206,432
Income tax expense	*6*	(60,485)	(46,729)	(25,124)	(19,857)
Profit for the year		559,952	442,316	223,733	186,575
Other comprehensive income					
Exchange difference on translation of foreign Currency		609	88	68	(40)
Total comprehensive income		560,561	442,404	223,801	186,535

	Note	Unaudited For the nine months ended 30 September 2010 RMB'000	Unaudited For the nine months ended 30 September 2009 RMB'000	Unaudited For the three months ended 30 September 2010 RMB'000	Unaudited For the three months ended 30 September 2009 RMB'000
Profit of the year attributable to:					
Equity holders of the Company	*7*	559,976	444,081	224,451	186,446
Minority interests		(24)	(1,765)	(718)	129
		559,952	442,316	223,733	186,575
Total comprehensive income attributable to:					
Equity holders of the Company		560,585	444,169	224,519	186,406
Minority interests		(24)	(1,765)	(718)	129
		560,561	442,404	223,801	186,535
Dividends proposed	*8*	–	77,492	–	–
Earnings per Share (EPS)	*9*	RMB0.520	RMB0.413	RMB0.209	RMB0.173

Notes:

1. Basis of preparation and accounting policies

These unaudited condensed consolidated statement of comprehensive income has been prepared in accordance with Hong Kong Accounting Standard (the "HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), Accounting Principles Generally Accepted in Hong Kong, Hong Kong Financial Reporting Standards (the "HKFRS") and the relevant disclosure requirements of the Listing Rules of the Stock Exchange. The accounts are prepared under the historical cost convention.

The accounting policies adopted and methods of computation used in the preparation of these consolidated financial information are consistent with those used in the financial statements for the year ended 31 December 2009.

The Group has applied the new and amended Hong Kong Financial Reporting Standards and HKAS (the "new HKFRSs") issued by HKICPA that are effective for accounting periods beginning after 1 January 2008. The adoption of the new HKFRSs had no material effect on the presentation of the results for the current accounting periods and/or previous accounting years. Therefore, no adjustment has been made for the previous periods.

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

The consolidated results for the nine months ended 30 September 2010 have not been audited by the Company's auditor but have been reviewed by Audit Committee of the Company.

These financial statements should be read in conjunction with the audited annual financial statements for the year ended 31 December 2009.

2. Revenue

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

3. Segment Information

The Group is principally engaged in the research and development, production and sale of single-use medical device products and operates in the PRC. For management purposes, the Group is currently organized into four operating divisions: single use medical products, orthopaedic products, blood purification consumables and other products. These divisions are the basis on which the Group reports its primary segment information.

The principal activities are as follows:

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

The segment information and results of those businesses are as follows:

2010

	For the nine months ended 30 September 2010				
	Single use medical products RMB'000	Orthopaedic products RMB'000	Other products RMB'000	Eliminations RMB'000	Total RMB'000
Revenue					
External sales	1,526,484	123,338	143,607	–	1,793,429
Inter-segment sales	3,966	–	3,123	(7,089)	–
	1,530,450	123,338	146,730	(7,089)	1,793,429
Segment result	375,074	40,329	979	0	416,382
Unallocated corporate expenses					(234)
Unallocated other income, gain and loss					60,528
Share of profit of a jointly controlled entity					110,546
Share of profit of an associate					33,215
Profit before tax					620,437

2009

	For the nine months ended 30 September 2009				
	Single use medical products RMB'000	Orthopaedic products RMB'000	Other products RMB'000	Eliminations RMB'000	Total RMB'000
Revenue					
External sales	1,196,422	93,209	88,672	–	1,378,303
Inter-segment sales	1,681	–	1,455	(3,136)	–
	1,198,103	93,209	90,127	(3,136)	1,378,303
Segment result/(loss)	325,519	19,892	(6,670)	0	338,741
Unallocated corporate expenses					(490)
Unallocated other income, gain and loss					42,101
Share of profit of a jointly controlled entity					84,308
Share of profit of an associate					24,385
Profit before tax					489,045

4. Finance costs

Finance costs for the three months and nine months ended 30 September 2010 were approximately RMB 680,000 and RMB3,177,000 respectively (2009: approximately RMB1,257,000 and RMB3,784,000), which mainly included interest expenses on the loan from the International Finance Corporation and other bank borrowings.

