THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any aspect of this circular, or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in MicroPort Scientific Corporation, you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

MicroPort

MicroPort Scientific Corporation

微創醫療科學有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 853)

(1) VERY SUBSTANTIAL ACQUISITION
(2) FINANCIAL ASSISTANCE CONSTITUTING A CONNECTED TRANSACTION
(3) PURCHASE OPTION TO BE GRANTED CONSTITUTING A MAJOR DISPOSAL AND A CONNECTED TRANSACTION
(4) CONTINUING CONNECTED TRANSACTIONS
(5) BUY-BACK ARRANGEMENT CONSTITUTING A CONNECTED TRANSACTION
(6) PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE CONVERSION SHARES
(7) NOTICE OF EXTRAORDINARY GENERAL MEETING

Exclusive financial adviser to the Company in respect of the proposed transactions

BofA Merrill Lynch

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders

PLATINUM Securities

A letter from the board of directors of the Company is set out on pages 11 to 79 of this circular. A letter from the Independent Board Committee (as defined in this circular) is set out on pages 80 and 81 of this circular, and a letter from the Independent Financial Adviser (as defined in this circular) containing its advice to the Independent Board Committee is set out on pages 82 to 119 of this circular.

A notice convening the EGM (as defined in this circular) to be held at Lounge, M Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Friday, 3 January 2014 at 9:30 a.m. is set out on pages EGM-1 to EGM-4 of this circular.

A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.microport.com).

Whether or not you are able to attend the EGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM if you so wish.

* *for identification purpose only*

15 December 2013

IMPORTANT

This circular (in both English and Chinese versions) has been posted on the Company's website at http://www.microport.com and the website of Hong Kong Exchanges and Clearing Limited at http://www.hkexnews.hk.

Shareholders who have chosen to receive the Company's corporate communications (including but not limited to annual report, summary financial report (where applicable), interim report, summary interim report (where applicable), notice of meeting, listing document, circular and proxy form) via the Company's website and for any reason have difficulty in gaining access to this circular posted on the Company's website will promptly upon request be sent by post this circular in printed form free of charge. Shareholders may at any time change their choice of means of receipt and language of the corporate communications.

Shareholders may request for printed copy of this circular or change their choice of means of receipt and language of the corporate communications by sending reasonable notice in writing to the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or by sending an email to microport.ecom@computershare.com.hk.

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"AAOS"	the American Academy of Orthopaedic Surgeons;
"Acquisition"	the sale and purchase of the Business, and assumption of the Liabilities of the Business, pursuant to the terms and conditions of the Asset Purchase Agreement;
"Affordable Care Act"	the United States Patient Protection and Affordable Care Act of 2010 and the United States Health Care and Education Reconciliation Act of 2010;
"Announcement"	the announcement dated 25 June 2013 issued by the Company in relation to, amongst other things, the Acquisition and the Financial Assistance;
"Asset Purchase Agreement"	the asset purchase agreement dated 18 June 2013 entered into between the Company, the Purchaser and the Seller in respect of the Acquisition;
"Assets"	all of the Selling Group's assets and rights used in or related to the Business, other than cash and certain other excluded assets but including the entire equity interests of Wright Japan;
"associate(s)"	has the meaning ascribed to it under the Listing Rules;
"Board"	the board of Directors of the Company;
"Business"	the business carried on by the Selling Group involving the research, development, design, manufacture, assembly, testing, marketing, qualification, distribution, fulfillment, sale, licensing, delivery, provision, configuration, service, obtaining intellectual property protection for, and other commercialisation of products within the "OrthoRecon/hips" and "OrthoRecon/knees" product lines;
"Business Day(s)"	a day, other than a Saturday or Sunday, on which banks are open for business in both New York of the U.S. and Shanghai of China, between the hours of 8:00 a.m. and 5:00 p.m. local time;

"Buy-back Arrangement"	the proposed purchase of the remaining stocks of the Products by the Enlarged Group from the Distributor's Group at the end of the six-month period after the termination of the Japan OrthoRecon Distribution Agreement pursuant to the Japan OrthoRecon Distribution Agreement;
"CAT"	computer axial tomography;
"CFDA"	China Food and Drug Administration*（中華人民共和國國家食品藥品監督管理總局）;
"Chairman"	the Chairman of the Board;
"CIA"	the Corporate Integrity Agreement entered into between WMT and the Office of the Inspector General of the United States Department of Health and Human Services;
"Closing"	the closing of the Acquisition in accordance with the terms and conditions of the Asset Purchase Agreement;
"Closing Date"	the day that Closing takes place;
"Company"	MicroPort Scientific Corporation, a company incorporated in the Cayman Islands, whose Shares are listed on the main board of the Stock Exchange (stock code: 00853);
"connected person(s)"	has the meaning ascribed to it under the Listing Rules;
"Conversion Date"	the effective date of any conversion of any part of the Term B Loan into Conversion Shares;
"Conversion Period"	the period from drawdown of Term B Loan until the date immediately before the date that is three (3) years after drawdown;
"Conversion Price"	US$0.8800 per Conversion Share (subject to adjustment from time to time);
"Conversion Right"	the right to convert the outstanding principal amount of the Term B Loan, in whole or in part, together with the accrued and unpaid interest thereon into Conversion Shares pursuant to the term and conditions of the Credit Agreement in respect of Term B Loan;

"Conversion Shares"	the Shares to be allotted and issued upon exercise of the Conversion Right pursuant to the terms and conditions of the Credit Agreement in respect of Term B Loan;
"Credit Agreement"	the credit agreement dated 15 December 2013 between the Company as borrower, Otsuka in its capacity as administrative agent, collateral agent and initial lender and the other Lenders from time to time party thereto in relation to the Term Loans to be provided to the Company for settling part of the consideration for the Acquisition;
"Director(s)"	director(s) of the Company;
"Distributor's Group"	Otsuka and its subsidiaries from time to time (including Wright Japan);
"DES"	drug eluting stents, a peripheral or coronary stent (a scaffold) placed into narrowed, diseased peripheral or coronary arteries that slowly releases a drug to block cell proliferation;
"EBITDA"	earnings before interest, taxes, depreciation and amortisation;
"EGM"	the extraordinary general meeting of the Company to be held on 3 January 2014 to consider and, if thought fit, approve, among other things, the Acquisition and the Facilities, the Purchase Option (including the License Agreement), the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares;
"EP"	electrophysiological;
"Enlarged Group"	the Group following the completion of the Acquisition;
"Estimated Net Working Capital"	the Seller's good faith estimate of the Net Working Capital of the Business at Closing, delivered five (5) Business Days prior to Closing;
"European Medical Devices Directive"	Council Directive 93/42/ECC of 14 June 1993 concerning medical devices;

"Expense Arrangement Side Letter"	the side letter dated 15 December 2013 between the Company and Otsuka in connection with the proposed reimbursement arrangement for the out-of-pocket expenses reasonably incurred by Otsuka and its affiliates in connection with, amongst other things, the preparation and negotiation of the commitment letter of the Facilities, the Credit Agreement, Purchase Option Agreement (including the License Agreement), the Japan OrthoRecon Distribution Agreement and the Expense Arrangement Side Letter;
"FDA"	The United States Food and Drug Administration;
"Facility Announcement"	the announcement dated 15 December 2013 issued by the Company in relation to, amongst other things, the transactions contemplated under the Credit Agreement, the Purchase Option Agreement (including the License Agreement), the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the Expense Arrangement Side Letter;
"Facilities"	senior secured loan facilities amounting to US$200 million to be provided on the Closing Date by Otsuka to the Company under the Credit Agreement to settle part of the consideration of the Acquisition;
"Financial Assistance"	financial assistance provided by Otsuka, one of the substantial shareholders of the Company, to the Company to settle part of the consideration of the Acquisition in the form of the provision of the Facilities;
"Group"	the Company and its subsidiaries;
"HIPAA"	the United States Health Insurance Portability and Accountability Act of 1996;
"HKFRS"	Hong Kong Financial Reporting Standards;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Hong Kong Takeovers Code"	the Code on Takeovers and Mergers of Hong Kong;
"IFRS"	International Financial Reporting Standards;

