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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)

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

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DIRECTORS AND SUPERVISORS

Executive Directors

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

Non-executive Directors

Mr. Chen Xue Li
Mrs. Zhou Shu Hua

Independent non-executive Directors

Mr. Luan Jian Ping
Mr. Shi Huan
Mr. Lau Wai Kit

Supervisors

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

CORPORATE INFORMATION

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

Principal place of business in Hong Kong
Suite 917, 9/F.,
Sun Hung Kai Centre
30 Harbour Road
Wan Chai
Hong Kong

Company secretary
Mr. Chong Tak Fat, Calvin, *CPA*

Compliance officer
Mr. Zhang Hua Wei

Qualified accountant
Mr. Chong Tak Fat, Calvin, *CPA*

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

Authorised representatives

Mr. Zhang Hua Wei

Mr. Chong Tak Fat, Calvin, *CPA*

Auditors

Deloitte Touche Tohmatsu

Certified Public Accountants

Sponsor

Goldbond Capital (Asia) Limited

Hong Kong share registrar and transfer office

Standard Registrars Limited

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

Regarding 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 ("R&D"), production and sales of 威高 brand single-use medical devices. The Company is an industrialization base resulted from the High-tech Research and Development (863) Program of China and a State high-technology enterprise. The Group's major production base is located at Weihai city of the Shandong province.

The Group is registered in the PRC and has an extensive sales network comprising 15 sales offices, 20 customer liaison centers and over 100 municipal representative offices and a well-established customer base. Its products are sold to 5,380 healthcare organization and distributors, including 2,729 hospitals, over 400 blood stations, 723 other medical units and over 1,500 trading companies.

There are over 110 species of products produced by the Group, with over 2,000 specifications, which can be categorized into six major categories, namely 1) single-use medical consumables and materials, including infusion (transfusion) sets, syringes, blood bags and blood component segregator consumables, blood sampling consumables, dental consumables and anesthetic consumables, as well as medical PVC granules and non-PVC granules; 2) orthopaedic materials and tools, mainly including therapeutic consumables such as steel plates, screws, spinal series consumables and artificial joints consumables which are currently under development; 3) medical needle products, mainly including intravenous needles, syringe needles, intravenous catheter needles, blood sampling needles and irregular needles; 4) blood purification consumables, mainly including renal consumables such as puncture needles, blood circuit, dialysis equipment, and immunity adsorption products for the treatment of immune system diseases such as lupus erythematosus, rejections in organ transplants, atrophic arthritis, as well as other LDL adsorption products, internal toxin adsorption products and hepatitis B adsorption products which are under the process of development and registration; 5) heart eluting stent, mainly including drug eluting stent and balloon catheter and 6) pre-filled syringes for use in medicine packaging.

The Group holds the long-term development of its brands in high regard and places strong emphasis on the quality of its products. The Group's quality control systems for the production and service of single-use sterile infusion sets, single-use sterile transfusion sets and single-use sterile syringes have been accredited with ISO9001:2000 and by 中國醫療器械質量認證中心 (China Quality Certification Centre for Medical Devices) since November 2001. The Group's product categories of infusion sets, transfusion sets and single-use syringes have obtained EC Certification issued by TÜV Product Service Gmbh since December 1999 and were renewed in November 2003 with the additional inclusion of single-use plastic blood bags. Such certification was subsequently renewed in November 2004 and January 2005. Currently, the Group's products which meet this international standard include single-use infusion sets, single-use transfusion sets, single-use syringes, single-use plastic blood bags, disposal underpad, venous blood collection sets, single-use automatic vacuum blood-collection equipment, single-use sterile disposable syringe to deliver contrast agent on CT power injector, self-destructive safety syringes and single-use nasal oxygen cannula. On 5th December, 2003, the Group's product quality inspection center received accreditation from 中國實驗室國家認可委員會 (China National Accreditation Board for Laboratories) as being in compliance with national testing requirements and standards. On 23rd June, 2005, the Group's 威高 trademark was recognized by 中國國家工商行政管理總局 (State Administration for Industry and Commerce) as the first 馳名商標 ("Well-known Trademark") in the domestic medical device industry in the PRC.

At present, the Group's sales are mainly conducted in the PRC market. The Group is actively exploring opportunities in international markets, and its products have been exported to 30 countries and regions, including the United States, Germany, Romania, Australia and the United Kingdom.

I am pleased to offer on behalf of the Board of Directors (the "Board") the audited consolidated results of the Group for the year ended 31st December, 2005. The Group's results in 2005 have been very satisfactory, with prominent effect from the adjustments to its operational structure and product mix, which laid down a foundation for future development.

FINANCIAL SUMMARY

During the year, the Group has recorded favorable results with significant growth in turnover and net profit attributable to shareholders.

As at 31st December, 2005, the annual turnover amounted to RMB569,987,000, representing a growth of 39.8% over the previous financial year. Net profit attributable to shareholders was RMB101,200,000, representing a growth of 53.6% over the previous financial year. The significant growth in turnover and net profit attributable to shareholders have been mainly attributable to its market development strategy and effective adjustments made to its product mix, enabling the achievement of outstanding results in the development of high-end product market, attracting new customers and increasing sales to existing customers, and at the same time, maintaining a stable profitability.

As at 31st December, 2005, the Group had total reserves of RMB469,885,000 (2004: RMB282,147,000).

FINANCIAL HIGHLIGHT

	Audited		
	2005	2004	Growth %
	RMB'000	RMB'000	
Turnover	**569,987**	407,823	39.8%
Gross profit	**234,260**	162,977	43.7%
Net profit attributable to shareholders	**101,200**	65,888	53.6%

BUSINESS REVIEW

Major developments

(A) *has been accredited by the State Administration for Industry and Commerce as a "Well-known Trademark"*

On 23rd June, 2005, the Group's trademark was accredited as a "Well-known Trademark" by the State Administration for Industry and Commerce of the PRC. Such accredition is the first Well-known Trademark accredited so far in the medical device industry in the PRC, which further enhanced the Group's brand awareness and competitiveness.

(B) *Adjustment in product mix and marketing strategies, seizing the high-end customers and high-end markets*

In year 2005, the Group has dedicated in adjusting its product mix and implementing its "Three enhancements and one expansion" development strategy, which emphasises enhancement of the class of its conventional products, enhancement of its investments in and output of high-technology products, long-term services provided in the high-end market, and expedition in the expansion of its market share of conventional medical consumables. The Group will capture the high growth opportunity brought about by demands for better quality and more advanced medical devices and actively expand its sales network in a prudent manner.

For the year ended 31st December, 2005, the Group has added 758 new customers, including 356 hospitals and 35 blood stations. So far, the Group's total number of customers increased to 5,380, which includes 2,729 hospitals, 400 blood stations, 723 other medical institutions and 1,528 distributors, representing an increase of 16% in the total number of customers over 2004.

(C) *Enhancement in internal control and corporate governance with Enterprise Resources Planning management system*

The Group's Enterprise Resources Planning ("ERP") system has been operating well, enhancing the operation efficiency and supervision in the overall production, supplies and sales of the Group. The Manufacturing Resources Planning ("MRP II") system implemented during the year has effectively reduced the Group's costs in production and purchases and has expedited the turnover of its working capital. As at the end of the year, the Group reorganized its management structure and restructured its operation processes, which will enable the Group to operate more efficiently in the future.

(D) Launching and developing new products

During the year, the Group continued to increase its investments in R&D and established R&D centers with various research institutes, producing remarkable results. For the year ended 31st December, 2005, the Group obtained 9 new patents and is in the process of applying for another 16. New product registration certificates for 31 products have been obtained while 17 developed products are currently under the registration application process. Of these products and technologies, many have attained international leading level. The emphasis the Group placed on R&D helped to increase the Company's competitiveness, laying down a foundation for the Group to leverage on its customer base and to provide a new source of growth for the Group's profits. In particular, the launching of orthopaedic product series, drug eluting stent, pre-filled syringes and blood dialysis consumables have laid down solid foundation for the Group's continued growth.

(E) Successful placing on GEM

On 30th November, 2005, the Company successfully placed 52.9 million new H shares on GEM. The successful placing of the new shares indicated that the Group's past results and development prospects have been widely recognized. The placing has also provided sufficient funds for the Group's development and production of new products, which helps pushing the Group's restructuring its operation.

FUTURE OUTLOOK

All in all, year 2005 was an important year for the Group. Facing intensive market competition and pressure from increasing raw material costs, the Group maintained its growth momentum and profitability by adjusting its sales and product mix, increasing its R&D efforts and seizing the high-end market with high-end products. It also introduced new products to expand its sales network and enlarged its customer base. It also continued to improve and perfect its market development and operating strategies to suit the PRC market.

Looking forward, the management anticipated that the competitions in the market will intensify. With the launch of the Group's new products together with the increase in the number of customers, and capitalising on the Group's extensive sales network and cost advantages, the Group will persist in its "three enhancements and one expansion" development strategy to focus on the domestic market as its principal market and to increase its efforts in exploring overseas markets. This strategy is expected to help consolidating its leading position in the regional markets and enhancing its competitiveness. At the same time, the Group is pursuing mergers and acquisition opportunities in the PRC so as to take advantage of the benefits of industry consolidation.

The Group aims to be the leading single-use medical device manufacturers in Asia. It is pursuing opportunities to form strategic alliance with leading international players. Such alliance can include offering original equipment manufacturer ("OEM") services for its strategic partners, sale of the Group's products to overseas by its strategic partners, or sale of the products of its strategic partners in the PRC using the Group's nationwide sales network.

The Group will also adopt an open attitude to form specialized teams for exploring joint venture opportunities with international renowned manufacturers, aiming to speed up the pace of its entry into high-end medical consumables market and to promote continuous growth in its profits.

The Group is under discusssion with potential investors for the potential investment in Weihai Weigao Blood Purified Product Co., Ltd. (威海威高血液淨化製品有限公司) ("Weigao Blood"), a 70%-owned subsidiary of the Group, which is principally engaged in the manufacturing of medical blood purification treatments and related consumables.

The Group will further upgrade and simplify its management process to strengthen and to improve the effectiveness of its performance assessment system and implementation. With highly efficient management mechanism and structure, and through various management tools and strategies, the Group can promptly respond to customers' demand, reduce its operating costs and enhance its management goals.

The undersigned, together with the Board, are confident about the Group's future development. By leveraging on the continuously expanding high quality and professional management team, the in-depth understanding in the local market, use of advanced technology and the continued innovation in operating concepts, the Group, its staff and its shareholders are ready to face new challenges in the future.

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
17th March, 2006

BUSINESS REVIEW

MAJOR DEVELOPMENTS

On 23rd June, 2005, the Group's trademark was accredited as a "Well-known Trademark" by the State Administration for Industry and Commerce of the PRC. Such accredition is the first Well-known Trademark accredited so far in the medical device industry in the PRC, which further enhanced the Group's brand awareness and competitiveness.

The Group's ERP system has been operating well, enhancing the operation efficiency and supervision in the overall production, supplies and sales of the Group. The MRP II system implemented during the year has effectively reduced the Group's costs in production and purchases and has expedited the turnover of its working capital. As at the end of the year, the Group reorganized its management structure and restructured its operation processes, which will enable the Group to operate more efficiently in the future.