5. Profit before taxation

Operating profit has been arrived at after charging (crediting) the followings:

	Unaudited For the nine months ended 30 September	
	2010 RMB'000	2009 RMB'000
Provision for bad debts	11,966	5,548
Amortisation of Intangible assets (including administrative expenses)	2,335	2,335
Depreciation of property, plant and equipment	65,969	46,217
Depreciation of investment properties	444	414
Prepared lease payments charged to income statement	3,811	2,809
Rental payments in respect of premises under operating leases	4,032	3,919
Research and development expenditure	83,381	60,668
Cost of inventory recognized as expenses	807,229	688,167
Staff costs, including directors' remuneration		
Retirement benefits scheme contribution	52,478	32,959
Wages and salaries	198,196	126,158
Total staff costs	250,674	159,117
Net (gain)/loss from foreign exchange	(2,082)	1,041
(Gain)/loss on disposal of property, plant and equipment	(466)	(10)
Interest income	(3,952)	(4,599)
Rental income from investment properties	(1,691)	(1,691)
Rebate of value-added tax	(25,856)	(25,151)
Realised gain arising from establishing of an associate	(26,565)	(16,603)

Note: 威海潔瑞醫用製品有限公司 (Weihai Jierui Medical Products Company Limited) ("Jierui Subsidiary") was recognized as a "Social Welfare Entity", and under the "payment then refund" principle, Weihai Municipal Government has granted Jeirui Subsidiary the exemption of paying value-added tax with effect from 1 May 1999. Pursuant to Cai Shui Guo Fa 2007 No. 92 issued by the State Council, with effect from 1 July 2007, the amount of exempted value-added tax granted to Jierui Subsidiary is determined by taking into account the number of employees with disabilities. The refund limit for every employee with disability was based on six times of the local lowest standard wages approved by Weihai Municipal Government, and the annual refund of each employee with disability shall be subject to a maximum of RMB35,000.

6. Taxation

No provision for Hong Kong and overseas profit tax has been made as no taxable profit has been derived from the Group's overseas branches, being Weigao International Medical Company Limited ("Weigao International"), Weigao Medical (Europe) Company Limited ("Weigao Europe") and Wego Medical Germany GmbH ("Wego Germany") during the Period.

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

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued "Implementation Regulations of the New Law". Under the New Law and the Implementation Regulations, the tax rate for certain subsidiaries changed from 33% to 25% from 1 January 2008.

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 shall be subject to income tax at a rate of 15%.

On 5 December 2008, the Company, 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). Therefore, the Company, Jierui Subsidiary, Weigao Ortho and Weigao Blood are subject to income tax at a tax rate of 15%.

Commencing from 1 July 2004, the Company was recognized as a "Foreign Invested Enterprise" and was 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 and the tax relief was expired on 31 December 2008. Starting from the year ended 31 December 2009, the Company was subject to income tax at a tax rate of 15%.

Jierui Subsidiary was recognised as a "Social Welfare Entity". Pursuant to Guo Fa 2007 No. 92 issued by the State Council, with effect from 1 July 2007, Jierui Subsidiary is also subject to a statutory tax rate but an amount equivalent to the total salaries paid to staff with physical disability is further deducted from the assessable profit of Jierui Subsidiary and the rebate of value added tax is deducted from the PRC income tax. Jierui Subsidiary is subject to income tax at a tax rate of 15%. The tax charge provided for the nine months ended 30 September 2010 was made after taking these tax incentives into account.