"Independent Board Committee"	an independent committee of the Board comprising Mr. Zezhao Hua, Mr. Jonathan H. Chou and Dr. Guoen Liu, the independent non-executive Directors, established for the purpose of considering the terms of the Credit Agreement, the Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement), the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares and making a recommendation to the Independent Shareholders to vote in favour of the relevant resolutions in respect of the abovementioned agreements and arrangements;
"Independent Financial Adviser"	Platinum Securities Company Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Credit Agreement, the Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares;
"Independent Shareholders"	Shareholders, other than Otsuka and its associates, and persons who are involved or interested in the transactions contemplated under the Credit Agreement, the Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate to issue Conversion Shares;
"IPO"	the initial public offering of the Shares of the Company on the Stock Exchange on 24 September 2010;
"Japan OrthoRecon Distribution Agreement"	the distribution agreement dated 15 December 2013 between the Company, Otsuka and MicroPort US in connection with the proposed exclusive distribution arrangements in relation to the hip and knee replacement products between MicroPort Coop and Otsuka following the exercise of the Purchase Option by Otsuka;
"JODA Effective Date"	the date of completion of the acquisition of Wright Japan by Otsuka following the exercise of the Purchase Option;

"JPY"	Japanese Yen, the lawful currency of Japan;
"LIBOR"	London Interbank Offered Rate;
"Latest Practicable Date"	13 December 2013, being the latest practicable date for the purpose of ascertaining certain information referred to in this circular;
"Lender(s)"	Otsuka and the other lender(s) from time to time party to the Credit Agreement;
"Liabilities"	certain specified liabilities of the Selling Group relating to the Business including those relating to the Assets, certain employees of the Business and contracts forming part of the Assets;
"License Agreement"	the technology license agreement dated 15 December 2013 between Otsuka and MicroPort US in connection with the proposed grant of an exclusive license from MicroPort US to Otsuka in connection with, amongst other things, the manufacture, use, sale, development and distribution of implants and joint replacements in connection with total and partial hip or knee replacement surgery products for the Japanese market;
"Listing Committee"	the Listing Committee of the Stock Exchange;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Long Stop Date"	15 January 2014 or such other date as the Seller and the Purchaser may agree in writing;
"MP Shanghai"	Shanghai MicroPort Medical (Group) Co., Ltd (上海微創醫療器械(集團)有限公司), a subsidiary of the Company;

"Material Adverse Effect"	means any event, circumstance, occurrence, change, effect or fact, or group of any of the foregoing, that (a) would, or would be reasonably likely to, prevent or materially delay the consummation of the Acquisition and all transactions contemplated under the transaction documents or (b) results in, or would reasonably be expected to result in, a material adverse effect on, or a material adverse change in the business, operations, assets, Liabilities, condition (financial or otherwise) or results of operations of the Business, except to the extent that any such event, circumstance, occurrence, change, effect or fact, or group of any of the foregoing, directly results from (i) compliance with any written request of Purchaser, (ii) changes in general economic conditions (provided that such changes do not have a materially disproportionate effect on the Business as compared to the Business's competitors), (iii) changes generally affecting the industry in which the Business operates (provided that such changes do not have a materially disproportionate effect on the Business as compared to the Business's competitors), (iv) any acts of terrorism, military action or war (provided that such acts do not have a materially disproportionate effect on the Business as compared to the Business's competitors), (v) changes in applicable law or US GAAP generally affecting the industry in which the Business operates (provided that such changes do not have a materially disproportionate effect on the Business as compared to the Business's competitors), (vi) natural disasters or acts of God (provided that such changes do not have a materially disproportionate effect on the Business as compared to the Business's competitors), or (vii) the announcement of or the pendency of any investigation relating to the Acquisition and all transactions contemplated under the transaction documents;
"MicroPort Coop"	MicroPort Scientific Coöperatief U.A., a coöperatie met uitgesloten aansprakelijkheid formed under the laws of The Netherlands and an indirectly wholly-owned subsidiary of the Company;
"MicroPort Medical" or "Purchaser"	MicroPort Medical B.V., a besloten vennootschap formed under the laws of The Netherlands and a wholly-owned subsidiary of the Company;

"MicroPort US"	MicroPort Orthopedics Inc., a wholly-owned subsidiary of the Company incorporated in the State of Delaware, U.S.;
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules;
"Modular Neck Product"	the PROFEMUR® long titanium modular neck products of the Business;
"Net Working Capital"	(a) the sum of the value of all inventory, prepaid expenses, accounts receivable and all other current assets of the Business other than cash, net of any applicable allowances or reserves and determined as of Closing, less (b) the sum of the amount of all accounts payable, accrued Liabilities, accrued payroll and related obligations, and all other current Liabilities of the Business, determined as of Closing;
"Otsuka"	Otsuka Medical Devices Co., Ltd, a company incorporated in Japan and a wholly-owned subsidiary of Otsuka Holdings Co., Ltd. It is also a substantial shareholder of the Company;
"Otsuka Expense Arrangement"	the proposed reimbursement of the out-of-pocket expenses reasonably incurred by Otsuka and its affiliates in connection with, amongst other things, the preparation and negotiation of the commitment letter of the Facilities, the Credit Agreement, Purchase Option Agreement (including the License Agreement), the Japan OrthoRecon Distribution Agreement and the Expense Arrangement Side Letter pursuant to the Expense Arrangement Side Letter;
"Otsuka Group"	Otsuka Holdings Co., Ltd. and Otsuka Medical Devices Co., Ltd.;
"PRC" or "China"	the People's Republic of China;
"Products"	hip and knee replacement products of the Business developed and manufactured by the Enlarged Group after the Closing;
"Purchase Option"	the right granted to Otsuka to purchase the entire equity interests of Wright Japan pursuant to the Purchase Option Agreement;

"Purchase Option Agreement"	the purchase option agreement dated 15 December 2013 among MicroPort Coop, the Company and Otsuka in relation to Otsuka's option to purchase the entire equity interests of Wright Japan;
"R&D"	research and development;
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC;
"Seller" or "Wright Medical"	Wright Medical Group, Inc., a corporation incorporated in the State of Delaware of the U.S.;
"Selling Group"	the Seller and those of its subsidiaries which carry on the Business;
"Shanghai Zhangjiang Group"	Shanghai Zhangjiang Health Solution Holdings Limited, Shanghai Zhangjiang Health Solution Industry Limited, Shanghai Zhangjiang Health Solution Investment Limited and Shanghai ZJ Hi-Tech Investment Corporation, who collectively hold approximately 20.28% of the Shares in the Company;
"Shareholder(s)"	holder(s) of the Shares;
"Share(s)"	ordinary share(s) par value of US$0.00001 each in the capital of the Company;
"Specific Mandate"	a specific mandate to be granted to the Directors in relation to the allotment and issuance of the Conversion Shares to be approved by the Independent Shareholders at the EGM;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Term A Loan"	a term loan amounting to US$60 million to be provided by Otsuka to the Company pursuant to the terms and conditions of the Credit Agreement;
"Term B Lender"	Otsuka;
"Term B Loan"	a term loan amounting to US$40 million to be provided by Otsuka to the Company pursuant to the terms and conditions of the Credit Agreement;
"Term C Loan"	a term loan amounting to US$100 million to be provided by Otsuka to the Company pursuant to the terms and conditions of the Credit Agreement;

"Term Loan(s)"	any or all (as the context requires) of the Term A Loan, the Term B Loan or the Term C Loan;
"TAA/AAA"	thoracic aortic aneurysm/abdominal aortic aneurysm;
"U.S." or "US"	the United States of America;
"US$", "USD" or "US dollar"	U.S. dollars, the lawful currency of the U.S.;
"US GAAP"	the generally accepted accounting principles of the U.S.;
"Wright Japan"	Wright Medical Japan, K.K. (change of name will be performed post-Closing from its current name to MicroPort Orthopedics K.K.), a 100% subsidiary of the Seller which carries on the Business in Japan;
"WMT"	Wright Medical Technologies, Inc., a wholly-owned subsidiary of the Seller; and
"%"	per cent.

For the purpose of this circular, unless otherwise indicated, the exchange rates of RMB1.00 = HK$1.26, US$1.00 = HK$7.78 and US$1.00 = JPY86.4 have been used for currency translation, where applicable. Such exchange rates are for the purpose of illustration only and do not constitute a representation that any amounts in HK$, RMB and US$ have been, could have been or may be converted at such or any other rates or at all.