On 30th November, 2005, the Company successfully placed 52.9 million new H Shares on GEM, with net proceeds of RMB70,010,000. The successful placing of the new shares indicated that the Group's past results and development prospects have been widely recognized. The placing has also provided sufficient funds for the Group's development and production of new products, which helps pushing the development of the Group's new businesses and laying down a solid foundation for future development.

NEW PRODUCTS AND NEW PROJECTS

The Group's various investments projects started in last year have been progressing well and some projects have already begun contributing to the Group's results.

(1) Shandong JW Medical Products Co., Ltd. (山東吉威醫療製品有限公司) ("JW Medical"), previously referred as Shandong JW Medical Systems Corporation, a joint venture the Company established with an independent third party for the production of drug eluting stent have obtained product registration certificate in December 2005 and the drug eluting stent has been launched in the domestic market. The newly added balloon catheter production line has also been put into operation. At present, sales of the product have been growing rapidly. The company will continue to leverage on its technological and cost advantages, and to increase marketing efforts in both domestic and overseas markets, so as to enhance the Group's competitiveness in the high-end market. JW Medical is 50% held by the Company.

(2) Shenyang Weigao Jinbao Trading Co., Ltd. (瀋陽威高金寶商貿有限公司) ("Weigao Jinbao"), which was established with independent third parties, for acting as an agent for kidney dialysis equipment and consumables of a Swedish company continued to record improving results during the year. The company, by fully utilizing the resources of the Group's sales network, rapidly seized the key market in the Northeastern Chinese market, at the same time pursuing other inland markets in the PRC, and have made positive contributions to the Group. The Group owns 51% of the registered capital of Weigao Jinbao.

(3) Shandong Weigao Orthopaedic Device Co., Ltd. (山東威高骨科材料有限公司) ("Weigao Bone"), previously referred as Shandong Weigao Bone Materials Co., Ltd. and a sino-foreign joint venture jointly established with two independent third parties, is principally engaged in the R&D, production and sales of technologically advanced and high value-added products such as medulla nail series, steel plate series and bone connecting screw series and spine fixing series. Procurement of equipment and product registration have been completed. The products have been launched in the fourth quarter of this year and have recorded significant growth in their sales. Orthopaedic products are poised to become new source of profit growth. Weigao Bone was 40% held by the Company at the time of establishment in the second quarter of 2005. After the additional equity contribution made by the Company in December 2005, the Group currently owns 53% of the registered capital of Weigao Bone.

(4) Weihai Weigao Group Mould Co., Ltd. (威海威高集團模具有限公司) ("Weigao Mould"), which was jointly established by the Company with an independent third party during the year, is mainly engaged in the manufacture and sales of moulds. It can satisfy the Group's production needs, enhancing the precision level and product quality of the moulds manufactured for the Group's equipment. It also helps to lower the Group's manufacturing costs and to enhance the Group's overall R&D capability. Procurement of the relevant equipment has been completed, and the equipment has now been put into operation. Weigao Mould is 90% held by the Company.

(5) Pre-filled syringes, a high-technology new product developed by the Group itself, has obtained product registration certificate issued by the State Food and Drug Administration of the PRC ("SFDA") in November 2005. The Group has become the first pre-filled syringe producting enterprise in the PRC which both owns the proprietary patent and has obtained the registration certificate. The production of this product during the year has provided the opportunity for the Group to enter the high-end and specialty syringe market.

(6) Weigao Blood, which was jointly established by the Company with an employee of the Group and other independent third parties, is mainly engaged in the R&D, production and sale of high-end blood treatment consumables. The registration process for blood segregator, blood drainage set and genetic recombinant protein adsorption product are underway. These products will enhance the development of the Group and the growth of the Group's profit in the forthcoming years. It is held as to 70% by the Company and 7.5% by the employee with the remaining interest being held by independent third parties.

In order to expedite the development of the company and integrate the production of dialysis consumables in the PRC, Weigao Blood contributed RMB8 million to establish a joint venture, Shanxi Weigao Huading Medical Devices Co., Ltd. (山西威高華鼎醫療器械有限公司) ("Weigao Huading"), with an independent third party, the registration of which is currently underway. As at the date of this report, the market integration and product integration have been completed. The establishment of the joint venture will expedite the pace of the Group's entry into the blood purification sector. The joint venture company is 51.6% held by the Company and 48.4% held by the joint venture partner.

The Group closely observed and monitored the progress of the Group's investment projects. In addition to the above projects, the second phase introduction of the imported equipment for needle grinding and needle products have been completed with all equipment installed, boosting the Group's annual production capacity of needle products to 3 billion pieces. As at the end of the year, the Group's total investments in fixed assets amounted to approximately RMB206,880,000. The newly added production capacity and the new projects pursued will significantly enhance the Group's market competitiveness. The Group's competitive edges of diversified product types available and well-defined product categorization greatly assured itself in its business development and more extensive market penetration.

RESEARCH AND DEVELOPMENT

During the year, the Group continued to increase its investments in R&D, and in addition to researches by the Group itself, it also established cooperation relationship in the production, research and learning with two research institutes of the China Academy of Sciences (Changchun Applied Chemistry Research Institute and Dalian Chemistry-Physics Research Institute) and a number of top-notch domestic medical educational organization. The Group's post-doctorate working station continued to admit new researchers and has achieved outstanding results in R&D.

For the year ended 31st December, 2005, the Group obtained 9 new patents and is in the process of applying for another 16. Product registration certificates in respect of 31 products have been obtained while application for 17 products developed are underway. The Group places importance on R&D for improving its competitiveness and to allow it to leverage on its customer base to lay a foundation for future growth in the Group's profit.

(1) In June 2005, the WG-1 type non-PVC infusion set (super-low density polypropylene infusion set) developed by the Company with proprietary intellectual property right has been admitted in the "2005 State Torch Plan – Hi-tech Industry Model Project" by the Ministry of Science and Technology.

(2) During the year, the Group and the Changchun Applied Chemistry Research Institute have completed the research project on thermal plastic elastic polyolefin (TPE) and the application of such material in single-use medical devices, and approval from the relevant authority in the PRC has also been obtained. The Group will become the first to apply this new material to replace PVC materials in the production of single-use infusion sets.

(3) On 24th November, 2005, the Group has obtained the product registration certificate from the SFDA for its pre-filled syringe, a high-technology product developed by the Group itself. The Group became the first pre-filled syringe producing enterprise in the PRC, which both owns the proprietary patent and has obtained the registration certificate.

(4) In May 2005, the Group jointly established Weigao Bio-tech Research and Development Center of Dalian Chemistry-Physics Research Institute of China Academy of Sciences with Dalian Chemistry-Physics Institute of China Academy of Sciences, and in November 2005, the Group jointly established Xinan Hospital Weigao Research and Development Center with the First Subordinate Hospital (Xinan Hospital) of the Third Military Medical University.

During the year, the total amount of fund spent by the Group on R&D amounted to RMB10,536,000 (including capitalised research and development expenditure, such as purchase of intangible asset, of RMB2,202,000), representing 1.8% of the consolidated total turnover.

NEWLY ADDED PRODUCTION CAPACITY

In order to continuonsly introduce new products to meet with market needs and to expand its re-production capacity, the Group increased its investments in plant and machinery during the year. For the year ended 31st December, 2005, the Group's additional investments in plant and machinery amounted to RMB206,880,000.

1) In February 2005, the Group's new transfusion consumable workshop commenced operation, which added 5,538 sq. m. to the Group's production area, increasing annual production capacity for high-end transfusion products by 16 million sets. In August 2005, the pressed membrane production line imported from Italy and the blood bag forming production line imported from Holland were put into operation by the Company, and pressed blood bags have been launched in the market. The Group is at present the first enterprise to import a full set of fully automatic pressing and forming production line in the PRC. The Group's blood bag production have attained international advanced level. Annual production capacity have reached 2 million sets of the four connected high-end pressed blood bags.

2) In May 2005, The Group's new pre-filled syringe production workshop was completed, adding 968 sq. m. to production area. Registration certificate for the pre-filled syringe has been obtained in November 2005, and the product has been formally launched. Its production capacity can reach 30 million pieces each year.

3) In July 2005, the Group completed the testing and calibration of its two new needle production lines which were then put into operation, increasing needle production capacity by 700 million pieces per annum and making the total annual production capacity to reach 3 billion pieces.

4) In August 2005, the new production workshop of Weigao Bone was completed, with a newly added production area of 5,278 sq. m.. In September 2005, products of Weigao Bone have obtained product registration certificates and sales have commenced. Annual production capacity of orthopaedic material products can reach 100,000 sets (pieces).

5) In August 2005, the new production workshop of Weigao Blood commenced production, with additional production area of 3,757 sq. m..

6) In August 2005, the new production workshop of Weigao Mould was completed, with additional production area of 837 sq. m..

During the year, the production volumes of the Company's various major products compared with those of the previous year are as follows:

		For the year ended 31st December,		
Product name	Unit	2005	2004	%
Infusion (transfusion) sets	10,000 pcs	20,911	18,350	14.0%
Transfusion consumables	10,000 pcs	1,044	861	21.3%
Syringes	10,000 pcs	31,069	28,124	10.5%
Dental and anesthetic products	10,000 pcs	182	163	11.7%
Blood sampling products	10,000 pcs	3,547	1,848	91.9%
PVC granules	tonnes	9,476	7,607	24.6%
of which: medical grade PVC	tonnes	3,702	3,279	12.9%
Needle products	10,000 pcs	95,198	48,717	95.4%
Other products	10,000 sets	4,883	3,414	43.0%

SALES AND MARKETING

In the centre of its strategy in market development and product mix adjustment, the Group adopted a "three enhancements and one expansion" development strategy (enhancement of the class of conventional products, enhancement of investments and output in high-technology products, long-term services in the high-end market and expedite the expansion of market share of conventional medical consumables). The Group further rationalized its sales system and integrated its sales teams. It also carried out more rigorous performance assessment on its sales personnel. More efforts were devoted to increase the sales of non-conventional products and high value-added products through promotion meetings and exhibitions. It also increased its efforts in the development of the high value-added products in the high-end markets. In particular, remarkable success has been achieved in the sales of high value-added products.

The Group's sales network can be distinguished into overseas and seven domestic sales regions. To try to fully capitalize on the potential of the Group's sales network coverage, the Group conducts direct sales as well as selling through its dealers.

During the reporting period, the Group established business relationship with 758 new customers, including 356 hospitals and 35 blood stations. So far, the Group's total number of customers has reached 5,380, including 2,729 hospitals, 400 blood stations, 723 other medical units and over 1,500 trading companies, representing an increase of 16% in the total number of customers over 2004.