Weigao Ortho is a sino-foreign joint venture 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. The tax charge provided for the nine months ended 30 September 2010 was made after taking these tax incentives into account.

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

7. Profit attributable to equity holders of the Company

For the three months and nine months ended 30 September 2010, net profit attributable to equity holders of the Group were approximately RMB224,451,000 and RMB559,976,000 (same period in 2009: RMB186,446,000 and RMB444,081,000) respectively.

8. Dividend

The Board does not recommend the distribution of an interim dividend for the nine months ended 30 September 2010 (2009: nil).

9. Earnings per share

For the three months and nine months ended 30 September 2010, basic earnings per share were calculated based on profits attributable to shareholders of approximately RMB224,451,000 and RMB559,976,000 (same period in 2009: RMB186,446,000 and RMB444,081,000) respectively, and on the weighted average total number of 1,076,281,081 shares and 1,076,281,081 shares (same period in 2009: 1,076,281,081 shares and 1,076,281,081 shares) respectively.

No diluted earnings per share is presented for the three months and nine months ended 30 September 2010, as there were no dilutive potential shares for the both periods.

The Company issued bonus shares to shareholders of H shares and non-listed shares on the basis of one bonus H share for every one H share and one bonus non-listed share for every one non-listed share on 26 October 2010. After allotment, the total issued shares is 2,152,562,162.

10. Movement in reserves

The Group	Share capital RMB'000	Share premium reserve RMB'000	Statutory surplus reserve RMB'000 *(Note b)*	Foreign currency statements conversion discrepancies RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
As at 1 January 2009	107,628	1,393,170	111,217	(853)	865,570	2,476,732	8,191	2,484,923
Profit for the year and total income recognized	–	–	–	–	633,864	633,864	(686)	633,178
Dividend paid	–	–	–	–	(171,129)	(171,129)	–	(171,129)
Exchange differences arising on translation of foreign operation	–	–	–	216	–	216	–	216
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	(4,822)	(4,822)
Capital injection from minority shareholders	–	–	–	–	–	–	500	500
As at 31 December 2009	107,628	1,393,170	111,217	(637)	1,328,305	2,939,683	3,183	2,942,866
Profit for the year and total income recognized	–	–	–	–	559,976	559,976	(24)	559,952
Capital injection from minority shareholders	–	–	–	–	–	–	37,509	37,509
Dividend paid	–	–	–	–	(113,010)	(113,010)	–	(113,010)
Exchange differences arising on translation of foreign operation	–	–	–	609	–	609	–	609
As at 30 September 2010	107,628	1,393,170	111,217	(28)	1,775,271	3,387,258	40,668	3,427,926

Notes:

(a) Bases for appropriation to reserves

Appropriation to statutory surplus reserve and statutory public welfare fund have been calculated based on the net profits in the financial statement prepared under the Generally Accepted Accounting Principles of the PRC ("PRC GAAP").

(b) Statutory surplus reserve

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

(c) Statutory public welfare fund

According to the Company Law of PRC and the amended Articles of Association of the Company, from 1 January 2006, the companies under the Group ceased to transfer from statutory public welfare fund. As at 31 December 2005, the statutory public welfare fund was part of the share capital of the shareholders, which cannot be distributed other than for the purpose of liquidation. Pursuant to the resolution of the Board of the Company, in accordance with the Company Law of the PRC, the Company transferred an amount of RMB17,147,000 from the statutory public welfare fund to the statutory surplus reserve fund on 1 January 2006.

According to the laws and regulations of the PRC, distributable profit of the Company was determined at the lower of such amount calculated based on the accounting principles and regulations of the PRC or the generally accepted accounting principles of Hong Kong. As at 30 September 2010, retained earnings distributable to shareholders was approximately RMB527,890,000.

MANAGEMENT DISCUSSION AND ANALYSIS

The listing of the Company's H shares was successfully transferred from the growth enterprise market to the main board of The Stock Exchange of Hong Kong Limited on 29 July 2010. The bonus issue of one bonus share for every existing share held on 26 October 2010 has been completed. The enlarged issued share capital of the Company is 2,152,562,162 shares.