* *For identification purposes only*

MicroPort Scientific Corporation

微創醫療科學有限公司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 853)

Executive Director:
Dr. Zhaohua Chang

Non-executive Directors:
Mr. Norihiro Ashida
Mr. Hiroshi Shirafuji
Mr. Ganjin Chen

Independent non-executive Directors:
Mr. Zezhao Hua
Mr. Jonathan H. Chou
Dr. Guoen Liu

Registered office:
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Principal place of business in Hong Kong:
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

15 December 2013

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION
(2) FINANCIAL ASSISTANCE CONSTITUTING A CONNECTED TRANSACTION
(3) PURCHASE OPTION TO BE GRANTED CONSTITUTING A MAJOR DISPOSAL AND A CONNECTED TRANSACTION
(4) CONTINUING CONNECTED TRANSACTIONS
(5) BUY-BACK ARRANGEMENT CONSTITUTING A CONNECTED TRANSACTION
(6) PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE CONVERSION SHARES
(7) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to (i) the Announcement in relation to the very substantial acquisition of the Business and the Financial Assistance constituting a connected transaction; and (ii) the Facility Announcement in relation to the transactions contemplated under the Credit Agreement, the Purchase Option Agreement (including the License Agreement), the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the Expense Arrangement Side Letter.

* *for identification purpose only*

The Acquisition

On 18 June 2013 (Pacific standard time), which was the morning of 19 June 2013 Hong Kong time, the Company, the Purchaser (a wholly-owned subsidiary of the Company), and the Seller entered into the Asset Purchase Agreement, pursuant to which the Purchaser has agreed to acquire from the Seller the Business, which consists of the Seller's worldwide hip and knee orthopaedic reconstruction business (including the entire equity interests of Wright Japan), and to assume the Liabilities of the Business. The consideration payable by the Purchaser for the Acquisition is US$290 million (equivalent to approximately HK$2.26 billion) in cash. The consideration is subject to adjustment upwards or downwards by reference to the amount of working capital in the Business on the Closing Date (other than cash).

The Acquisition constitutes a very substantial acquisition under the Listing Rules and is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Financial Assistance to be provided by Otsuka

On 15 December 2013, for the purpose of financing the Acquisition, the Company as borrower, and Otsuka, a substantial shareholder of the Company, as lender entered into the Credit Agreement. Pursuant to the Credit Agreement, Otsuka has agreed to grant to the Company certain credit facilities amounting to US$200 million (equivalent to approximately HK$1.56 billion). The Facilities are guaranteed by certain subsidiaries of the Company and are secured by the equity interests of certain subsidiaries of the Company and by substantially all of the assets of the Business to be acquired by the Company pursuant to the Asset Purchase Agreement.

The Facilities consist of three tranches, namely, the Term A Loan, the Term B Loan and the Term C Loan. The Term A Loan is for US$60 million (equivalent to approximately HK$467 million) and has a maturity date falling one (1) year after drawdown. In connection with the Term A Loan, Otsuka was granted the Purchase Option (described further below). The Term B Loan is for US$40 million (equivalent to approximately HK$311 million) and has a maturity date falling three (3) years after drawdown. The Term B Loan is convertible at the option of Otsuka into Shares at any time prior to maturity. The Term C Loan is for US$100 million (equivalent to approximately HK$778 million) and has a maturity date falling one (1) year after drawdown.

The provision of the Facilities by Otsuka to the Company to settle part of the consideration of the Acquisition will constitute a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules, on the basis that Otsuka holds approximately 33.29% of the Shares and is therefore a connected person of the Company. Accordingly, the provision of the Facilities is subject to the requirements for reporting, announcement and approval of the Independent Shareholders under Chapter 14A of the Listing Rules. As the provision of the Facilities is required for the Acquisition, Otsuka and its associates will also abstain from voting on the resolution being presented at the EGM to approve the Acquisition.

The Purchase Option

In connection with the Term A Loan, MicroPort Coop, an indirectly wholly-owned subsidiary of the Company, the Company and Otsuka have entered into the Purchase Option Agreement on 15 December 2013. The Company is a party for the purpose of guaranteeing MicroPort Coop's obligations under the agreement. Under the Purchase Option Agreement, MicroPort Coop has agreed to grant to Otsuka an option, exercisable in whole and not in part, at any time during the period beginning 90 days prior to the maturity date of the Term A Loan (which is one (1) year after the drawdown of the Term A Loan) and ending 30 days prior to the maturity date of the Term A Loan, to purchase the entire equity interests in Wright Japan at an exercise price of US$60 million (equivalent to approximately HK$467 million). Otsuka will pay US$1.00 to MicroPort Coop as consideration. Otsuka's obligation to pay the exercise price will be set off against an equivalent amount of principal and/or accrued and unpaid interest owing to Otsuka and/or its affiliates in respect of the Term A Loan. Any principal and/or accrued and unpaid interest not set-off will remain payable in accordance with the Credit Agreement.

In connection with the Purchase Option Agreement, MicroPort US and Otsuka have also entered into the License Agreement which will become effective on the completion date of the Purchase Option Agreement following exercise of the Purchase Option by Otsuka. Pursuant to the License Agreement, MicroPort US will grant to Otsuka, for no additional fee, a perpetual, fully paid-up, royalty-free, non-transferable and non sub-licensable (save as provided therein), exclusive license to manufacture, use, sell, develop, reproduce, distribute, market, commercialize and exploit implants and joint replacements used in connection with total and partial hip or knee replacement surgery and included in MicroPort US's product catalog on the Closing Date. The license is for use only within Japan and within a field limited to hip or knee replacement surgery; provided, however, Otsuka may sublicense to its affiliates, other than affiliate that is a competitor of the Enlarged Group. The intellectual property subject to the license includes trade secrets, trademarks and patents issued and patent applications filed in Japan and in existence on the Closing Date. The license will terminate automatically if Otsuka does not establish an R&D or manufacturing facility to exploit, develop or manufacture the licensed products or the intellectual property within five (5) years following the completion of the exercise of the Purchase Option by Otsuka. The License Agreement may not be assigned by either party without the prior written consent of the other party. MicroPort US and Otsuka have agreed to negotiate in good faith a license on arm's length basis in relation to any improvements to the intellectual property subject to the License Agreement which are developed by MicroPort US subsequent to the Closing Date. The grant of any license for such improvements will be subject to the Company complying with the relevant requirements under Chapter 14A of the Listing Rules.

As described above, Otsuka is a connected person of the Company and since the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in relation to the Purchase Option exceed 25% but are less than 75%, the grant of the Purchase Option constitutes a major disposal and a connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules and is therefore subject to requirements for reporting, announcement and approval of the Independent Shareholders under Chapter 14 and Chapter 14A of the Listing Rules.

Continuing connected transactions – The Japan OrthoRecon Distribution Agreement

If, after Closing of the Acquisition and drawdown by the Company of the Facilities, Otsuka exercises the Purchase Option, Wright Japan will become a wholly-owned subsidiary of Otsuka, and will therefore become a connected person of the Company. Following the completion of the exercise of the Purchase Option by Otsuka, Wright Japan will continue to serve as the exclusive distribution arm for the Company in Japan to sell hip and knee replacement products and the Japan OrthoRecon Distribution Agreement has therefore been put in place to govern such distribution arrangements (as further described below).

The Japan OrthoRecon Distribution Agreement was entered into between Otsuka, the Company and MicroPort US on 15 December 2013, and will become effective on the JODA Effective Date. The transactions contemplated under such agreement will become continuing connected transactions of the Company. As the relevant applicable percentage ratios in respect of the aggregate amount of the annual caps of such continuing connected transactions exceed 5% and the aggregate amount of the annual caps of such continuing connected transactions exceeds HK$10 million per annum, the transactions under the Japan OrthoRecon Distribution Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules, and are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Buy-back Arrangement under the Japan OrthoRecon Distribution Agreement

Under the Japan OrthoRecon Distribution Agreement, the Distributor's Group is permitted for a period of six (6) months following the termination of such agreement to sell and distribute those stocks of the Products as it may at the time have in store or under its control. At the end of the six-month period, the Distributor's Group shall sell, and the Enlarged Group shall buy, the remaining stocks of the Products at the same price as was paid by the Distributor's Group for those stocks and be responsible for the corresponding shipping costs of such stocks to be repurchased. The parties have agreed to cap the maximum aggregate purchase price and the costs of shipping relating to the remaining stock that the Enlarged Group is obliged to repurchase under the Buy-back Arrangement at US$139,403,000 (equivalent to approximately HK$1.08 billion).