Reforms to the sales system have substantially enhanced the results for the year. Comparisons of the sales of various product by geographical areas over the corresponding period in the last year are as follows:

Turnover by geographical regions

For the year ended 31st December,

Region	2005		2004		Growth
	RMB'000	*%*	*RMB'000*	*%*	*%*
Northeastern	118,833	20.86	80,326	19.70	47.9
Northern	144,162	25.29	116,089	28.47	24.2
Eastern and Central	147,085	25.80	110,876	27.19	32.7
Southwestern	30,385	5.33	20,587	5.04	47.6
Northwestern	20,292	3.56	15,548	3.81	30.5
Southern	73,640	12.92	47,300	11.60	55.7
Overseas	35,590	6.24	17,097	4.19	108.2
Total	569,987	100.00	407,823	100.00	39.8

In addition, the outstanding results of the product mix adjustment strategy has enhanced the operating results for the year. Despite the market became increasingly competitive and prices of conventional products continued to decrease, sales of the Group's various key products realized significant growth. In particular, growth of high value-added products such as blood sampling products and intravenous catheter needles have been encouraging. Sales income of the various key products as compared with those in the corresponding period in last year are as follows:

Turnover by product category

For the year ended 31st December,

Product Category	Product name	2005 *RMB'000*	2004 *RMB'000*	Growth *%*
Self-produced products	Infusion sets	187,738	150,365	24.9%
	Syringes	156,839	135,449	15.8%
	Blood bag products	73,589	43,000	71.1%
	Dental and anesthetic products	9,913	7,708	28.6%
	Blood sampling products	10,233	5,623	82.0%
	PVC granules	49,558	36,684	35.1%
	Needle products	17,959	4,212	326.4%
	Other products	33,316	24,643	35.2%
Trading products	Medical instruments	29,618	31	95,441.9%
	Other products	1,224	108	1,033.3%
	Total	569,987	407,823	39.8%

HUMAN RESOURCES

As at 31st December, 2005, the Company employed a total of 5,508 employees, Comparisons of the headcount by departments over those of last year are as follows:

Department	2005	2004
R&D	141	91
Sales and marketing	636	345
Production	4,390	3,709
Procurement	29	10
Quality control	80	36
Management	54	54
Finance and administration	178	185
Total	5,508	4,430

With the operation of the Group's new projects and the increase in production capacities, the number of the Group's employees increased by approximately 24% over 2004, and were distributed in the newly expanded transfusion set workshop, needle product workshop, pre-filled syringe workshop and the newly operated production workshops of Weigao Blood and Weigao Bone. The Group had strengthened its control over R&D and product quality and increased the number of staff in the R&D, sales, procurement and quality control departments.

All employees of the Group reside in the PRC except the company secretary who resides in Hong Kong. During the year, total cost incurred by the Group on staff salaries, welfare, and various social insurance funds amounted to RMB73,433,000 (2004: RMB56,305,000).

REMUNERATION SYSTEM

The Group's remuneration policy has been determined based on its profit forecast, changes in the local consumption level and the competition in the human resources market. The remuneration policy so determined has become the principles of 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 are determined by the Remuneration Committee with reference to Company's operation results, personal performance and market competitions.

FINANCIAL REVIEW

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

For the year ended 31st December, 2005, the annual turnover amounted to RMB569,987,000, representing an increase of 39.8% over the previous financial year. Net profit attributable to shareholders amounted to RMB101,200,000, representing an increase of 53.6% over the previous financial year. The significant growth in turnover and net profit was mainly attributable to the Company's effective market development strategy and product mix adjustment strategy, remarkable achievements obtained in the development of high-end market, outstanding results obtained in attracting new customers and increasing sales to existing customers, and at the same time, maintaining, a stable profitability.

FINANCIAL SUMMARY

	Audited	
	2005	2004
	RMB'000	RMB'000
Turnover	**569,987**	407,823
Gross profit	**234,260**	162,977
Profit before interest, taxation and depreciation	**143,481**	96,403
Depreciation	**(23,863)**	(14,935)
Net profit attributable to shareholders	**101,200**	65,888

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group maintained a good financial condition. As at 31st December, 2005, the Group's total cash and bank balances amounted to RMB171,642,000. For the year ended 31st December, 2005, the Group maintained a healthy cash flow condition with net cash generated from operating activities amounted to RMB118,032,000. The Group believes that the favorable performance in sales, production and R&D and the healthy cash reserves in 2005 will provide a solid foundation to substantiate further growth in sales, competition among rivals and a significant increase in cash flow generated from operating activities in 2006.

During the period, in order to meet the needs for investments made in operation expansions, capital expenditures, research and development and technological improvement, the Group has drawn on more borrowings from a number of domestic banks in addition to the proceeds raised from the placing of new shares. The Group has also been more cautious in managing its loan portfolio. During the year, the Group obtained bank loans of RMB362,186,000 and repaid bank loans of RMB299,450,000. As at 31st December, 2005, the Group's bank and other borrowings repayable within one year amounted to RMB127,900,000 (2004: RMB105,500,000), and bank and other borrowings repayable after one year amounted to RMB210,000,000 (2004: RMB147,800,000).

For the year ended 31st December, 2005, the Group's total interest expenses amounted to RMB17,038,000 (2004: RMB11,601,000).

GEARING RATIO

The Group's gearing ratio, being the ratio of total borrowings net of cash and bank balances to total equity attributable to shareholders, was 0.29 (2004: 0.38). The reduction in this ratio was mainly due to the proceeds received from the Group's placing of new shares and increase in reserves.

FOREIGN EXCHANGE RISKS

The Group's purchases and sales are mainly conducted in the PRC, and proceeds from the listing and placing have all been converted into Renminbi. During the reporting period, the Group has not encountered with any material difficulty due to fluctuations in exchange rates nor has its operating funds been affected.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31st December, 2005.

MATERIAL SUBSIDIARY INVESTMENTS/FUTURE MATERIAL INVESTMENTS

On 8th April, 2005 and 29th December, 2005, the Company injected capital in the amounts of RMB13,200,000 and RMB8,000,000 respectively in Weigao Bone, one of its joint ventures, for the purchase of production machinery and equipment of the company.

On 29th December, 2005, the Company invested RMB10,500,000 in Weigao Blood, one of its joint ventures, for the purchase of production machinery and equipment of the company.

On 5th November, 2005, Weigao Blood established Weigao Huading with Shanxi Huading Medical Devices Co., Ltd. (山西華鼎醫療器械製造有限公司). The registered capital of Weigao Huading was RMB15,500,000, of which RMB8,000,000 was contributed by Weigao Blood, representing a shareholding of 51.6%.

At present, the Group has no other planned material investment or capital expenditure.

CAPITAL AND LEASEHOLD COMMITMENTS

As at 31st December, 2005, the Group and the Company had commitments for acquisition of property, plant and equipment which were contracted but not provided in the financial statements amounting to RMB18,189,000 (2004: RMB40,016,000) and RMB15,414,000 (2004: RMB35,533,000) respectively. These commitments are expected to be settled with the Group's proceeds from the placing and internal funds.

PLEDGE OF THE GROUP'S ASSETS

As at 31st December, 2005, the Group had pledged buildings with a net book value of approximately RMB157,131,000 (2004: RMB164,991,000) and time deposits of RMB6,000,000 (2004: RMB9,000,000) to secure banking facilities for the Group.

RESERVES AND DISTRIBUTABLE RESERVES

As at 31st December, 2005, the Group's total reserves amounted to RMB469,885,000 (2004: RMB282,147,000).

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 31st December, 2005, the Company's distributable reserves were RMB101,201,000 (2004: RMB67,957,000).

FUTURE OUTLOOK

Year 2005 was an important year for the Group. Facing intensive market competition and pressure from increasing raw material costs, the Group maintained its growth momentum and profitability by adjusting its sales and product mix, increasing its R&D efforts and seizing the high-end market with high-end products. It also introduced new products to expand its sales network and enlarged its customer base. It also continued to improve and perfect its market development and operating strategies to suit the PRC market.

Looking forward, the management anticipated that the competitions in the market will intensify. With the launch of the Group's new products together with the increase in the number of customers, and capitalising on the Group's extensive sales network and cost advantages, the Group will persist in its "three enhancements and one expansion" development strategy to focus on the domestic market as its principal market and to increase its efforts in exploring overseas markets. This strategy is expected to help consolidating its leading position in the regional markets and enhancing its competitiveness. At the same time, the Group is pursuing mergers and acquisition opportunities in the PRC so as to take advantage of the benefits of industry consolidation.

The Group aims to be the leading single-use medical device manufacturers in Asia. It is pursuing opportunities to form strategic alliance with leading international players. Such alliance can include offering OEM services for its strategic partners, sale of the Group's products to overseas by its strategic partners, or sale of the products of its strategic partners in the PRC using the Group's nationwide sales network.

The Group will also adopt an open attitude to form specialized teams for exploring joint venture opportunities with international renowned manufacturers, aiming to speed up the pace of its entry into the high-end medical consumables market and to promote continuous growth in its profits.

The Group is under discusssion with potential investors for the potential investment in Weigao Blood, which is principally engaged in the manufacturing of medical blood purification treatments and related consumables.

The Group will further upgrade and simplify its management process to strengthen and to improve the effectiveness of its performance assessment system and implementation. With efficient management mechanism and structure, and through various management tools and strategies, the Group can promptly respond to customers' demand, reduce its operating costs and enhance its management goals.

The Group is confident about its future development. By leveraging on the continuously expanding high quality and professional management team, the in-depth understanding in the local market, use of advanced technology and the continued innovation in operating concepts, the Group, its staff and its shareholders are ready to face new challenges in the future.

COMPARISON OF THE BUSINESS OBJECTIVES WITH THE ACTUAL BUSINESS PROGRESS

Statements of business objectives as set out in the prospectus for the placing in 2004 (the "2004 Placing") (Please refer to the "Explanations to the use of proceeds" for details)	Actual business progress from the beginning of the year to 31st December, 2005
Production	
1. To apply RMB4,000,000 of the proceeds from the 2004 Placing for the purchase of machinery and equipment for the production of pre-filled syringe	Actual invested amount was RMB14,659,000. Calibration and testing of the machinery and equipment have been completed and the products have already been launched.
2. To apply RMB14,000,000 of the proceeds from the 2004 Placing for the purchase of machinery and equipment for the production of irregular needles and the expansion of the production lines for intravenous infusion needles and syringe needles	Actual invested amount was RMB8,275,000. Operation has commenced in July 2005, increasing production capacity of irregular needles, infusion needles and syringe needles by 700 million pieces.
3. To plan for the production of 9 products, including single-use nutritional infusion bag, single-use machine use light-proof syringe, single-use pre-filled syringe, single-use clipping auto disable syringe, single-use intravenous catheter needle, infusion set for dosage use, safety infusion set with burette	All of the above products other than the dosage infusion set have been launched and mass production has commenced. Production permit for dosage infusion set has been obtained and production will be commenced shortly.
4. To commence the construction or acquisition of a production base in Southwestern China	Significant increase in raw material costs affected the profitability of single-use medical device manufacturers, which creates opportunities for market consolidation. Based on the current market development, the Group is considering merger and acquistion opportunities instead of building its own plant.
Research and development	
To invest RMB3,500,000 in the research and development of new products	The Group has obtained new product registration certificates on 31 items, and 17 items having completed research and development are in the application process for new product registration. Total expenses on R&D amounted to RMB10,536,000, of which RMB3,500,000 was from the proceeds of the 2004 Placing.