International Collaboration

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

During the Period, the operation of the Distribution Joint Venture for orthopaedic products between the Company and Medtronic is gradually moving on track. Net profit attributable to the Group for the three months and nine months ended 30 September 2010 was RMB10,428,000 and RMB33,215,000, representing a decrease of 30.1% and an increase of 36.2% over the same period last year. The inventory provision of RMB7,230,000 made in the second quarter of last year was written back in the third quarter of last year. Discounting the effect of inventory write back in the third quarter of last year, profit contribution decreased by 15.0% for the three months ended 30 September 2010 compared with the same period last year. The reasons for the decrease were due to orthopaedic symposium held overseas in the third quarter of the year, it affected the number of orthopaedic surgery temporary and the rise in marketing expense.

During the Period, Weigao Blood, a subsidiary of the Company, established a strategic business alliance with Nikkiso Co., Ltd. in haemodialysis business. Weigao Blood contributed US$5,610,000 and holds 51% equity interest in the joint venture company. The registered capital of the joint venture company is US$11,000,000. The joint venture company will produce hemodialysis machines and provide after-sales services in China. Weigao Blood will distribute the hemodialysis machines produced by the joint venture company in China. The alliance combines the complementary strengths of the two partners. It will further strengthen the Group's competitive position in blood purification segment and lays a solid foundation for the Group's business expansion in the blood purification market in China. Up to the date of this report, the joint venture company has obtained the approval from the PRC government authorities and has been incorporated and has commenced operation.

Optimization Adjustments to Business and Product Mix

During the Period, the Group continued the strategy of improving the product mix. The Group focused on the business development of blood purification products and increased the marketing and sales effort on high value-added products such as intravenous catheters, high end infusion sets and pre-filled syringes. The result was remarkable.

For the nine months ended 30 September 2010, remarkable results were achieved following the product mix adjustment on the principal consumable products. The Group recorded a turnover of RMB533,941,000 and RMB1,457,830,000 for the three months and nine months ended 30 September 2010, representing an increase of 31.3% and 29.0% when compared with the same period last year.

The Group recorded continuous growth in sales of needle products with a downward adjustment in price and had completely counteracted the effect of decrease in price. During the three months and nine months ended 30 September 2010, the Group recorded a turnover of RMB106,003,000 and RMB295,189,000, representing an increase of 19.8% and 20.4% respectively when compared with the same period last year. The Directors consider that with continuous launching of needle products to the market, the needle products will continue to be an important segment for the long term development of the Company.

During the Period, the market development of specialized infusion set with dosage control device and infusion sets made of non PVC based materials had made significant progress. It drove the turnover of infusion sets of the Group for the three months and nine months ended 30 September 2010 to RMB189,582,000 and RMB525,041,000, representing an increase of 34.9% and 38.5% respectively when compared with the same period last year. With keen market competition for infusion sets, manufacturers with poor quality products would be phased out. The Group's favourable position in the high-end infusion set market has further been strengthened.

For the three months and nine months ended 30 September 2010, the Group recorded a turnover for pre-filled syringes of approximately RMB27,892,000 and RMB76,881,000, representing an increase of 75.1% and 56.8% over the same period last year. Pre-filled syringes are widely used in vaccination and packaged injectable drugs with good market potential in China.

For the three months and nine months ended 30 September 2010, Weigao Ortho recorded a turnover of approximately RMB46,095,000 and RMB123,338,000, representing an increase of 22.3% and 32.3% over the same period last year.

During the Period, the new production line of Weigao Blood, a subsidiary of the Company, operated very well. Sales of the products recorded rapid growth since launched to the market. For the three months and nine months ended 30 September 2010, Weigao Blood recorded a turnover of RMB35,313,000 and RMB 90,911,000, representing an increase of 66.6% and 92.0% when compared with the same period last year.