The Buy-back Arrangement is an arrangement under the Japan OrthoRecon Distribution Agreement which will only occur six months after the termination of the Japan OrthoRecon Distribution Agreement and will be treated as a one-off connected transaction of the Company. The relevant applicable percentage ratios in respect of the aggregate amount under the Buy-back Arrangement exceed 5%, and the Buy-back Arrangement is therefore subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. However as the Buy-back Arrangement is part of the Japan OrthoRecon Distribution Agreement, it will be approved as part of the shareholder resolution on the Japan OrthoRecon Distribution Agreement.

The Otsuka Expense Arrangement

On 15 December 2013, the Company and Otsuka also entered into the Expense Arrangement Side Letter, pursuant to which the Company agreed to reimburse Otsuka for (i) all out-of-pocket costs and expenses reasonably incurred by Otsuka and its affiliates (including without limitation, fees, charges and disbursements of any outside counsel or advisor for appraisal, consulting, audit and any other services, and costs of printing, reproduction, document delivery, travel, communication and publicity) in connection with the preparation, review, negotiation, execution, delivery and implementation of the commitment letter of the Facilities, the Credit Agreement, the associated guarantee and collateral documents, the Purchase Option Agreement, the License Agreement, the Japan OrthoRecon Distribution Agreement and the Expense Arrangement Side Letter and the administration, amendment, modification or waiver thereof (or any proposed amendment, modification or waiver); and (ii) all out-of-pocket expenses reasonably incurred by Otsuka and its affiliates in connection with the enforcement or protection of their rights in connection with the Expense Arrangement Side Letter, in the event that the Independent Shareholders' approval of the Company in respect of such agreements is not obtained at the EGM. The maximum amount of such out-of-pocket expenses to be borne by the Company under the Expense Arrangement Side Letter shall not exceed US$7 million (equivalent to approximately HK$54.46 million) and shall be paid by the Company to Otsuka from time to time within two business days of demand for such reimbursement.

If Independent Shareholders' approval in respect of the Credit Agreement, the Purchase Option Agreement, the License Agreement and the Japan OrthoRecon Distribution Agreement is obtained at the EGM, the cost provisions under each of such agreements will apply and the Expense Arrangement Side Letter (including the maximum limit therein) will cease to apply.

As described above, Otsuka holds approximately 33.29% of the issued share capital of the Company as at the Latest Practicable Date and is a connected person of the Company. As the relevant applicable percentage ratios in respect of the payment of expenses by the Company to Otsuka under the Otsuka Expense Arrangement exceed 0.1% but are less than 5%, the Otsuka Expense Arrangement constitutes a connected transaction under Chapter 14A of the Listing Rules, and is therefore subject to reporting and announcement requirements and is exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

General

Platinum Securities Company Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Credit Agreement, the Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares.

The purposes of this circular are (i) to provide you with, among other things, further information relating to the details of the terms of the Asset Purchase Agreement, the Credit Agreement, the Purchase Option Agreement (including the License Agreement), the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the Expense Arrangement Side Letter, and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares under the Credit Agreement; (ii) to set out the recommendation of the Board and the Independent Board Committee; (iii) to set out the financial information of the Group, the Business and the unaudited pro forma financial information of the Enlarged Group; (iv) to give you the notice of the EGM; and (v) to provide you with other information as required under the Listing Rules.

PART A – THE ACQUISITION

1. THE ASSET PURCHASE AGREEMENT

Date

18 June 2013 (Pacific standard time)

Parties

1. MicroPort Medical B.V., as purchaser;

2. Wright Medical Group, Inc., as seller; and

3. MicroPort Scientific Corporation, as the guarantor.

Assets to be acquired under the Asset Purchase Agreement

The Asset Purchase Agreement, which was entered into after arm's length negotiations between the parties, sets out the terms and conditions upon which the Purchaser has conditionally agreed to purchase, and the Selling Group has conditionally agreed to sell, the Assets as at the Closing Date and the Purchaser has conditionally agreed to assume the Liabilities. The Company is jointly and severally liable with the Purchaser for the Purchaser's obligations under the Asset Purchase Agreement.

The Assets to be purchased from the Seller primarily consist of (i) rights to use all business permits that are necessary to run the Business, including all assignable licenses and registrations necessary to sell medical devices in each jurisdiction to which the Selling Group exports or distributes their products, manufacturing permits and real property permits in different countries; (ii) real properties, including a manufacturing facility and distribution center at Tennessee, U.S. and various administrative and sales offices; (iii) all inventories of the Business; (iv) a substantial portion of the intellectual property rights associated with the Business; (v) all records, books, databases and information systems of the Business; (vi) all machinery and equipment and laptops of the Business; (vii) approximately 780 employees of the Business; (viii) all assignable contracts of the Business, or assignable portions of

contracts related to the Business, with distributors, suppliers and customers; (ix) all current accounts receivable and the other current assets in the Net Working Capital at Closing; and (x) all of the equity interests in Wright Japan.

Liabilities to be assumed under the Asset Purchase Agreement

The Liabilities that the Purchaser is assuming in relation to the Business include (i) post-Closing obligations under the contracts with customers, suppliers and distributors, leases and intellectual property licenses; (ii) accounts payable of the Business and other current liabilities included in the Net Working Capital; (iii) post-Closing liabilities with respect to the employees of the Business who have accepted the Purchaser's offer of employment; and (iv) all liabilities associated with the products of the Business sold after Closing. Those liabilities that are incurred after signing of the Asset Purchase Agreement but prior to Closing, current patent and product liability litigations and other liabilities associated with the Business prior to Closing are excluded from the Liabilities that the Purchaser is assuming.

The brand name of the Seller and other intellectual property rights in relation to the Seller's brand name will not be acquired by the Purchaser. However, the Purchaser may continue to sell the Business products after Closing with a hybrid MicroPort-Wright brand name until the earlier of (i) thirty months following the Closing; and (ii) two (2) years following the receipt of the necessary approvals and registrations in each jurisdiction where the Business products are sold to permit the Purchaser to sell the Business products under its own brand name.

Consideration

The consideration payable by the Purchaser to the Seller for the purchase of the Business, subject to assumption of the Liabilities, is US$290 million (equivalent to approximately HK$2.26 billion) assuming that the Net Working Capital will be US$121 million (equivalent to approximately HK$941.4 million).

To calculate the Net Working Capital (which amount will not be known until verified after Closing) and to ensure that the amount paid on Closing is as close as possible to the actual amount of consideration payable by the Purchaser, the Purchaser will pay to the Selling Group on Closing an amount equal to: (i) US$290 million (equivalent to approximately HK$2.26 billion), minus (ii) the amount, if any, by which the Estimated Net Working Capital is less than US$121 million (equivalent to approximately HK$941.4 million). The consideration will be paid in cash by the Purchaser on Closing and will be subject to adjustment after Closing as follows:

(a) the Net Working Capital of the Business as at the Closing Date will be determined;

(b) subject to (d) below, if the amount of the Net Working Capital is less than the Estimated Net Working Capital, the consideration will be reduced by an amount equivalent to such shortfall and the Seller will pay the amount of such shortfall to the Purchaser within five (5) Business Days after determination of the Net Working Capital;

(c) subject to (d) below, if the amount of the Net Working Capital exceeds the Estimated Net Working Capital, the consideration will be increased by an amount equivalent to such excess and the Purchaser will pay the amount of such excess increase to the Seller by wire transfer within five (5) Business Days after determination of the Net Working Capital; and

(d) no adjustment will be made to the consideration unless the amount of the adjustment is greater than or equal to US$600,000 (equivalent to approximately HK$4.67 million).

The Net Working Capital at Closing is to be agreed between the Seller and the Purchaser, and in the event of disagreement, determined by such independent public accounting firm as the Seller and the Purchaser may agree.

The consideration was determined based on arm's length negotiations between the parties with reference to the operating and financial performance as well as the future prospects of the Business. When determining the consideration, the Company has taken into account the Business' substantial and geographically diverse market position in the joints, hips and knees segment of the global orthopaedics market and the future growth potential of the Business products in the PRC. Historical revenues and earnings of the Business before interest, tax, depreciation and amortization, as well as projected growth and profit estimates were considered in arriving at the mutually agreed purchase price.