Sales and marketing

1. To apply RMB4 million from the proceeds of the 2004 Placing in marketing	In order to be in line with the Company's competition strategy and launching of new products, the Company extensively participated in domestic and overseas medical device exhibitions, and held various promotion meetings and has achieved outstanding marketing results. The Company made use of RMB4,000,000 from the proceeds of the 2004 Placing, and increased development in Southern and Southwestern Chinese markets.
2. To set up 15 additional sales offices	After adjusting the sales function, 7 sales districts have been set up. The underlying sales offices commenced direct sales of goods, ensuring rapid delivery of goods to customers, with lower expenses and higher efficiency. The Group's number of sales branches and offices increased to 15, customer liaison centers increased to 20, number of cities where sales representatives are deployed increased to 100.
3. Number of sales team members expanded to 480	The Group's sales team continued to grow, and after implementation of elimination system, overall morale of the sales team has been enhanced. The Group increased 140 sales team members and 12 members were eliminated during the year. Total number of sales and sales management staff reached 636.
4. To participate in tenders held by local health administration departments	The Group participated in tenders organized by local health administration departments and hospitals and won all tenders.
5. To attract 450 new customers	The Group has added 758 new customers during the year.
6. To export products to mid-Asian countries from the production plants in Northwestern China	Significant increase in raw material costs affected the profitability of single-use medical device manufacturers, which creates opportunities for market consolidation. Based on the current market development, the Group is considering merger and acquistion opportunities instead of building its own plant.

Use of proceeds as set out in the announcement of the Company dated 17th November, 2005 (the "2005 Placing") (Please refer to the "Explanations to the use of proceeds" for details)	Actual business progress from the completion of the 2005 Placing to 31st December, 2005
1. To apply RMB34,800,000 from the proceeds of the 2005 Placing for purchase of production machinery and equipment for Weigao Bone	Investments of RMB13,200,000 have been made in Weigao Bone on 29th December, 2005
2. To apply RMB24,880,000 from the proceeds of the 2005 Placing for purchase of production machinery and equipment for Weigao Blood	Investments of RMB10,500,000 have been made in Weigao Blood on 29th December, 2005

EXPLANATIONS TO THE USE OF PROCEEDS

Project	Plans in 2005 *RMB'000*	Actual situation in 2005 *RMB'000*
2004 Placing		
Production		
New blood transfusion consumables (Note 1)	—	1,543
Pre-filled syringe project (Note 1)	4,000	14,659
Needles (Irregular needle, intravenous infusion needles etc) (Note 2)	14,000	8,275
Research and development		
New medical device products	3,500	3,500
Sales		
Expansion of sales network and marketing activities	4,000	4,000
Subtotal	25,500	31,977

	Plans *RMB'000*	Actual situation in 2005 *RMB'000*
2005 Placing		
Production		
Orthopaedic materials (Note 3)	34,800	13,200
Blood purification (Note 3)	24,880	10,500
Subtotal	59,680	23,700
Total	85,180	55,677

Note 1: Payment plans for new blood transfusion consumable equipment and pre-filled syringe equipment were delayed in year 2004 and the relevant payments were made during the current year.

Note 2: The acquisition of equipment for needle production was ahead of schedule in year 2004 and certain payments that were originally planned to be paid in year 2005 was early paid in year 2004, thereby reducing the actual payment required in year 2005.

Note 3: Certain of the 2005 Placing proceeds were utilized in year 2005 and the rest will be utilized in the coming years.

Report of The Supervisory Committee

To all shareholders:

For the year ended 31st December, 2005, the entire members of the Supervisory Committee of the Company have complied with the Company Law of the PRC, the relevant regulations of Hong Kong and the Articles of Association of the Company (the "Relevant Regulations"), and under the principles of fidelity, have diligently and seriously discharged their duties to safeguard the benefits of the Company's shareholders and the Company.

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

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

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

By Order of the Supervisory Committee

Shandong Weigao Group Medical Polymer Company Limited
Bi Hong Mei
Chairman

Weihai, Shandong Province, the PRC
17th March, 2006

The Company has committed itself to a high standard of corporate governance. The Directors strongly believe that reasonable and sound corporate governance practices are vital to the Group's rapid growth and to safeguarding and enhancing shareholders' interests.

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 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 2005 and the individual attendance of each Director:

Number of Board meetings held during the year 2005: 10

Details of individual attendance of each Director:

	Attendance (%)
Executive Directors	
Mr. Zhang Hua Wei	90%
Mr. Wang Yi	90%
Mr. Miao Yan Guo	100%
Mr. Wang Zhi Fan	60%
Mr. Wu Chuan Ming	100%
Non-executive Directors	
Mr. Chen Xue Li	100%
Mrs. Zhou Shu Hua	100%
Independent non-executive Directors	
Mr. Shi Huan	80%
Mr. Luan Jian Ping	80%
Mr. Lau Wai Kit	70%

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

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

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

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

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

Minutes of Board/committee meetings are kept by the secretary of the Board 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/She 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 10 Directors, of which three are independent non-executive Directors, two are non-executive Directors and five are executive Directors. The Directors are:

Independent non-executive Directors: Mr. Shi Huan, Mr. Luan Jian Ping and Mr. Lau Wai Kit

Non-executive Directors: Mr. Chen Xue Li and Mrs. Zhou Shu Hua

Executive Directors: Mr. Zhang Hua Wei, Mr. Wang Yi, Mr. Miao Yan Guo, Mr. Wang Zhi Fan and Mr. Wu Chuan Ming

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

Experience

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

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.

No Directors were nominated during the year.

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 2005.

B. Remuneration of Directors and senior management

Remuneration Committee

The Company established a remuneration committee on 12th August, 2005 in accordance with the requirement of the Code. The remuneration committee comprises three independent non-executive Directors, namely Mr. Shi Huan, Mr. Luan Jian Ping and Mr. Lau Wai Kit. The chairman of the remuneration committee is Mr. Shi Huan;

The principal responsibilities of the remuneration committee include formulation of the remuneration policy, reviewing and advising on the annual remuneration policy, assessing the performance of executive Directors and members of senior management, determination of the remuneration of executive Directors and members of senior management, and approving the terms of executive Directors' service contracts. The chief objective of the remuneration policy is to ensure that the Company is able to attract, retain and motivate high-caliber staff, which is vital to the success of the Company.

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

No Director and executive officer can determine his/her own remuneration.

The remuneration of all Directors is subject to approval at shareholders' meetings.

The chairman of the remuneration committee reports the findings and provides recommendations to the Board after each meeting.

The remuneration committee of the Company held one remuneration committee meeting during the year 2005. 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 scope of responsibilities of the remuneration committee is available for inspection upon request.

C. Accountability and audit

Financial Reporting

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

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

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

Internal control

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

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

Audit committee

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

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

- To serve as a focal point for communication amongst other Directors, external auditors and internal auditors in respect of the duties relating to financial and other reporting, internal control, external and internal auditors and such other matters as the Board determines from time to time.
- To assist the Board in fulfilling its responsibilities by providing independent reviews and supervising financial reporting, by satisfying themselves as to the effectiveness of the internal control of the Group and the adequacy of the external and internal audits.
- To review the scope and findings of internal audit procedures, to ensure coordination between internal and external auditors, and to ensure that the internal audit is provided with sufficient resources and has appropriate standing within the Group.

- 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 2005, 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 (%)
Independent non-executive Directors	
Mr. Lau Wai Kit	100%
Mr. Shi Huan	100%
Mr. Luan Jian Ping	100%
Non-executive Director	
Mrs. Zhou Shu Hua	100%

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

There was no disagreement between the audit committee and the Board in respect of the selection, appointment, resignation or removal of external auditors during the year 2005.

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

In year 2005, the audit fees paid to the external auditors by the Company was RMB1,908,099, of which: RMB531,490 represented the audit fees incurred for the audit of the financial results of the Group for the year 2004, RMB1,348,737 were related to audit fees incurred for the proposed application of the Listing of the H Shares of the Company on the Main Board of the Stock Exchange in Hong Kong, and RMB27,872 were non-audit fees (scrutineering fees) paid to the external auditors.

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;

(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;

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

The chief executive officer grants authorization to vice-president, chief controller and other senior management within his terms of reference.

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

E. Communications with shareholders

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

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

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

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

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

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

- establishing specialized bodies and 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-to-one interviews with investment institutions. Besides, the Company also regularly communicates with investors on a one-on-one basis.

Directors

Executive Directors

Mr. Zhang Hua Wei, aged 42, is the vice chairman and general manager of the Company and vice chairman of Shandong Weigao Group Company Limited ("Weigao Holding"). Mr. Zhang studied politics and economics at the Weihai Campus of Shandong University from 1996 to 1998. Mr. Zhang was the deputy factory director of Weigao Holding from 1988 to 1998, and has been the general manager of Weigao Holding since 1998. Mr. Zhang joined the Company in December 2000.

Mr. Miao Yan Guo, aged 43 is an executive Director and deputy general manager of research and development of the Company. Mr. Miao studied Business Administration at the Weihai Campus of Shandong University from 1999 to 2001. Mr. Miao joined Weigao Holding in 1988 and was sales director from 1988 to 1991, operating manager from 1991 to 1993 and head of the No. 1 branch of Weigao Holding from 1993 to 1998. He was a deputy general manager of Weigao Holding from 1998 to 2000. Mr. Miao joined the Company in December 2000.

Mr. Wang Yi, aged 46, is an executive Director and deputy general manager of general affairs of the Company. Mr. Wang studied Business Administration at the Shandong Cadres Distance Learning University from 1994 to 1997. He joined Weigao Holding in 1988 and was production director from 1988 to 1989, head of the No. 2 branch of Weigao Holding from 1989 to 1992 and manager of the No. 3 branch of Weigao Holding from 1992 to 2004 of sales. Mr. Wang joined the Company in December 2000.

Mr. Wang Zhi Fan, aged 50, is an executive Director and deputy general manager of sales of the Company. He joined Weigao Holding in 1988 and was the production head and the manager of foreign trade of Weigao Holding. Mr. Wang joined the Group in December 2000.

Mr. Wu Chuan Ming, aged 47, is an executive Director and deputy general manager of production of the Company. Mr. Wu joined Weigao Holding in 1988. He has been the manager of the blood transfusion branch from 1996 to 2004. He joined the Group in December 2000.

Non-executive Directors

Mr. Chen Xue Li, aged 54, is the Chairman of both the Company and Weigao Holding. Mr. Chen founded Weigao Holding in 1988, and was the head of it from 1988 to 1998, Mr. Chen has been elected as the chairman of the Company since December 2000. He received the award of Entrepreneur of Weihai Economy Development in June 2003.

Mrs. Zhou Shu Hua, aged 49, is a non-executive Director of the Company and financial deputy general manager of Weigao Holding. Mrs. Zhou studied Business Administration at the Weihai Campus of Shandong University from 1999 to 2001. Mrs. Zhou joined Weigao Holding in 1989 and held a number of positions such as head of the finance division in the finance department, manager of the finance department and deputy general manager of Weigao Holding. Mrs. Zhou joined the Group in December 2000.

Independent non-executive Directors

Mr. Shi Huan, aged 69, is an independent non-executive Director. Mr. Shi is the president of China Pharmaceutical Association of Plant Engineering, a senior engineer and a former deputy head of State Pharmaceutical Administrative Bureau. He was appointed as an independent non-executive Director in September 2002.

Mr. Luan Jian Ping, aged 52, is an independent non-executive Director. Mr. Luan studied philosophy and logic at the People's University of China from 1979 to 1986. He also studied Business Administration at the Aston University in the United Kingdom from 1992 to 1994. He obtained a PRC Lawyer's License issued by the Ministry of Justice of the PRC in October 1996 and is currently a partner of Beijing De Run Law Firm. He was appointed as an independent non-executive Director of the Company in September 2002.