During the Period, production and sales of drug eluting stents by 山東吉威醫療製品有限公司 (JW Medical Products Limited) ("JW Medical"), which is 50% held by the Company, were operated very well. For the three months and nine months ended 30 September 2010, it contributed a profit of RMB35,655,000 and RMB110,546,000 to the Group, representing a decrease of 5.7% and an increase of 31.1%% when compared with the same period last year. Discounting the effect of the government subsidize of RMB24,000,000 recorded in the third quarter of last year in JW Medical, the attributable profit contribution from JW Medical increased by 30.5% and 49.8% compared with the same period last year.

Benefiting from the aforesaid measures in adjusting the product mix, the percentage of turnover from high value-added products (products with gross profit margins of over 60%) to the total turnover of the Group during the Period increased to 43.6% (2009: 42.7%). The achievement of product mix adjustment was remarkable.

RESEARCH AND DEVELOPMENT

For the nine months ended 30 September 2010, the Group obtained 9 new patents and is applying for 21 new patents. Product registration certificates for 18 new products were obtained. Research and development were completed for 14 products for which application for product registration certificates are underway. By placing strong emphasis on research and development, it enhances the Group's competitiveness and allows the Group to leverage on its customer base and provides the Group with new growth drivers.

As of 30 September 2010, the Group had over 180 product registration certificates and over 100 patents, of which 14 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 expanding existing products ranges and new medical devices, 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 nine months ended 30 September 2010, total research and development expenses amounted to approximately RMB83,381,000 (2009: RMB60,668,000), representing 4.6% (2009: 4.4%) of the turnover of the Group.

Production

For the nine months ended 30 September 2010, production volume of the Group's products as compared with the corresponding period in 2009 is as follows:

Product Type	Measurement unit	For the nine months ended 30 September 2010	2009	Increase/ (Decrease) %
Needles	1,000 sets	**2,139,000**	1,621,582	31.9
Syringes	1,000 sets	**590,727**	466,400	26.7
Infusion sets	1,000 sets	**283,330**	245,980	15.2
Blood Sampling products *(note 1)*	1,000 sets	**95,010**	110,940	(14.4)
Prefilled syringes	1,000 sets	**24,554**	18,080	35.8
Blood bags	1,000 sets	**13,903**	13,001	6.9
Blood purification consumables	1,000 sets	**820**	240	241.7
Orthopaedic products *(note 2)*	1,000 sets	**1,387**	1,930	(28.1)
PVC granules	Tons	**10,053**	9,369	7.3
Others	1,000 sets	**210,890**	172,328	22.4

Note 1: The decrease in production volume of blood sampling products was due to the decrease in sales volume of the Company's export in blood sampling products.

Note 2: The decrease in production volume of orthopaedic products was due to the reduction of inventory level by Weigao Ortho and change in production mix of orthopaedic products.

During the Period, the Group implemented strategy on product mix adjustment by increasing the proportion of high value added products while decreasing the production plan of low value added products with low rate of returns. This has enhanced the contribution rate for each type of products and raised the overall profitability of the Company.

Marketing and Sales

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

During the Period, the Group consolidated its sales management system, strengthened developing direct sales, integrated customer resources and phased out low profitability customers. For the nine months ended 30 September 2010, the Group has secured new customers of 17 hospitals. As the Group had transferred a number of small size medical units to be covered by its distributors. Those distributors of less competitiveness were being phased out or merged and became the second tier distributors. The number of other medical units increased by 19 and decreased corporate customers by 81 over the same period last year. As at the date of this report, the Group has a customer base of 5,057 (including 2,937 hospitals, 413 blood stations, 622 other medical units and 1,085 trading companies).