Conditions precedent

Closing of the Asset Purchase Agreement is conditional upon, amongst other things, satisfaction (and/or where capable of waiver, waiver) of the following conditions:

(i) the passing at the EGM of such resolutions of the Shareholders as may be required pursuant to the Listing Rules to be passed in connection with the Acquisition, the Asset Purchase Agreement and the transactions contemplated thereby;

(ii) consents from relevant third parties required in connection with the transfer of the Assets to the Purchaser shall have been obtained; and

(iii) no Material Adverse Effect shall have occurred and be continuing.

The Purchaser may at any time waive any of the conditions referred to in (ii) and (iii) (to the extent it is capable of being waived) in its sole discretion by notice to the Seller. The condition set forth in paragraph (i) is not waivable. As at the Latest

Practicable Date, the Purchaser has no intention to waive any of such conditions. The Purchaser considers that the term entitling the Purchaser to exercise its discretion to waive such conditions is constructed for the purpose of providing greater power and flexibility to the Purchaser and is fair and reasonable and in the interests of the Company and the Shareholders as a whole. As at the Latest Practicable Date, none of the conditions precedent under the Asset Purchase Agreement has been waived by the Purchaser.

Closing

Closing of the Acquisition is expected to take place no later than three (3) Business Days after fulfillment (and/or, where capable of waiver, waiver) of all the conditions.

If all of the conditions have not been fulfilled (or, as the case may be, waived, save for condition (i) which is not waivable) on the Long Stop Date, the Asset Purchase Agreement may be terminated by either of the parties.

The Company holds the entire issued share capital of MicroPort Coop who will in turn directly wholly own the entire equity interests of Wright Japan upon Closing.

Other major terms of the Acquisition

The Asset Purchase Agreement contains indemnities, representations, warranties, undertakings and other provisions in customary terms for transactions of this nature and scale.

Under the Asset Purchase Agreement, the Purchaser undertakes to compensate all employees of the Business who will be transferred from the Seller to the Purchaser and be employed with the Purchaser or its subsidiaries following the Closing, with base salary and incentive opportunities (excluding equity-based incentive opportunities) that are no less favorable in the aggregate than those provided by the Seller to such employees prior to the Closing.

At Closing, the Purchaser and the Selling Group will enter into certain agreements to effect the transfer and assumption of the assets and liabilities of the Business to be acquired by or assumed by the Purchaser. In addition, the following agreements will be entered into between the Purchaser and the Seller at the Closing:

(i) Transition services agreement – In light of the Purchaser's acquisition of many assets shared by the Seller's retained business and the Business, both the Seller and the Purchaser will be providing transition services to the other at the cost to such party to provide such services. The services to be provided include, but are not limited to, compliance, finance, human resources, manufacturing, distribution, regulatory, customer service, and information technology. The details of the services provided will be included in schedules to the transition service agreement, each of which will specify the duration of such services.

(ii) Shared IP cross license agreement – Pursuant to this agreement, certain intellectual property licenses that will be granted to both the Company and the Seller by each of the parties to enable both the Company and the Seller to make and sell products in their respective businesses post-Closing. The Seller has retained ownership of certain intellectual properties that are critical to the products of both parties and will grant the Company a perpetual license under such retained intellectual properties in all fields other than the foot, ankle, extremities and biologics field. As of Closing, the Company will own certain other intellectual properties critical to the products of both parties that were acquired from the Seller, and will grant back to the Seller a perpetual license under such intellectual properties in all fields other than the hip and knee replacement field.

2. REASONS FOR AND BENEFITS OF THE ACQUISITION

In order to improve the overall financial performance of the Company, the Directors have continued to review its existing products and operations and strived to improve the financial position of the Company by proactively seeking potential acquisition opportunities that could diversify its existing product portfolio, broaden its source of income, and enhance value to shareholders. The Board believes the Acquisition is in line with development strategies of the Group and it will bring long-term and strategic benefits to the Company. The Board believes these benefits include:

(a) Broaden the Company's product offering with one of the leading hip and knee implant franchises in the global orthopaedics market

The Company currently derives 84% of its revenues from its cardiovascular stent business and enjoys the leading market share for DES in China. The Company has in the past started diversifying its product portfolio through R&D as well as mergers and acquisitions to include other cardiovascular and neuro-/endovascular products as well as electrophysiology, diabetes care and endocrinal management, surgical management and orthopaedic products. Orthopaedic implants have been a major focus area for the Company. The Company has two lines of orthopaedic implant products: trauma and spine, with more than 16 product series covering a wide array of orthopaedic implants (anterior cervical plate system, spinal posterior fixation system, cervical fusion device, lumbar & thoracic fusion device, cervical poster fixation system, metal spine plates, metal anatomical plate, straight metal plate, metal plate sleeve, twist-locking intramedullary nails etc.) and associated instruments.

With the Acquisition, the Company would be able to offer a full orthopaedic product portfolio for the top four largest orthopaedic market segments, which would include CFDA approved products for the hip and knee, spine, and trauma markets. The Seller has over 60 years of history and reputation for product innovation in the global orthopaedics industry. The Seller has specialized in and developed high-quality, clinically-proven hip and knee products. The new generation EVOLUTION® Medial-Pivot Knee product is recognized as one of the best in class knee implant products globally. The SUPERPATH™ minimally invasive hip replacement instrument is a dedicated minimally invasive surgical product requiring only a small open wound and

significantly reducing patients' recovery time. Introducing these innovative products to the Company's product portfolio will further broaden the Company's existing product offerings. The transaction would allow the Company to diversify its current DES franchise significantly. It is expected that post Acquisition, the Company's DES revenues as a percentage of its entire revenue base would decline from approximately 80% to 36% of revenues.

(b) Elevate Company's orthopaedics business in China and globally

Prior to the Acquisition, the Company already had one of the strongest China medical device sales forces responsible for marketing activities including training doctors, holding seminars and maintaining relationships with relevant doctors and hospitals. Products are primarily sold and used in China, and are sold through distributors or logistic platforms. With more than 60 distributors for its orthopaedics business, the Company sells its products to all tiers of hospitals in every province and area in China. The hip and knee implants being acquired from the Seller complements the Company's current spine and trauma portfolio and will elevate the Company's presence and reputation in the China orthopaedics market with surgeons. The Company plans to leverage its existing sales infrastructure to sell and market the innovative hip and knee implant products to hospitals in China. With the Acquisition, the Company will also look to leverage its existing orthopaedic instrumentation manufacturing expertise to provide low-cost, high-quality instruments to pair with the U.S. manufactured hip and knee implants from the Acquisition to serve its surgeon customers in all geographic markets. The Directors believe that this instrumentation strategy will provide a competitive advantage that will allow it to compete effectively in the global orthopaedics markets.

(c) Expand the Company's geographical coverage

Approximately 95% of the Company's revenues are currently derived from the Company's China operations. The Acquisition will further allow the Company to internationalise its revenue base with a presence in the U.S., Europe, Japan and Latin America orthopaedic markets. Concurrently, the Acquisition will provide the Company with access to international markets to which it can sell its currently approved spine and trauma products. It is expected that post Acquisition, the Company's China revenues would decline from approximately 95% to approximately 35% of its total revenue, with the remaining 65% being derived from its international franchise. The Company's headquarter for its global orthopaedic business will be based at the headquarters of the Business in Tennessee, U.S.

(d) Increase institutional investor interest in the Company

The Directors believe that the Acquisition represents a unique opportunity for Shareholders and potential investors of the Company to participate in a leading multi-brand global medical device company based in China. The Directors further believe that the Acquisition would support a market re-rating of the Company which would expand institutional investor interest in the Company and broaden its shareholder base.