Mr. Lau Wai Kit, aged 42, holds a Bachelor of Law degree and a Postgraduate Certificate in Law from the University of Hong Kong. Mr. Lau is a partner of Gobi Partners, Inc. He was appointed as the financial director and financial controller of two private companies, responsible for the financial management of these companies from 1998 to 2001. Mr. Lau has over sixteen years of experience in practising law, and is a solicitor of the High Court of Hong Kong, an attorney and counselor at law of the Supreme Court of the State of California. Mr. Lau is also the Chairman of Diamondlite Group, a jewelry manufacturer headquartered in Hong Kong. He is also an independent non-executive director of Tianjin Development Holdings Limited and China Insurance International Holdings Company Limited. He sits on the Small Entrepreneur Research Assistance Programme Project Assessment Panel of the Government of the Hong Kong Special Administrative Region. He was appointed as an independent non-executive Director of the Company in November 2004.

Supervisors

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

Ms. Bi Hong Mei, aged 42, is a supervisor of the Company and the director of the purchase department. Ms. Bi graduated from the Economic Management Department of Shandong Cadres Distance Learning University in 1997. She joined Weigao Holding in December 1988 and has been the head of the finance division and the deputy manager of the infusion sets branch from 2001 to 2004. She joined the Company in December 2000.

Mr. Miao Hai Sheng, aged 33, is a supervisor of the Company and the project manager of auxiliary pre-filled syringe branch. Mr. Miao graduated from the Weihai Campus of Shandong University in 1997, majoring in operation management. He joined Weigao Holding in 1991 and has been the accountant, finance director, the labour and management officer of Weigao Holding. He joined the Company in December 2000.

Ms. Chen Xiao Yun, aged 32, is a supervisor of the Company and the manager of marketing and finance department. Ms. Chen studied financial accounting at the Shandong Broadcast and Television University from 1994 to 1998. She joined Weigao Holding in July 1991 and was the head of the finance division in finance department and the assistant to the manager of infusion sets branch. She joined the Company in December 2000.

Senior Management

Mr. Jiang Qiang, aged 33, is the deputy general manager of the Company. Mr. Jiang obtained a Master degree in Accounting from Northeast University of Finance and Economics in the PRC in 1998. He is a certified public accountant and has extensive experience in accounting and financial management. Mr. Jiang joined the Company in June 2002.

Mr. Song Zhen Sheng, aged 42, is the deputy general manager of marketing of the Company. Mr. Song joined Weigao Holding in 1992 and has taken various posts in Weigao Holding and the Group. He joined the Company in December 2000.

Mr. Zhou De Jun, aged 48, the deputy general manager of the blood transfusion branch. Mr. Zhou graduated from Shandong Party School of the Communist Party of China, majoring in economics and management in 1998, and studied in an advanced business administration programme administered by People University of China from 2002 to 2004. Mr. Zhou joined Weigao Holding in 1992 and was the deputy head of the No. 1 branch of Weigao Holding. He was also the sales manager of the syringes branch. He joined the Company in December 2000.

Mr. Yuan Yong Xiang, aged 37, is the secretary to the Board of the Company. Mr. Yuan obtained a Master degree in Business Administration from Shanghai University of Finance and Economics in 1996 and studied commerce at the University of Santo Tomas in the Philippines from 1996 to 1997. He was the project manager of investment bank head office (Shanghai) of Huaxia Securities Co., Ltd. from 1997 to 1999. From 1999 to 2001, he was the deputy general manager of Weihai Pneumatic Components Company Limited, and from 2001 to 2002, the factory manager of Weihai Ying Wei Si Control Device Company Limited. Mr. Yuan has extensive experience in corporate management. He joined the Company in August 2002.

The Directors present their annual report and the audited financial statements for the year ended 31st December, 2005.

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 28th December, 2000.

The shares of the Company were listed on GEM with effective from 27th February, 2004.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the research and development, production and sale of single-use medical devices. The activities of its subsidiaries are set out in note 29 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 43.

An interim dividend of RMB1.0 cents per share amounting to RMB9,127,000 was paid during the year. The Directors now recommend the payment of a final dividend of RMB2.0 cents per share to the shareholders on the register of members on 9th May, 2006 amounting to RMB19,311,000, and the retention of the remaining profit for the year of RMB72,762,000.

PROPERTY, PLANT AND EQUIPMENT

The Group acquired property, plant and equipment during the year at an aggregate costs of approximately RMB206,880,000 in order to increase its production capacity. Details of this and other movements during the year in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

SHARE CAPITAL

On 20th May, 2005, the Company issued 48,160,000 domestic shares to Weigao Holding in exchange for land and properties amounted to RMB47,000,000.

On 30th November, 2005, the Company issued 52,900,000 new H shares of RMB0.10 each at HK$1.35 per share by way of placing. The Group intended to use the net proceeds of approximately RMB70,010,000 million for expansion of Weigao Bone and Weigao Blood and as general working capital of the Group.

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

Details of movements during the year in the share capital of the Company are set out in the consolidated statement of changes in equity on page 45 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

In the opinion of the Directors, the reserves available for distribution to the shareholders at 31st December, 2005 was RMB101,201,000 (2004: RMB67,957,000), which is computed based on the lower of the aggregate amount of profit after taxation for the year and retained profits brought forward determined under generally accepted accounting principles in the PRC and that determined under generally accepted accounting principles in Hong Kong after deduction of the current year's appropriations to the statutory surplus reserve and statutory public welfare fund.

DIRECTORS AND DIRECTORS' SERVICES CONTRACTS

The Directors during the year and up to the date of this report were:

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Mr. Chen Xue Li
Mrs. Zhou Shu Hua

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lau Wai Kit
Mr. Luan Jian Ping
Mr. Shi Huan

Each of the executive and non-executive Directors entered into a service agreement with the Company on 11th February, 2004 (except for the two independent non-executive directors, Mr. Luan Jian Ping and Mr. Shi Huan, who entered into service agreements with the Company on 1st September, 2002 and another independent non-executive director, Mr. Lau Wai Kit who entered into a service agreement with the Company on 1st September, 2004), commencing on 27th February, 2004 for an initial term of three years, unless and until terminated by either party by giving to the other party not less than three months' notice in writing. For all executive Directors, non-executive Directors and independent non-executive Directors, the service agreement are renewable for successive three-year terms upon the agreement between the relevant parties and subject to the Articles of Association of the Company adopted by the shareholders of the Company on 16th March, 2006. No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The service agreements for executive and non-executive Directors do not stipulate for any amount of remuneration or bonus payments to be paid for services provided as Directors of the Company. Instead, the executive and non-executive Directors are paid annual salaries for holding senior management positions in the Company. Pursuant to the current Articles of Association of the Company, the remuneration of the senior management personnel of the Company shall be determined by the Board in accordance with a remuneration schedule applicable to all senior management personnel of the Company. Pursuant to the service agreement entered into between the Company and each of the two independent non-executive Directors, Mr. Luan Jian Ping and Mr. Shi Huan, shall receive an annual service fee of RMB30,000. Another independent non-executive Director, Mr. Lau Wai Kit shall receive an annual service fee of HK$48,000. Except the independent non-executive Directors, all the executive and non-executive Directors shall be entitled to welfare benefits in accordance with the relevant laws and regulations in the PRC (including but not limited to, retirement benefits and medical insurance).

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' INTERESTS AND LONG POSITIONS IN SHARES

As at 31st December, 2005 , the interests of the Directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(i) Long positions of domestic shares of RMB0.10 each of the Company.

Name of Director	Capacity	Total number of domestic shares	Approximate percentage of the issued share capital of the Company
Mr. Zhang Hua Wei	Beneficial owner	10,800,000	1.12%
Mr. Miao Yan Guo	Beneficial owner	7,800,000	0.81%
Mr. Wang Yi	Beneficial owner	7,800,000	0.81%
Mr. Wang Zhi Fan	Beneficial owner	2,700,000	0.28%
Mr. Wu Chuan Ming	Beneficial owner	2,400,000	0.25%
Mrs. Zhou Shu Hua	Beneficial owner	5,100,000	0.53%

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

Name of director	Capacity	Total capital contribution	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%
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%
Mrs. Zhou Shu Hua	Beneficial owner	14,579,000	11.95%

Note: On 8th March, 2005, Mr. Zhang Hua Wei, a Director, transferred 1% of his shareholding in Weigao Holding, representing 1,220,000 domestic share, to Mr. Jiang Qiang, the vice general manager of the Company. Hence, there were changes to the total contribution of Mr. Zhang Hua Wei and its approximate percentage in the registered capital of Weigao holding.

Other than as disclosed above, none of the Directors nor their associates had any interests or short positions in any shares, underlying shares or debentures 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 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.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed 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	Capacity	Number of domestic shares	Approximate Percentage of the issued share capital of the Company
Weigao Holding	Beneficial owner	588,160,000	60.91%

Note: The Company issued new Domestic Shares to Weigao Holding and new H Shares by way of a placing, resulting in the changes in the number of Domestic Shares held by the substantial shareholder and the approximate percentage of its holdings in the issued share capital of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st December, 2005.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the largest supplier and the next four largest suppliers accounted for about 10% and 22% 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 year 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.

PRE-EMPTIVE RIGHTS

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

COMPETITION AND CONFLICT OF INTERESTS

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

SPONSORS' INTERESTS

Goldbond Capital (Asia) Limited ("Goldbond"), which was the bookrunner and joint lead manager during the Company's initial public offering in February 2004, has been appointed as the Continuing Sponsor of the Company from 24th July, 2004 to 31st December, 2006.

Neither Goldbond, nor its Directors or employees or associates (as referred to in note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company or any other companies in the Group as at 31st December, 2005.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Since the commencement of dealings in the H shares of the Company on GEM on 27th February, 2004, the Company and its subsidiary did not repurchase, sell or redeem any listed shares of the Company except for the placing of 52.9 million new H shares of the Company on 30th November, 2005.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

The connected transactions between the Group, Weigao Holding and its subsidiary during the year ended 31st December, 2005 are as follows:

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

A. The Company and its fellow subsidiary, Weigao Medical Material Co., Ltd. ("Weigao Medical") signed a sub-manufacturing contract on 27th January, 2004. Under the sub-manufacturing contract, Weigao Medical is responsible for procuring the raw materials and the manufacture of certain products and spare parts in compliance with national quality and hygiene standards for the Company.

   For the year ended 31st December, 2005, the Company sub-contracted the processing of various spare parts and products to Weigao Medicial at the agreed price set out in the contract. The total processing cost amounted to RMB413,030 for the year.

B. On 12th August, 2005, the Company entered into a property rental agreement with Shandong Weigao Biosensors Medical Products Company Limited ("Weigao Biosensors"), 50%-owned by Weigao Holding, for an annual rental of RMB1,495,620 for a term of three years commencing from 12th August, 2005.

   For the year ended 31st December, 2005, the Company received RMB569,721 rental payments from Weigao Biosensors at the agreed rent set out in the lease agreement.

CONNECTED TRANSACTIONS

A. On 10th January, 2005, the Company entered into an agreement with the ultimate holding company, Weigao Holding, to acquire a building located in the PRC and land use right of that property at a consideration of RMB9,000,000.

B. On 14th March, 2005, the Company entered into an agreement with Weigao Holding, pursuant to which Weigao Holding agreed to sell certain land and properties in the PRC to the Company at the consideration of RMB47,000,000 which was satisfied by the issuance of 48,160,000 Domestic Shares by the Company. This connected transaction was approved by independent shareholders at the special general meeting held on 20th May, 2005.