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

TURNOVER BY GEOGRAPHICAL SEGMENTS

Region	For the nine months ended 30 September 2010 RMB'000	For the nine months ended 30 September 2009 RMB'000	Growth %	For the three months ended 30 September 2010 RMB'000	For the three months ended 30 September 2009 RMB'000	Growth %
Eastern and Central	681,313	517,873	31.6	252,313	198,951	26.8
Northern	429,650	325,798	31.9	143,093	110,896	29.0
Northeast	258,746	193,388	33.8	98,298	72,055	36.4
Southern	159,432	135,491	17.7	55,773	46,549	19.8
Southwest	141,534	108,632	30.3	59,724	42,908	39.2
Northwest	45,415	39,707	14.4	13,784	12,134	13.6
Overseas	77,339	57,414	34.7	32,810	20,702	58.5
Total	1,793,429	1,378,303	30.1	655,795	504,195	30.1

The 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 and reduced selling expenses per customer significantly. Average sales per customer was increased by approximately 29.7% over the same period last year. Continued driving higher product penetration to high-end customers is an important way to generate revenue growth.

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

Product category	For the nine months ended 30 September 2010 RMB'000	For the nine months ended 30 September 2009 RMB'000	Increase/ (Decrease) %	For the three months ended 30 September 2010 RMB'000	For the three months ended 30 September 2009 RMB'000	Increase/ (Decrease) %
Self-produced Consumables						
– Infusion sets	525,041	378,996	38.5	189,582	140,497	34.9
– Syringes	295,606	242,672	21.8	108,878	87,884	23.9
– Needles	295,189	245,216	20.4	106,003	88,516	19.8
– Blood bags	115,077	99,963	15.1	40,925	34,297	19.3
– Pre-filled syringes	76,881	49,021	56.8	27,892	15,930	75.1
– Blood sampling products	34,612	35,913	(3.6)	13,754	12,920	6.5
– Other consumables	115,424	78,179	47.6	46,907	26,494	77.0
Subtotal for consumables	1,457,830	1,129,960	29.0	533,941	406,538	31.3
– Orthopaedic products	123,338	93,209	32.3	46,095	37,698	22.3
– Blood purification consumables	90,911	47,349	92.0	35,313	21,198	66.6
– PVC granules	39,766	45,902	(13.4)	12,486	21,584	(42.2)
– Trading (medical equipment)	55,819	42,778	30.5	25,333	15,112	67.6
– Other products	25,765	19,105	34.9	2,627	2,065	27.2
Total	1,793,429	1,378,303	30.1	655,795	504,195	30.1

HUMAN RESOURCES

As at 30 September 2010, the Group employed a total of 7,652 employees. The breakdown by departments is as follows:

Department	Number of employees
Production	5,396
Sales and marketing	1,028
Research and development	732
Finance and administration	267
Quality control	128
Management	71
Purchasing	30

Save for the five employees (including the company secretary) who reside in Hong Kong and Europe, all employees of the Group are resided in China. For the nine months ended 30 September 2010, the total cost of salaries, welfare and various funds of the Group amounted to approximately RMB250,674,000. (2009: RMB159,117,000), representing an increase of 57.5%.

FINANCIAL REVIEW

Financial summary

For the nine months ended 30 September 2010, unaudited turnover and net profit recorded by the Group were approximately RMB1,793,429,000 and RMB559,976,000 respectively, representing a growth of 30.1% and 26.1% as compared with approximately RMB1,378,303,000 and RMB444,081,000 in the corresponding period of 2009 respectively.

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

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position. As at 30 September 2010, the Group's total cash amounted to approximately RMB565,944,000.

During the Period, the Group repaid IFC and other bank borrowings amounting to RMB37,353,000. As at 30 September 2010, total borrowings from International Finance Corporation and the total amount of borrowings repayable within one year amounted to approximately RMB89,348,000 and approximately RMB28,517,000 respectively.

During the Period, total interest expense of the Group was approximately RMB3,177,000.

GEARING RATIO

As at 30 September 2010, the total net cash of the Group amounted to approximately RMB448,079,000 (2009: approximately RMB604,035,000).