The Directors consider that the terms of the Acquisition, the Asset Purchase Agreement and the transactions contemplated thereunder to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. FINANCIAL EFFECTS OF THE ACQUISITION

The following table sets out, for illustrative purposes only, the key financials of the Group and the unaudited pro forma financial information of the Enlarged Group after completion of the Acquisition and the Financial Assistance as if the Acquisition had been completed as on 30 June 2013 for unaudited pro forma consolidated statement of financial position and 1 January 2012 for unaudited pro forma consolidated income statement. The unaudited pro forma financial information of the Enlarged Group has been prepared based on the judgments and assumptions of the Directors for illustrative purposes only. It may not reflect the true financial position of the Enlarged Group as at 30 June 2013 or any future date following the completion of the Acquisition and the Financial Assistance due to its hypothetical nature. As the estimated fair values of the assets and liabilities of the Business used in the preparation of the unaudited pro forma financial information of the Enlarged Group might differ from their respective actual fair values upon Closing, the actual financial effects of the Acquisition might be materially different from the financial position as shown in Appendix IV to this circular.

	Financial information extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2013 *RMB'000* *(approx.)*	**Financial information extracted from the unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2013 (as disclosed in Appendix IV)** *RMB'000* *(approx.)*
Total current assets	1,613,620	1,965,810
Total assets	2,776,385	4,233,822
Total current liabilities	283,013	1,576,138
Total liabilities	458,876	1,972,715
Net assets	2,317,509	2,261,107

	Financial information extracted from the audited consolidated income statement of the Group for the year ended 31 December 2012 *RMB'000 (approx.)*	Financial information extracted from the unaudited pro forma consolidated income statement of the Enlarged Group for the year ended 31 December 2012 (as disclosed in Appendix IV) *RMB'000 (approx.)*
Revenue	930,962	2,613,167
Gross profit	777,833	1,826,526
Profit before taxation	415,358	219,592
Profit for the year	353,980	191,317

For further information, please refer to Appendix IV of this circular for unaudited pro forma financial information of the Enlarged Group.

Effect of the Acquisition on the earnings and assets and liabilities of the Enlarged Group

As extracted from the interim report of the Company for the six months ended 30 June 2013, the unaudited consolidated net assets of the Group as at 30 June 2013 were approximately RMB2,318 million, comprising total assets of approximately RMB2,776 million and total liabilities of approximately RMB459 million. As extracted from the audited financial statements of the Company for the year ended 31 December 2012, the profit of the Group for the financial year ended 31 December 2012 was approximately RMB354 million.

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, the unaudited pro forma net assets of the Enlarged Group as at 30 June 2013 would be approximately RMB2,261 million, comprising unaudited pro forma total assets of approximately RMB4,234 million and unaudited pro forma total liabilities of approximately RMB1,973 million. The unaudited pro forma profit of the Enlarged Group for the financial year ended 31 December 2012 was approximately RMB191 million.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2013 was prepared based on (i) the unaudited consolidated statement of financial position of the Group as at 30 June 2013, as set out in the Company's published interim report for the six months ended 30 June 2013; and (ii) the combined statement of financial position of the Business as at 30 June 2013 as set out in Appendix II, after incorporating pro forma adjustments described in the accompanying notes as set out in Appendix IV to this circular, assuming the Acquisition was completed on 30 June 2013.

4. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Company develops, manufactures and sells high-end interventional medical devices internationally. The Acquisition is in line with the development strategy of the Company to diversify its current business and products and to expand in the international markets and, once completed, is expected to bring long-term and strategic benefits.

With the Acquisition, the Enlarged Group will be able to offer a full orthopaedic product portfolio which will include CFDA approved products for the hip and knee, spine, and trauma markets. The transaction will allow the Company to diversify its current DES focused revenue base significantly. It is expected that post Acquisition, the Enlarged Group's DES revenues as a percentage of its entire revenue base will decline from approximately 80% to 36% of revenues.

With more than 60 distributors, the Company's existing orthopaedic business sells spine and trauma products to all tiers of hospitals across China. With the hip and knee implants being acquired from the Seller, the Company's orthopaedic product portfolio will be enhanced and complemented and can be sold and marketed effectively through the Company's existing sales infrastructure to hospitals in China. In addition, the Company expects to increase its orthopedic distribution channel in China by increasing the number of distributors. Concurrently, the Acquisition will provide the Company with access to international markets to which it can sell its currently approved spine and trauma products. The Enlarged Group will also look to leverage its existing orthopaedic instrumentation manufacturing expertise to provide low-cost, high-quality instruments to pair with the U.S. manufactured hip and knee implants from the Acquisition and serve its surgeon customers in all geographic markets.

The Acquisition will allow the Company to internationalise its revenue base with a presence in the U.S., Europe, Japan and Latin America orthopaedic markets. It is expected that post Acquisition, revenues derived from the China market of the Enlarged Group will decline from approximately 95% to approximately 35% of its total revenue, with the remaining 65% being derived from its international franchise.

The Enlarged Group will also benefit from the financial contribution of the Business.

5. RISK FACTORS OF THE ACQUISITION

Completion of the Acquisition is subject to fulfillment of the conditions precedent, details of which are set out in the paragraph headed "Conditions precedent" in the sub-section headed "The Asset Purchase Agreement" above.

Risk Relating to the Acquisition

The expected benefits of the Acquisition may not be realized.

The successful integration of the Business will require, among other things, integration of operations between the Group's existing business and the Business, retention and integration of the Business' management, and other employees, development and maintenance of uniform standards, controls, procedures and policies with the Group, and retention of existing suppliers and customers of the Business.

If the expected benefits of the Acquisition cannot be realized or if the Enlarged Group cannot address the risks relating to the integration, the financial position and operating results of the Enlarged Group may be adversely affected.

Risks Relating to the Business and the Enlarged Group

Any non-compliance with substantial government regulations in connection with the Business could have a material adverse effect on the Enlarged Group's business.

Production and marketing of the products of the Business and its ongoing R&D, pre-clinical testing and clinical trial activities are subject to extensive regulations and review by numerous governmental authorities both in the U.S. and abroad. U.S. and foreign regulations govern the testing, marketing and registration of new medical devices, in addition to regulating manufacturing practices, reporting, labeling, relationships with healthcare professionals and record-keeping procedures. Besides, as the Business involves conducting sales of its products in international markets, the operation of such is also subject to the relevant international laws and regulations, including import-export laws and embargoes. The regulatory process requires significant time, effort and expenditures to bring its products to market, and the Enlarged Group cannot be assured that any of the products offered by the Business will be approved. The Enlarged Group's failure to comply with applicable regulatory requirements could result in these governmental authorities:

- imposing fines and penalties on the Business;
- preventing the Enlarged Group from manufacturing or selling its products;
- bringing civil or criminal charges against the Enlarged Group;
- delaying the introduction of the new products of the Business into the market;
- recalling or seizing the products of the Business; or
- withdrawing or denying approvals or clearances for the products of the Business.

Even if regulatory approval or clearance of a product is granted, limitations on the uses for which the product may be labeled and promoted may still be imposed. Further, for a marketed product, the Enlarged Group's manufacturers, suppliers of the manufacturers, and the Enlarged Group's manufacturing facilities are subject to periodic review and inspection by the relevant governmental authorities. Subsequent

discovery of problems with a product, manufacturer or facility may result in restrictions being imposed on the product, manufacturer or facility, including withdrawal of the product from the market or other enforcement actions. The products of the Business can only be marketed in accordance with their approved labeling. If the Enlarged Group were to promote the use of the products of the Business in an "off-label" manner, the Enlarged Group would be subject to civil and criminal sanctions.

The Group has been conducting and the Enlarged Group will be conducting clinical studies of some of its products under investigational device exemptions of the U.S. Code of Federal Regulations Title 21 (IDEs). Clinical studies must be conducted in compliance with FDA regulations, or the FDA may take enforcement action. In addition, the European Medical Device Directive requires that many of the products of the Business which bear the CE mark be supported by post market clinical data. There is no assurance that the relevant regulators will accept the clinical studies provided by the Enlarged Group, or will ultimately grant the relevant certificates, approvals and clearances for marketing the products. Any failure to obtain such certificates, approvals and clearances for marketing the products would have material adverse impact on the business, financial condition and results of operations of the Enlarged Group.

The Business is also subject to various U.S. federal and state and foreign laws concerning healthcare fraud and abuse, including the U.S. Foreign Corrupt Practices Act of 1977, false claims laws, anti-kickback laws and physician self-referral laws and regulations of the European Union such as the European Medical Devices Directive concerning the marketing of medical devices in the member countries of the European Union. Violations of these laws can result in criminal and/or civil punishment, exclusion from participation in government healthcare programs in the U.S. and forbiddance of selling products such as active implants in member states of the European Union as the CE mark certificate will not be granted if there is non-compliance of the European Medical Devices Directive, which, in turn, will materially and adversely affect the Business' operation results and the Enlarged Group's financial condition.