Save as above disclosed, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

The independent non-executive Directors have reviewed the connected transactions above and in their opinion, these transactions entered into by the Group are in the ordinary and usual course of business of the Group, on normal commercial terms and in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Save as disclosed above, no contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

AUDIT COMMITTEE

The Company set up an audit committee on 1st September, 2002 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has four members comprising Messrs. Shi Huan, Luan Jian Ping and Lau Wai Kit, being independent non-executive directors and Mrs. Zhou Shu Hua, a non-executive director. Mr. Lau Wai Kit was appointed as a member of the audit committee with effective from 17th November, 2004.

During the year, the audit committee held four meetings and the committee had reviewed and approved the annual report for the year ended 31st December, 2004 and the first three quarter reports of year 2005.

POST BALANCE SHEET EVENTS

There was no significant event occurred after the balance sheet date up to the date of this report.

AUDITORS

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

On behalf of the Board

Chen Xue Li
Chairman

Weihai, Shandong, the PRC
17th March, 2006

Deloitte.
德勤

TO THE SHAREHOLDERS OF SHANDONG WEIGAO GROUP MEDICAL POLYMER COMPANY LIMITED
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Shandong Weigao Group Medical Polymer Company Limited and its subsidiaries (collectively referred to as the "Group") on pages 43 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our 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, 2005 and of the profit and cash flows of the Group for the year then ended 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
17th March, 2006

Consolidated Income Statement

For the year ended 31st December, 2005

	NOTES	2005 *RMB'000*	2004 *RMB'000*
Revenue	5	569,987	407,823
Cost of sales		(335,727)	(244,846)
Gross profit		234,260	162,977
Other income		14,830	8,951
Distribution costs		(87,385)	(60,602)
Administrative expenses		(40,107)	(29,611)
Finance costs	7	(17,038)	(11,601)
Share of loss of a jointly controlled entity		(1,457)	(200)
Share of loss of an associate		(523)	(47)
Profit before taxation	8	102,580	69,867
Taxation	9	(2)	(3,040)
Profit for the year		102,578	66,827
Attributable to:			
Equity holders of the Company		101,200	65,888
Minority interests		1,378	939
		102,578	66,827
Dividends	11	28,438	17,291
Earnings per share - basic	12	RMB11 cents	RMB8 cents

Consolidated Balance Sheet

As 31st December, 2005

	NOTES	2005 RMB'000	2004 RMB'000 (restated)
Non-current assets			
Property, plant and equipment	13	518,248	315,436
Prepaid lease payments	14	55,299	46,993
Interest in a jointly controlled entity	15	11,343	12,800
		584,890	375,229
Current assets			
Inventories	16	119,369	68,010
Trade and other receivables	17	250,329	172,078
Pledged time deposits	18	6,000	9,000
Bank balances and cash	19	171,642	111,681
		547,340	360,769
Current liabilities			
Trade and other payables	20	196,309	103,245
Bank borrowings - repayable within one year	21	127,900	105,500
Tax payable		—	1,936
		324,209	210,681
Net current assets		223,131	150,088
		808,021	525,317
Capital and reserves			
Share capital	22	96,556	86,450
Reserves		469,885	282,147
Equity attributable to equity holders of the Company		566,441	368,597
Minority interests		31,580	8,920
Total equity		598,021	377,517
Non-current liabilities			
Bank borrowings - repayable after one year	21	210,000	147,800
		808,021	525,317

The financial statements on pages 43 to 73 were approved by the Board of Directors on 17th March, 2006 and are signed on its behalf by:

Chen Xue Li	Zhou Shu Hua
DIRECTOR	DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2005

	Attributable to equity holders of the Company							
	Share capital RMB'000	Share premium reserve RMB'000	Statutory surplus reserve RMB'000 (Note a)	Statutory public welfare fund RMB'000 (Note b)	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January, 2004	60,000	—	10,821	5,410	79,232	155,463	2,741	158,204
Issue of H shares	26,450	146,012	—	—	—	172,462	—	172,462
Share issue expenses	—	(19,164)	—	—	—	(19,164)	—	(19,164)
Profit for the year and total recognised income	—	—	—	—	65,888	65,888	939	66,827
Dividend paid	—	—	—	—	(6,052)	(6,052)	—	(6,052)
Appropriation	—	—	8,739	4,370	(13,109)	—	—	—
Capital contribution from minority interests	—	—	—	—	—	—	5,240	5,240
At 31st December, 2004	86,450	126,848	19,560	9,780	125,959	368,597	8,920	377,517
Issue of domestic shares	4,816	42,184	—	—	—	47,000	—	47,000
Issue of H shares	5,290	69,053	—	—	—	74,343	—	74,343
Share issue expenses	—	(4,333)	—	—	—	(4,333)	—	(4,333)
Profit for the year and total recognised income	—	—	—	—	101,200	101,200	1,378	102,578
Dividend paid	—	—	—	—	(20,366)	(20,366)	—	(20,366)
Appropriation	—	—	14,733	7,367	(22,100)	—	—	—
Acquisition of subsidiaries	—	—	—	—	—	—	15,974	15,974
Capital contribution from minority interests	—	—	—	—	—	—	5,308	5,308
At 31st December, 2005	96,556	233,752	34,293	17,147	184,693	566,441	31,580	598,021

Notes:

(a) The Articles of Association of the companies comprising the Group requires the appropriation of 10% of its 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, capitalization into share capital and expansion of its production and operation. For the capitalisation of statutory surplus reserve into share capital, the remaining amount of such reserve shall not be less than 25% of the registered share capital.

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

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	NOTE	2005 RMB'000	2004 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		102,580	69,867
Adjustments for:			
Interest income		(589)	(522)
Interest expenses		17,038	11,601
Prepaid lease payments charged to income		1,305	1,079
Depreciation		23,863	14,935
Allowances for bad and doubtful debts		3,862	2,853
Share of loss of a jointly controlled entity		1,457	200
Share of loss of an associate		523	47
Loss (gain) on disposals of property, plant and equipment		378	(127)
Operating profit before working capital changes		150,417	99,933
Increase in inventories		(35,759)	(10,944)
Increase in trade and other receivables		(74,114)	(51,450)
Increase (decrease) in trade and other payables		79,426	(18,307)
Net cash generated from operations		119,970	19,232
PRC income tax paid		(1,938)	(1,792)
NET CASH GENERATED FROM OPERATING ACTIVITIES		118,032	17,440
INVESTING ACTIVITIES			
Acquisition of subsidiaries	23	9,889	—
Acquisition of investment in an associate		(8,000)	—
Purchase of property, plant and equipment		(165,156)	(80,965)
Addition of prepaid lease payments		(4,560)	—
Capital contribution to a jointly controlled entity		—	(9,000)
Proceeds from disposal of property, plant and equipment		5,517	1,534
Interest received		589	522
Proceeds from disposal of an associate		—	5,157
Decrease (increase) in pledge time deposit		3,000	(9,000)
NET CASH USED IN INVESTING ACTIVITIES		(158,721)	(91,752)

Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	2005 *RMB'000*	2004 *RMB'000*
FINANCING ACTIVITIES		
New borrowings raised	362,186	271,300
Issue of shares	74,343	172,462
Share issue expenses	(4,333)	(19,164)
Repayments of borrowings	(299,450)	(255,143)
Capital contributions from minority interests	5,308	5,240
Interest paid	(17,038)	(11,601)
Dividend paid	(20,366)	(6,052)
NET CASH GENERATED FROM FINANCING ACTIVITIES	100,650	157,042
NET INCREASE IN CASH AND CASH EQUIVALENTS	59,961	82,730
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	111,681	28,951
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Representing bank balances and cash	171,642	111,681

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 ultimate holding company is Shandong Weigao Group Company Limited ("Weigao Holding"), a company registered in the PRC with limited liability.

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") and principally engaged in the research and development, production and sale of single-use medical devices.

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policy in the following area but has had no material effect on how the results for the current and prior accounting years are prepared.

OWNER-OCCUPIED LEASEHOLD INTEREST IN LAND

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

OWNER-OCCUPIED LEASEHOLD INTEREST IN LAND *(Continued)*

The implementation of HKAS 17 has resulted in changes in the Group's accounting policy for property, plant and equipment and prepaid lease payments that have affected the amounts reported in the previous year. Land use rights with net book values of approximately RMB 48,163,000 have been reclassified from property, plant and equipment and presented as prepaid lease payments on the consolidated balances sheet as at 31st December, 2004.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the consolidated financial statements of the Group, except for HKAS 39 and HKFRS 4 (Amendments) financial guarantee contracts, which requires financial guarantee contracts to be initially measured at fair value. The directors are not yet in a position to reasonably estimate the potential impact.

HKAS 1 (Amendment)	Capital disclosure [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [3]
HKAS 21 (Amendment)	Net investment in a foreign operation [3]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [3]
HKAS 39 (Amendment)	The fair value option [3]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts [3]
HKFRS 6	Exploration for and evaluation of mineral resources [3]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) - INT 4	Determining whether an arrangement contains a lease [3]
HK(IFRIC) - INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [3]
HK(IFRIC) - INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment [4]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [2]

1 Effective for annual periods beginning on or after 1st January, 2007.
2 Effective for annual periods beginning on or after 1st March, 2006.
3 Effective for annual periods beginning on or after 1st January, 2006.
4 Effective for annual periods beginning on or after 1st December, 2005.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention and 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 of the Hong Kong Companies Ordinance.

The principal accounting policies adopted are set out below:

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

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.

BUSINESS COMBINATIONS

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION

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

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.

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

RESEARCH AND DEVELOPMENT EXPENDITURE

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment loss.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

RETIREMENT BENEFIT COSTS

Payments to state-managed retirement benefits schemes are charged as an expense as they fall due.

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 income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or satisfactorily enacted by the balance sheet date.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on 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.

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

CONSTRUCTION IN PROGRESS

Construction in progress is stated at cost which includes all development expenditure and other direct costs attributable to such projects. Costs on completed construction work are transferred to the appropriate category of property, plant and equipment. No depreciation is provided on construction in progress until the construction is completed and the relevant assets are available for use.

INVESTMENTS IN ASSOCIATES

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an 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.

INTEREST IN A JOINTLY CONTROLLED ENTITY

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

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

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVENTORIES

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

IMPAIRMENT

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

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

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 at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL INSTRUMENTS

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

Trade and other receivables and pledged time deposits

Trade and other receivables and pledged time deposits are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group 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 specific financial liabilities and equity instruments are set out below.

Bank borrowings

Interest-bearing bank loans are subsequently measured at amortised cost, using the effective interest rate method.

Trade and other payables

Trade and other payables are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank borrowings, trade receivables, trade payables, bills payable and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and 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.

FAIR VALUE INTEREST RATE RISK

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings. The Group does not use any derivatives contracts to hedge its exposure to interest rate risk.

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

CREDIT RISK

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

5. 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.