FOREIGN EXCHANGE RISKS

The Group's purchases and sales are mainly conducted in China. All assets, liabilities and transactions are denominated in RMB. During the Period, the Group has not encountered any material difficulty due to foreign exchange fluctuation nor shortage of operating funds. For the nine months ended 30 September 2010, the Group had no significant exposure to foreign exchange fluctuation and hedging for such risk.

Due to the change in exchange rates, foreign exchange gain equivalent to approximately RMB2,082,000 for the nine months ended 30 September 2010 was recognized.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as of 30 September 2010.

Future plans for material investments or capital assets

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 use within 5 years. Hence, during the Period, the Group made an actual investment of approximately RMB392,694,000 on plant construction for the re-location of all of the consumables production plants.

2. In light of the strong market potential of pre-filled syringes, during the Period, the Group has started to work on acquiring a second pre-filled syringe production line and total budgeted investments for which amounted to RMB70,000,000.

3. In view of the demand for blood purification consumables, Weigao Blood has commenced the construction of the second production line. The total investment costs will be approximately RMB100,000,000.

Save for the above material investment and investment plans, the Group had no material capital commitments or any future plans of significant investments or capital assets acquisition as of 30 September 2010, and there was no material acquisition and disposal in any other subsidiary and associate during the Period.

Capital commitment

As at 30 September 2010, the capital commitment of the Group contracted but not provided for in respect of the acquisition of property, plant and equipment amounted to approximately RMB260,081,000. They will be financed by the internal resources of the Group.

Outlook

During the Period under review, the Group faced various challenges in the areas of operation and development. Firstly, there was no major improvement in the delay of settlement from customers. In third quarter of this year, the materials costs were again increased rapidly resulting in fairly low profit margin or loss making for majority of the conventional single use consumables. The Group continues to suppress such product sales so as to maintain a reasonable level of profit margin. It certainly has an impact on the growth in sales of conventional single use consumables. It is expected that the pressure of increase in price of raw material will continue. The Company will continue to adjust the structure of the product mix in view of the change of material costs so as to maintain a continuous growth in turnover and profit. Since the beginning of this year, the Company faced drastic increase in labour cost and pressure in recruitment. Due to the speed up of business expansion of multinational companies in China market and the listing of industry players which are in common business areas of that of the Group in various capital markets, it substantially speeds up the increase in salary and fringe benefits. The Company considers that stable working team is fundamental to its continuous development. With this new market development in human resources, the Group promptly adjusts the salary and the policy on fringe benefits to retain a stable working team. The Group expects that continuous increase in labour costs and fringe benefits will be a major challenge. Through emphasis on innovation and increase in high value added product, the Company will maintain its long term competitive edge in the competitive environment. The Group will take into account the changes in the market and appropriately offer a long term competitive salary and fringe benefits to retain talents in the competitive market. The Group places emphasis on the following aspects:–

1. Increase the sales in high margin products, including safety intravenous catheters, high end infusion sets of minimal dosage, light proof and non PVC based infusion sets, plastic based blood sampling products and safety syringes, thereby transferring the pressure on cost increase and improving profitability.

2. Continue to focus on domestic market. With stable development of domestic market to backup the long term process of developing and expanding overseas market. Continue to consolidate customer resources, centralize credit approval and allocation, improve the efficiency of added credit granted by promoting the sales of high value added and high profit margin products, thereby offsetting the pressure from accounts receivables collection and transferring cost increase.

3. Under the current demand on high valuation, the Group will not actively pursue the mergers and acquisitions strategy. The Group will place more resources in organizing training programs to cover the middle and low-end markets, consolidate the resources of distributors to provide channel support, and by stages extend the market coverage to China's fastest growing middle and low-end sectors. Continue to drive international cooperation, seeking international partners to enhance technology standard and improve international market share. The Group strives for collaboration and win-win strategy to achieve strategically mapping out international market and wider coverage of domestic market.