In addition, there is an increasing trend for criminal prosecutions and enforcement activities against non-compliance with the HIPAA as well as for breaches involving protected health information in the U.S.. The Enlarged Group may be subject to criminal and civil sanctions if it fails to comply with the HIPAA or experiences breach involving protected health information.

Non-compliance with the FDA orders, decisions and regulations may adversely affect the sale of products of the Business.

The FDA requires manufacturers to apply for additional clearances and approvals for any modifications of medical devices that are marketing in the U.S.. Although manufacturers in general have discretion to determine whether it is necessary to apply for such approval or clearance from the FDA, the FDA is entitled to review the manufacturer's decision and to require the manufacturer to cease marketing or, as appropriate, recall the modified devices until such additional clearances or approvals

are obtained. Notwithstanding the relevant pre-market clearances obtained by the Business for certain devices currently marketed in the U.S., some of those devices or device labelings have been subsequently modified since the clearances were obtained. If the FDA disagrees with the Seller's prior decisions and requires the Enlarged Group to obtain additional approvals or clearances for such modifications of the products, and it fails to obtain such approvals or clearances in a timely manner or at all, the Enlarged Group may be required to cease manufacturing and marketing the modified device or to recall such modified device until it obtains FDA's approval or clearance and it may be subject to significant regulatory fines or penalties. As a result, the business, financial condition and results of operations of the Enlarged Group may be materially and adversely affected.

Furthermore, the FDA may issue orders against certain medical devices sold in the U.S. market. For example, the FDA has issued orders to require application of pre-marketing approvals due to reclassification of products and post-market surveillance on medical devices, including the metal-on-metal hip products offered by the Business in January 2013. Any such orders may result in additional expenses and delays in marketing the products of the Enlarged Group. If the Enlarged Group is unable to timely submit an application for approvals or conduct the required surveillance in accordance with the orders, or if the costs of doing so prove unduly burdensome, the Enlarged Group may be forced to discontinue marketing and selling its products in the U.S., which would in turn have adverse impact on the business and results of operations of the Enlarged Group.

The Enlarged Group's business and reputation may be affected by product liability claims, litigations, complaints or adverse publicity in relation to its products.

The sale of medical devices by the Enlarged Group for human medical consumption involves inherent risk of injuries to the patients. These injuries may involve personal injuries associated with the metal-on-metal hip replacement systems of the Business and fractures caused by the PROFEMUR® long titanium modular neck product. This may expose the Enlarged Group to potential risks of claims, litigation and/or complaints, which are time-consuming and costly to defend and may have a material adverse impact on the business, financial condition or results of operations of the Enlarged Group. In the future, the Enlarged Group may be subject to additional product liability claims. In particular, litigants may attempt to join the Enlarged Group as a defendant in current or future lawsuits to which WMT, is subject and which pertain to the Business. Additionally, the Enlarged Group could experience a material design or manufacturing failure in its products, a quality system failure, other safety issues, or heightened regulatory scrutiny that would warrant a recall of some of its products. Product liability lawsuits and claims, safety alerts and product recalls, regardless of their ultimate outcome, could have a material adverse effect on the Enlarged Group's business and reputation and on its ability to attract and retain customers.

Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any allegation that the products of the Enlarged Group caused personal injuries could adversely affect its reputation with customers and its corporate and brand image.

Fluctuations in insurance costs could adversely affect the profitability or risk management profile of the Enlarged Group and the insurance coverage may be inadequate to protect the Enlarged Group from all liabilities that it may incur.

The Business holds a number of insurance policies, including product liability insurance, directors' and officers' liability insurance, property insurance and workers' compensation insurance. There is a risk that the insurance cost may increase in the future. If the costs of maintaining adequate insurance coverage should increase significantly in the future, the Enlarged Group's results of operations could be materially adversely impacted.

Furthermore, if any claim and lawsuit is brought against the Enlarged Group for uninsured liabilities or in excess of the current insurance coverage, and the Enlarged Group is ultimately held liable for the full amount of damages against it for such claim or lawsuit, the business, financial condition and results of operations of the Enlarged Group could be materially and adversely impacted.

Any product recall of the Enlarged Group or any competitor's recall of products that are of similar nature to products offered by the Enlarged Group could negatively impact sales of the Enlarged Group.

Complex medical devices may sometimes experience problems resulting from the performance of the products and the ways the products are used, which in both cases require review and possible remedial action by the manufacturer. Any serious failures could cause the Enlarged Group to withdraw or recall products, which could result in significant costs such as repair and product replacement costs. The occurrence of product withdrawals or recalls, whether voluntary or not, could damage the corporate and brand image of the Enlarged Group and could have material adverse impact on the business, financial condition and results of operations of the Enlarged Group.

Furthermore, any occurrence of competitor's recall of products that are of similar nature to products offered by the Enlarged Group may give the perception to customers that its products are similarly unsafe or defective. As a result, there is a risk that a competitor's recall and the resultant publicity could negatively impact sales of the Enlarged Group's products and thereby adversely affect the financial condition and results of operations of the Enlarged Group.

If the Enlarged Group fails to comply with the terms of the CIA, it may be subject to criminal prosecution and/or exclusion from federal healthcare programs.

The Business has implemented corporate integrity program to ensure compliance with the U.S. healthcare laws. On 29 September 2010, the Seller's wholly-owned subsidiary, WMT entered into a five-year CIA with the Inspector General of the United

States Department of Health and Human Services. The CIA acknowledges the existence of the corporate compliance program of the Business and imposes certain obligations on WMT to maintain compliance with the U.S. healthcare laws under the CIA. The CIA will expire as of 29 September 2015. Upon Closing, the Enlarged Group will continue to be required to maintain compliance with the U.S. healthcare laws under the CIA. Failure to comply could expose the Enlarged Group to significant liabilities, including, but not limited to, exclusion from participation in U.S. federal healthcare programs, including Medicaid and Medicare, which would have a material adverse effect on its business, financial condition and results of operations, and may result in potential prosecution, civil and criminal fines or penalties, and additional litigation cost and expense.

The Enlarged Group is committed to the continued enhancement of its corporate compliance program, which requires the full and sustained cooperation of the employees, distributors and sales agents of the Enlarged Group, as well as the healthcare professionals with whom the Enlarged Group interacts. The Enlarged Group may incur additional expense and investment to enhance its corporate compliance program. The Enlarged Group may also encounter inefficiencies in the implementation of compliance enhancements, including delays in medical education, R&D projects and clinical studies, which may unfavorably impact its business and relationships with its customers.

A significant portion of the product sales of the Business are made through independent distributors and sales agents on which the Enlarged Group will have no direct control.

A significant portion of the product sales of the Business are made through independent sales representatives and distributors, and the Enlarged Group expects to distribute the products through such network upon Closing. The Enlarged Group will therefore continue to rely heavily on the independent distributors to maintain customer relationships. There is no assurance that the distributors will be able to manage and maintain their customer relationships effectively. As the Enlarged Group does not have direct control on distributors' field sales agents, there is no assurance that the Enlarged Group will be able to ensure that its sales processes and priorities will be consistently communicated and executed by the distributors. If the Business fails to maintain relationships with its key distributors, or fails to ensure that its distributors adhere to its sales processes and priorities, this could have an adverse effect on its business operations. Furthermore, turnover of independent distributors may result in an adverse impact on the Enlarged Group's short-term financial condition and results of operations as the Enlarged Group will have to transition sales to its direct sales personnel or identify new independent sales representatives. Such transitions or replacements may cause short-term disruptions to the business of the Enlarged Group. There is no assurance that the Enlarged Group is able to manage such transitions or replacements effectively and the transition plan may be more costly and disruptive than presently anticipated, which could in turn have a material adverse effect on the business and results of operations of the Enlarged Group.

If the Enlarged Group loses any of its key suppliers, it may be unable to meet customer orders for its products in a timely manner or within its budget.

The Business has relied on a limited number of suppliers for the components used in the products it offers. Upon Closing, the Enlarged Group will continue to source raw materials and components from the suppliers with whom the Business has established business relationships. Since the manufacture of its products is highly exacting and complex, the business and results of operations of the Enlarged Group may be materially and adversely impacted if any of the suppliers encounters problems in providing quality supplies to the Enlarged Group.