6. SEGMENT INFORMATION

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

7. FINANCE COSTS

	2005	2004
	RMB'000	*RMB'000*
Interest on bank borrowings wholly repayable within five years	17,038	11,601

8. PROFIT BEFORE TAXATION

	2005	2004
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):		
Allowances for bad and doubtful debts	3,862	2,853
Auditors' remuneration	830	531
Depreciation	23,863	14,935
Prepaid lease payments charged to income statement	1,305	1,079
Rental payments in respect of premises under operating leases	2,831	3,530
Research and development expenditure	8,334	7,156
Staff costs, including directors' remuneration		
- Retirement benefits scheme contributions (note 28)	13,184	7,122
- Salaries and other allowances	60,249	49,183
Total staff costs	73,433	56,305
Net foreign exchange loss	271	30
Loss (gain) on disposals of property, plant and equipment	378	(127)
Interest income	(589)	(522)
Rebate of value added tax	(13,028)	(7,610)

9. TAXATION

	2005 *RMB'000*	2004 *RMB'000*
PRC income tax	2	3,040

The Company is recognised as a "High and New Technology Enterprise". In accordance with the "Notice of the State Tax Bureau of the Ministry of Finance Regarding Certain Preferential Treatment Policies on Enterprise Income Tax", the Company was subject to income tax at a tax rate of 15%. Started from 1st July, 2004, the Company is entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% tax relief for the next three years. The tax charges provided for the six months ended 31st December, 2004 and year ended 31st December, 2005 were made after taking these tax incentives into account.

In accordance with the "Notice of Recognition of Jierui Subsidiary as a Social Welfare Entity" issued by the Civil Administration Bureau of the Shandong Province, Weihai Jierui Medical Products Company Limited ("Jierui Subsidiary") is recognised as a "Social Welfare Entity" and is exempted from the PRC income tax.

瀋陽威高金寶商貿有限公司(「"Weigao Jinbao"」)is subject to PRC income tax at a tax rat of 33%. In accordance with the "Notice regarding the approval of tax reduction and exemption" issued by the State Tax Bureau of Shenyang City Shenhe Branch, Weigao Jinbao is exempted from the PRC income tax for the year ended 31st December, 2005.

Weigao Orthopaedic Device Company Limited ("Weigao Bone") is a foreign-invested enterprise operating in the PRC and is entitled to an exemption from PRC income tax for the two years starting from its first profit-marking year, followed by 50% tax relief for the next three years.

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

9. TAXATION *(Continued)*

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

	2005 *RMB'000*	2004 *RMB'000*
Profit before taxation	102,580	69,867
Taxation at the domestic income tax rate of 33% (2004: 15%)	33,851	10,480
Tax effect of share of loss of a jointly controlled entity	479	30
Tax effect of share of loss of an associate	172	7
Tax losses not recognised	1,258	—
PRC income tax exemption of the Company and its subsidiaries	(36,205)	(7,477)
Tax effect of expenses that are not deductible in determining taxable profit	447	—
Taxation	2	3,040

For the year 2004, the tax rate of the Company is used because the Group's operation is substantially derived by the Company. For the year 2005, the statutory income tax rate applicable to PRC enterprises is used.

At the balance sheet date, the Group has estimated unused tax losses of approximately RMB3,813,000 (2004: Nil) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward for 5 years and will expire in year 2010.

10. 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:

	Fee	Salaries and other allowances	Retirement benefits schemes contributions	2005 Total	Fee	Salaries and other allowances	Retirement benefits schemes contributions	2004 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors								
Mr. Zhang Hua Wei	—	104	4	108	—	76	7	83
Mr. Miao Yan Guo	—	80	4	84	—	68	7	75
Mr. Wang Yi	—	90	4	94	—	69	7	76
Mr. Wang Zhi Fan	—	87	4	91	—	68	7	75
Mr. Wu Chuan Ming	—	90	4	94	—	72	7	79
	—	451	20	471	—	353	35	388
Non-executive directors								
Mr. Chen Xue Li	—	—	—	—	—	88	1	89
Mrs. Zhou Shu Hua	—	—	—	—	—	69	6	75
	—	—	—	—	—	157	7	164
Independent non-executive directors								
Mr. Lau Wai Kit	50	—	—	50	4	—	—	4
Mr. Luan Jian Ping	30	—	—	30	30	—	—	30
Mr. Shi Huan	30	—	—	30	30	—	—	30
	110	—	—	110	64	—	—	64
Supervisors								
Ms. Bi Hong Mei	—	63	3	66	—	55	6	61
Ms. Chen Xiao Yun	—	50	3	53	—	35	5	40
Mr. Miao Hai Sheng	—	60	4	64	—	37	5	42
	—	173	10	183	—	127	16	143
	110	624	30	764	64	637	58	759

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

EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments for the two years ended 31st December, 2005, were all directors of the Company, details of whose emoluments are included in the above disclosure.

During the two years ended 31st December, 2005, no directors or supervisors of the Company waived or agreed to waive any emolument.

During the two years ended 31st December, 2005, 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 and no directors or supervisors of the Company waived or agreed to waive any emolument.

11. DIVIDENDS

	2005 *RMB'000*	2004 *RMB'000*
Interim dividend paid, RMB1.0 cent (2004: RMB0.7 cent) per share	9,127	6,052
Final dividend proposed, RMB2.0 cents (2004: RMB1.3 cents) per share	19,311	11,239
	28,438	17,291

The final dividend of RMB2.0 cents (2004: RMB1.3 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to equity holders of the Company of RMB101,200,000 (2004: RMB65,888,000) and on the weighted average of 898,957,000 (2004: 823,195,000) shares in issue during the year.

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

13. 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, 2004	89,085	128,055	33,369	5,909	—	20,063	276,481
Additions	60,924	134	13,963	1,224	1,388	3,332	80,965
Transfer	(75,382)	57,308	15,234	76	—	2,764	—
Disposals	—	(902)	(1,577)	(269)	—	(1,108)	(3,856)
At 31st December, 2004	74,627	184,595	60,989	6,940	1,388	25,051	353,590
Additions	179,078	6,597	10,217	4,147	1,505	5,336	206,880
Acquisition of subsidiaries	8,472	—	16,510	138	—	570	25,690
Transfer	(228,984)	132,978	93,499	—	—	2,507	—
Disposals	—	(6,234)	(700)	(462)	—	(1,909)	(9,305)
At 31st December, 2005	33,193	317,936	180,515	10,763	2,893	31,555	576,855
DEPRECIATION							
At 1st January, 2004	—	9,568	6,295	1,723	—	8,082	25,668
Provided for the year	—	4,747	5,171	813	296	3,908	14,935
Eliminated on disposals	—	(213)	(935)	(256)	—	(1,045)	(2,449)
At 31st December, 2004	—	14,102	10,531	2,280	296	10,945	38,154
Provided for the year	—	7,166	8,303	1,600	1,122	5,672	23,863
Eliminated on disposals	—	(1,445)	(491)	(262)	—	(1,212)	(3,410)
At 31st December, 2005	—	19,823	18,343	3,618	1,418	15,405	58,607
NET BOOK VALUES							
At 31st December, 2005	33,193	298,113	162,172	7,145	1,475	16,150	518,248
At 31st December, 2004	74,627	170,493	50,458	4,660	1,092	14,106	315,436

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

The above items of property, plant and equipment are depreciated on a straight-line basis 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 held under medium-term lease.

The construction in progress represented buildings, plant and machinery under construction which are situated in the PRC.

At 31st December, 2005, the Group has pledged buildings having a net book value of approximately RMB157,131,000 (2004: RMB164,991,000) to banks to secure bank loans granted to the Group.

14. PREPAID LEASE PAYMENTS

	2005 *RMB'000*	2004 *RMB'000*
The Group's prepaid lease payments comprise:		
Leasehold land in PRC		
Medium-term lease	56,694	48,163
Analysed for reporting purposes as:		
Current portion (included in trade and other receivables)	1,395	1,170
Non-current portion	55,299	46,993
	56,694	48,163

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

15. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2005 *RMB'000*	2004 *RMB'000*
Cost of unlisted investment, at cost	13,000	13,000
Share of post-acquisition loss	(1,657)	(200)
	11,343	12,800

Details of the Group's jointly controlled entity as at 31st December, 2005 are as follows:

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

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

	2005 *RMB'000*	2004 *RMB'000*
Total assets	45,432	28,876
Total liabilities	(22,746)	(3,276)
Net assets	22,686	25,600
Group's share of net assets	11,343	12,800
Revenue	1,825	—
Loss for the year	(2,914)	(400)
Group's share of loss of a jointly controlled entity for the year	(1,457)	(200)

16. INVENTORIES

	2005 *RMB'000*	2004 *RMB'000*
At cost:		
Raw materials	41,673	26,670
Finished goods	77,696	41,340
	119,369	68,010

17. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 90 days to its trade customers. The aged analysis of trade receivable is stated as follows:

	2005 *RMB'000*	2004 *RMB'000*
0 to 90 days	107,611	93,940
91 to 180 days	48,192	33,140
181 to 365 days	26,307	9,987
Over 365 days	7,114	2,579
Trade receivables	189,224	139,646
Bills receivable	1,378	80
Other receivables, deposits and prepayments	59,727	32,352
	250,329	172,078

As at 31st December, 2004, the trade receivable of the Group included trade receivables of approximately RMB203,000 due from fellow subsidiaries.

All the bills receivable are aged within 90 days.

The fair value of the Group's trade and other receivables at 31st December, 2005 approximates to the corresponding carrying amount.

18. PLEDGED TIME DEPOSITS

The amounts represent deposits pledged to banks to secure banking facilities granted to the Group. The amounts have been pledged to secure short-term bank loans and are therefore classified as current assets. The deposit carries fixed interest rate of 2.3% (2004: 2.3%) per annum.

The fair value of the pledged time deposits at 31st December, 2005 approximates to the corresponding carrying amount.

19. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest rate of 0.7% (2004: 0.7%) per annum. The fair value of the bank deposits at 31st December, 2005 approximates to their corresponding carrying amounts.

20. TRADE AND OTHER PAYABLES

The aged analysis of trade payable is stated as follows:

	2005 *RMB'000*	2004 *RMB'000*
0 to 90 days	76,820	38,760
91 to 180 days	11,386	9,462
181 to 365 days	2,180	3,472
Over 365 days	4,911	3,602
Trade payable	95,297	55,296
Bills payable	75,120	29,515
Other payable and accrued expense	25,892	18,434
	196,309	103,245

All the bills payable will mature within six months.

As at 31st December, 2005, the bills payable were under the guarantee provided by the ultimate holding company.

The fair value of the Group's trade and other payables at 31st December, 2005 approximates to the corresponding carrying amount.

21. BANK BORROWINGS

	2005 *RMB'000*	2004 *RMB'000*
Secured bank loans	106,400	105,800
Unsecured bank loans	231,500	147,500
	337,900	253,300
The bank loans are repayable as follows:		
On demand or within one year	127,900	105,500
More than one year but not exceeding two years	210,000	147,800
	337,900	253,300
Less: Amount due within one year shown under current liabilities	(127,900)	(105,500)
Amount due after one year	210,000	147,800

As at 31st December, 2005, the bank loans of the Group amounting to RMB20,000,000 (2004: RMB20,000,000) were under the guarantee jointly provided by the ultimate holding company and an independent third party.

As at 31st December, 2005, the bank loans of the Group amounting to RMB211,500,000 (2004: RMB127,500,000) were under the guarantee provided by the ultimate holding company.

As at 31st December, 2004, the secured bank loans of the Group amounting to RMB4,750,000 were secured by the property, plant and equipment provided by the ultimate holding company.

The bank loans are all denominated in RMB and carry interest ranging from 5.0% (2004: 5.3%) to 6.1% (2004: 6.1%) per annum.