4. Capitalize on the Group's research and development strengths, continue to increase the investments in technological improvement, and increase automation with an objective of assimilating the rising labour cost in the long run. The Group will study and set up a long term incentive scheme to employees for them to share the success of the Group. The Group will continue to offer competitive salary and fringe benefits packages to retain and expand the work force.

With the launching of more upgraded products and new product series, the management believes that the Group will continue to consolidate its leading position in the PRC market.

DISCLOSURE OF INTERESTS

Directors' Interests and Long Positions in Shares

As at 30 September 2010, the interests of Directors and their associates in the Shares, underlying Shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept by the Company pursuant to section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

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

Name of Director	Types of interests	Capacity	Total number of non-listed shares	Approximate percentage of the issued share capital of the Company
Mr. Zhang Hua Wei	Personal	Beneficial owner	8,100,000	0.75%
Mr. Miao Yan Guo	Personal	Beneficial owner	5,850,000	0.54%
Mr. Wang Yi	Personal	Beneficial owner	5,850,000	0.54%
Mrs. 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, the chairman, is a shareholder of the Company's 50,000 non-listed shares, representing 0.005% of the issued share capital of the Company.

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

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

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

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance 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 domestic shares of the issued share capital of the Company.

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

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

Names of Substantial Shareholders	Number of H shares interested	Percentage of issued H share capital
Medtronic Holding Switzerland GmbH	80,721,081(L)	18.9(L)
Atlantis Investment Management Limited	47,306,000(L)	11.0(L)
JPMorgan Chase & Co.	47,136,451(L)	11.0(L)
	46,788,457(P)	10.9(P)
FMR LLC	26,406,000(L)	6.2(L)

* *Note: (L) – Long Position, (P) – Lending Pool*

MAJOR CUSTOMERS AND SUPPLIERS

For the nine months ended 30 September 2010, the largest supplier of the Group and the next four largest suppliers accounted for approximately 6.1% and 18.4% respectively of the Group's total purchases.

Aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total turnover.

At no time during the Period did a director, an associate of a director or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) have an interest in any of the five largest customers or suppliers.

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

Since the commencement of dealings in the H shares of the Company on 27 February 2004, the Company placed 52,900,000 new H Shares of the Company on 30 November 2005 and 30,000,000 new H shares of the Company on 19 April 2007 and on 18 December 2008, the Company issued 80,721,081 new H Shares to Medtronic Holding Switzerland GmbH. Save as disclosed above, the Company and its subsidiaries did not purchase, sell or redeem any listed shares of the Company.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest. The Company has complied with the code provision of the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Listing Rules throughout the Period, except for the deviation that Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. Independent non-executive directors of the Company do not have a specific term of appointment as subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company is fair and reasonable.

AUDIT COMMITTEE

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

The Company's financial statements for the nine months ended 30 September 2010 have been reviewed by the Committee. The Committee considered that the relevant financial statements have been prepared in compliance with the applicable accounting principles and requirements of the Stock Exchange and other laws, and disclosures have been made in full.

PRE-EMPTIVE RIGHTS

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

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

COMPETING INTERESTS

So far as the Directors are aware, for the nine months ended 30 September 2010, none of the Directors or management shareholders of the Company (as defined in the Listing Rules) or their respective associates have an interest in a business which competes or may compete with the business of the Group, or have any other conflict of interest with the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules ("Model Code"). Having made specific enquiry, all Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the Period under review.

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

15 November 2010

Weihai, Shandong, the PRC

As at the date of this report, 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)*
Mrs. Zhou Shu Hua *(Non-executive Director)*
Mr. Jean-Luc Butel *(Non-executive Director)*
Mr. Li Bing Yung *(Non-executive Director)*
Mr. Shi Huan *(Independent non-executive Director)*
Mr. Luan Jian Ping *(Independent non-executive Director)*
Mr. Li Jia Miao *(Independent non-executive Director)*
Mr. Lo Wai Hung *(Independent non-executive Director)*