The fair value of the Group's bank loans at 31st December, 2005 approximates to the corresponding carrying amount.

22. SHARE CAPITAL

	Nominal value of shares RMB	Number of domestic shares	Number of H shares	Total number of shares	Value RMB'000
At 1st January, 2004	0.1	600,000,000	—	600,000,000	60,000
Issue of H shares	0.1	—	264,500,000	264,500,000	26,450
At 31st December, 2004	0.1	600,000,000	264,500,000	864,500,000	86,450
Issue of domestic shares (Note a)	0.1	48,160,000	—	48,160,000	4,816
Issue of H shares (Note b)	0.1	—	52,900,000	52,900,000	5,290
At 31st December, 2005		648,160,000	317,400,000	965,560,000	96,556

Notes:

(a) Pursuant to an agreement dated 14th March, 2005 entered into between Weigao Holding and the Company, the Company agreed to acquire a leasehold land and building for a total consideration of RMB47,000,000 which was satisfied by issue of 48,160,000 domestic shares of RMB0.1 each in the Company. The transaction was completed on 20th May, 2005.

(b) On 30th November, 2005, 52,900,000 H shares of RMB0.1 each were issued by the Company at HK$1.35 per share for cash by way of placing. The net proceeds of approximately RMB70,010,000 were intended to be used for purchase of production machinery of orthopaedics and blood purification products and as working capital of the Group.

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

23. ACQUISITION OF SUBSIDIARIES

(a) On 17th September, 2005 the Group acquired 95% of the registered capital of 福州帆順醫療器械技術有限公司（"福州帆順"） for consideration of RMB475,000. This acquisition has been accounted for using the purchase method.

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination and fair value *RMB'000*
Net assets acquired:	
Property, plant and equipment	164
Inventories	487
Trade and other receivables	1,882
Bank and cash balances	14
Trade and other payables	(2,048)
	499
Minority interest	(24)
Total consideration satisfied by cash	475
Net cash outflow arising on acquisition:	
Cash consideration paid	(475)
Cash and cash equivalents acquired	14
	(461)

福州帆順 contributed approximately RMB711,000 revenue and approximately RMB8,000 loss before taxation to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January, 2005, total group revenue for the period would have been RMB572 million, and profit for the period before taxation would have been RMB104 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2005, nor is it intended to be a projection of future results.

23. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) On 29th December, 2005 the Group subscribed additional 13% of the registered capital of Weigao Bone for consideration of RMB13,200,000. After the completion of the subscriptions, the Group holds 53% equity interest in Weigao Bone.

The net assets acquired in the transaction, are as follows:

	Acquiree's carrying amount before combination and fair value *RMB'000*
Net assets acquired:	
Property, plant and equipment	25,526
Inventories	15,115
Trade and other receivables	5,890
Bank and cash balances	23,550
Trade and other payables	(11,590)
Bank borrowings - repayable within one year	(21,864)
	36,627
Minority interests	(15,950)
	20,677
Represented by:	
Interest in an associate	7,477
Cash consideration	13,200
	20,677
Net cash inflow arising on acquisition:	
Cash consideration paid	(13,200)
Bank balances and cash acquired	23,550
	10,350

24. NON CASH TRANSACTION

Pursuant to an agreement dated 14th March, 2005 entered into between Weigao Holding and the Company, the Company agreed to acquire a leasehold land and building under construction in progress for a total consideration of RMB47,000,000 which was satisfied by issue of 48,160,000 domestic shares of RMB0.1 each in the Company.

25. LEASE COMMITMENTS

The Group as lessee

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

	2005 *RMB'000*	2004 *RMB'000*
Within one year	834	675
In the second to fifth year inclusive	970	143
	1,804	818

Operating lease payments represent rentals payable by the Group for its branch office premises, staff quarters and warehouses. Leases are mainly negotiated for an average term of two years and rentals are fixed for an average of two years.

The Group as lessor

Property rental income earned during the year was approximately RMB570,000 (2004: Nil). At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments.

	2005 *RMB'000*	2004 *RMB'000*
Within one year	1,495	—
In the second to fifth year inclusive	2,420	—
	3,915	—

26. CAPITAL COMMITMENTS

At 31st December, 2005, the Group had commitments for acquisition of property, plant and equipment which were contracted for but not provided in the financial statements amounting to approximately RMB18,189,000 (2004: RMB40,016,000).

27. RELATED PARTY TRANSACTIONS

(a) Apart from the amounts due from and to related parties and guarantees from ultimate holding company as disclosed in Notes 17, 20 and 21 respectively, the Group had the following related party transactions during the two years ended 31st December, 2005:

	2005 *RMB'000*	2004 *RMB'000*
Sales to fellow subsidiaries	981	1,306
Sales to an associate	—	18
Purchases from fellow subsidiaries	1,183	3,186
Purchase from an associate	—	407
Purchase of land use rights, property, plant and equipment from ultimate holding company	56,000	—
Purchase of property, plant and equipment from fellow subsidiaries	1,034	—
Rental payments to ultimate holding company	162	162
Rental payments to fellow subsidiaries	192	192
Rental income from a fellow subsidiary	570	—

(b) *Compensation of key management personnel*

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

	2005 *RMB'000*	2004 *RMB'000*
Short-term benefits	968	907
Post-employment benefits	42	65
	1,010	972

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

28. RETIREMENT BENEFITS SCHEMES

The Group has established different benefit schemes for its full-time 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 the existing schemes the Group contributes 8%, 8%, 18%, 2%, 0.6% and 1% of the basic salary of its employees to the housing provident fund, medical insurance, retirement insurance unemployment insurance, labour injury insurance and pregnancy insurance, respectively.

The contributions payable to the schemes by the Group are disclosed in Note 8.

29. LIST OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31st December, 2005 are as follows:

Name	Form of business structure	Country of incorporation or registration/ operations	Registered capital	Proportion ownership interest held by the Company	Principal activities
			RMB		
Jierui Subsidiary	Incorporated	PRC	32,000,000	96%	Manufacturing of medical PVC granules, plastic packing bags and carton boxes
威海威高血液淨化製品有限公司	Incorporated	PRC	20,000,000	70%	Manufacturing of medical blood purification treatments and related consumables
Weigao Jinbao	Incorporated	PRC	6,000,000	51%	Trading of medical products
威海威高集團模具有限公司	Incorporated	PRC	8,000,000	90%	Manufacturing of moulds
Weigao Bone	Incorporated	PRC	40,000,000	53%	Manufacturing of medical bond material products
福州帆順	Incorporated	PRC	500,000	95%	Trading of medical products

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

Financial Summary

	For the year ended 31st December,				
	2005	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
Revenue	**569,987**	407,823	317,935	278,247	210,277
Profit from operations	**121,598**	81,715	68,436	53,614	13,349
Finance costs	**(17,038)**	(11,601)	(11,583)	(2,545)	(1,016)
Share of loss of an associate	**(523)**	(47)	(51)	(342)	—
Share of loss of a jointly controlled entity	**(1,457)**	(200)	—	—	—
Profit before taxation	**102,580**	69,867	56,802	50,727	12,333
Taxation	**(2)**	(3,040)	(4,572)	(5,295)	(1,850)
Profit for the year	**102,578**	66,827	52,230	45,432	10,483
Attributable to:					
Equity holders of the Company	**101,200**	65,888	50,454	43,526	10,483
Minority interests	**1,378**	939	1,776	1,906	—
	102,578	66,827	52,230	45,432	10,483

	As at 31st December,				
	2005	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES					
Total assets	**1,132,230**	735,998	517,587	344,674	252,554
Total liabilities	**(534,209)**	(358,481)	(359,383)	(226,471)	(182,071)
Minority interests	**(31,580)**	(8,920)	(2,741)	(4,194)	—
	566,441	368,597	155,463	114,009	70,483

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting ("AGM") of Shandong Weigao Group Medical Polymer Company Limited (the "Company") will be held at the Company's registered office located at No. 312 Shichang Road, Weihai, Shandong Province, the PRC on Tuesday, 9 May, 2006 at 8:30 a.m. for the following purposes:

Ordinary Resolutions

1. To consider and approve the audited consolidated financial statement of the Group (including the Company and its subsidiaries) for the year ended 31 December, 2005;

2. To consider and approve the report of the Board of Directors of the Company for the year ended 31st December, 2005;

3. To consider and approve the report of the Supervisory Committee of the Company for the year ended 31st December, 2005;

4. To consider and approve the profit distribution plan of the Company for the year ended 31st December, 2005;

5. To consider and approve the proposal for the re-appointment of Deloitte Touche Tohmatsu as these auditor of the Company for the year ending 31st December, 2006, and to authorise the Board to determine its remuneration;

6. 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 of Directors of the Company during the Relevant Period (as hereinafter defined in paragraph (f)) of all the powers of the Company to allot, issue and deal with Domestic Shares and/or H Shares severally or jointly be and is hereby approved;

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

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

d) the aggregate nominal amount of H Shares allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the board of directors pursuant to paragraphs (a) and (b) above, otherwise than pursuant to (i) Rights Issue (as hereinafter defined in paragraph (f)); (ii) upon the exercise of rights of conversion under the terms of any securities which are convertible into Shares; (iii) upon the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend plan or 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.

"Rights 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 or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognized regulatory body or any stock exchange in relevant jurisdiction); and

g) authorize the board of directors 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 reflect 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
17 March 2006

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

Notes:

(i) A shareholder who has the right to attend and vote at the AGM is entitled to appoint one proxy (or more) in writing to attend the AGM and vote on his behalf in accordance with the Company's Articles of Association. The proxy need not be a shareholder of the Company. Enclosed herewith a form of proxy for use in the general meeting. In the case of joint registered holders, the proxy 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, Standard Registrars Limited at 26/F, Tesbury Centre, Queen's Road East, Hong Kong (in respect of the H Shareholders of the Company) and the Company's principal place of business at No. 312 Shichang Road, Weihai, Shandong Province, PRC (in respect of Domestic Shares holders) 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 annual general meeting shall produce their proof of identification.

(iv) The register of members in Hong Kong will be closed from Sunday, 9 April, 2006 to Tuesday, 9 May, 2006, both days inclusive, during which no transfer of shares will be effected. In order to be eligible to attend the AGM and to vote thereat as shareholders, all transfers of shares together with the relevant share certificates must be delivered at the Company's H Share Registrar in Hong Kong, Standard Registrar Limited at 26/F, Tesbury Centre, Queen's Road East, Hong Kong no later than 4:00 pm on Friday, 7 April, 2006.

(v) The holders of the Company's H Shares who intend to attend the AGM should complete and return the reply slip to Company's H Share Registrar in Hong Kong, Standard Registrar Limited at 26/F, Tesbury Centre, Queen's Road East, Hong Kong no later than Wednesday, 19 April, 2006 by hand, by post, by telegraph or by fax to (852) 2528 3158.

(vi) The holders of the Company's Domestic Shares who intend to attend the AGM should complete and return the reply slip to Company's registered address at No. 312 Shichang Road, Weihai, Shandong Province, PRC no later than Wednesday, 19th April, 2006 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 travelling and accommodation expenses.

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

(a) the chairman of the meeting;

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

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

(ix) Any enquiry about this notice and the AGM shall be sent for the attention of Mr. Yuan Yongxiang at No. 312 Shichang Road, Weihai, Shandong Province, PRC (Te1. (86) 631 5622418).