Suppliers of raw materials and components may decide, or be required, for reasons beyond the control of the Enlarged Group to cease supplying raw materials and components to it. There is no assurance that consistent supply of raw materials and components could be maintained by the Enlarged Group to accommodate its future needs. Furthermore, regulators may also require additional testing of any raw materials or components from new suppliers prior to use of these materials or components and, in the case of a device with a pre-marketing approval application, the Enlarged Group may be required to obtain prior permission, either of which could delay or prevent its access to or use of such raw materials or components. Any interruption to or shortage in the supply of raw material and components for the production of products of the Enlarged Group could result in the Enlarged Group being unable to operate its production facilities at full capacity, or if the shortage is severe, could lead to suspension of production and result in a material adverse impact on its financial condition and results of operations.

To meet the increased demand for its products, the Enlarged Group may need to increase the number of suppliers in the future. There is no assurance that the Enlarged Group will be able to locate new suppliers who could provide it with sufficient raw materials and components to meet its needs in terms of quantity and quality in a timely manner.

If the Enlarged Group fails to compete successfully in the future against its existing or potential competitors, its financial condition and results of operations may be adversely affected, and it may not achieve future growth.

The markets for the products of the Business are highly competitive and are significantly affected by the introduction of new products and price reduction of industry participants. The markets are dominated by a small number of large companies and these companies may have substantially greater capital resources, broader product lines, greater sales, marketing and management resources, larger R&D teams and larger production capacity than the Enlarged Group does. As a result of market opportunities in the medical device industry, these and other potential competitors have dedicated and will likely to continue to dedicate significant resources to develop and promote their products. These competitors may develop technologies and products that are safer, more effective, easier to use, less expensive or more readily accepted than the products of the Business. There is no assurance that the Enlarged Group will be able to meet the prices offered by its competitors or to offer products similar to or more desirable than

those offered by its competitors. If the Enlarged Group fails to compete effectively against its existing and potential competitors, its business, financial condition and results of operations may be materially and adversely affected and it may not be able to achieve future growth.

Changes in political and economic policies and social stability in the international markets may have a material adverse impact on the business, financial condition and results of operations of the Enlarged Group.

The Business derives a significant portion of its sales from operations in international markets. Its international distribution system consists of 11 direct sales territories and approximately 80 stocking distribution partners, which in combination employ approximately 750 sales representatives who sell in approximately 60 countries. For the year ended 31 December 2012, 43% of the net sales of the Business were derived from its international operations and 42% and 40% in each of 2011 and 2010. The Enlarged Group expects the Business will continue to maintain a significant portion of its sales in international markets. As a result, the business, financial condition, results of operations and future prospects of the Enlarged Group will, to a certain extent, be subject to changes in political or economic policies and social stability.

In particular, the Enlarged Group will be subject to the following risks:

- changes in, and additional imposition of, foreign governmental controls or regulations, tariffs, trade restrictions and export license requirements on medical devices and other orthopaedic implants products;
- changes in third-party reimbursement policy;
- shortage of labour, work stoppages or strikes in the healthcare industry and other political and social unrest; and
- varying legal and political standards from country to country.

Future acquisitions and integrations of other companies or product lines could materially and adversely affect the business, financial condition and results of operations of the Enlarged Group.

To enhance its growth, the Enlarged Group may pursue acquisitions of other companies or product lines in the future. The Enlarged Group's ability to grow through acquisitions depends upon its ability to identify, negotiate, complete and integrate suitable acquisitions and to obtain any necessary financing. Even if the Enlarged Group can complete suitable acquisitions, the Enlarged Group may also experience:

- difficulties in integrating any acquired companies, personnel and products into its existing business;

- delays or failures in realizing the benefits of the acquired company or products;
- diversion of its management's time and attention from other business concerns;
- limited or no direct prior experience in new markets or countries it may enter;
- higher costs of integration than it anticipated; or
- difficulties in retaining key employees of the acquired business who are necessary to manage these acquisitions.

In addition, any future acquisitions could materially impair the Enlarged Group's operating results by causing it to incur debt or requiring it to amortize acquired assets. If there were any deficiencies in internal controls, product quality, regulatory compliance or product liabilities in the acquired businesses which the Enlarged Group did not uncover prior to such acquisition, the Enlarged Group may become subject to penalties, lawsuits and other liabilities. As a result, the business, financial condition and results of operations of the Enlarged Group may be materially and adversely affected.

The Credit Agreement contains restrictions and limitations that could significantly impact the Enlarged Group's ability to operate its business, and failure to abide by such restrictions and limitations may result in an event of default triggering repayment under the agreement.

The Company will incur significant debt in connection with the Acquisition pursuant to the Credit Agreement in an amount of US$200 million. This debt could limit the Enlarged Group's financial and operating flexibility, including by making it more difficult for the Enlarged Group to obtain additional financing on favorable terms and limiting the Enlarged Group's ability to capitalize on significant business opportunities. In addition, the financing arrangements require the Enlarged Group to comply with certain covenants. The Enlarged Group's ability to comply with these provisions may be affected by general economic conditions, political decisions, industry conditions and other events beyond its control. The Enlarged Group's failure to comply with the covenants contained in the Credit Agreement, Purchase Option Agreement, License Agreement or the Japan OrthoRecon Distribution Agreement could result in an event of default. If there were such an event of default, the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be due and payable immediately and there may be a cross-default to other debt. The Enlarged Group's assets or cash flow may not be sufficient to fully repay borrowings under the outstanding debt if accelerated upon an event of default, and there is no guarantee that the Enlarged Group would be able to repay, refinance or restructure the payments on that debt. Such an occurrence could have a material adverse effect on the financial condition of the Enlarged Group.

If the patents and other intellectual property rights of the Enlarged Group do not adequately protect its products, it may lose market share to its competitors and be unable to operate its business profitably.

The Business relies on patents, trade secrets, copyrights, know-how, trademarks, license agreements and contractual provisions to establish its intellectual property rights and protect the products it offers. As of 31 December 2012, the Seller owns or has licenses to use more than 88 patents and has 53 pending patent applications with respect to the Business worldwide. Due to the different regulatory bodies and varying requirements in these jurisdictions, there is no assurance that the Enlarged Group will be able to obtain patent protection for all or any aspects of its products. The process of seeking patent protection can be lengthy and expensive, and there is no assurance that the patent applications will result in patents being issued, or that the existing or future issued patents will be sufficient to provide the Enlarged Group with meaningful protection or commercial advantages.

In addition, the Business has been licensed by third parties certain technologies that are necessary for the design and manufacturing of some of its products. Any loss of such licenses would prevent the Enlarged Group from manufacturing, marketing and selling these products, which could in turn negatively affect its business.

The Enlarged Group seeks to protect its trade secrets, know-how and other unpatented proprietary technology, in part, with confidentiality agreements with its employees, independent distributors and consultants. There is no assurance that such agreements will not be breached, adequate remedies for any breach would be available for any breach, or that the trade secrets, know-how, and other unpatented proprietary technology will not otherwise become known to or independently developed by its competitors or other third parties.

If third parties claim that the Enlarged Group infringes their intellectual property rights, it may incur liabilities and penalties and may have to redesign or discontinue selling its products.

The medical device industry is litigious with respect to patents and other intellectual property rights. Companies in the medical device industry have used intellectual property litigation to gain a competitive advantage. There is no assurance whether the Business has infringed third parties' intellectual property rights in the countries where it operates.

The Enlarged Group may become party to lawsuits involving patents or other intellectual property rights. Any legal proceeding, regardless of the outcome, may drain financial resources and divert time and effort of the management of the Enlarged Group. If the Enlarged Group loses any such legal proceeding, it may be required to pay significant damages to third parties, seek licenses from third parties, pay ongoing royalties, redesign its products, or discontinue manufacturing, using or selling its products. In addition, any protracted litigation to defend or assert its intellectual property rights could result in its customers or potential customers terminating, deferring or limiting their purchase or use of the affected products until resolution of the litigation.

The future growth of the Enlarged Group depends on its ability to continue to develop and market new products and technologies and promote medical education, which requires significant R&D efforts, clinical trials and regulatory approvals.

Given the intense competition in the orthopaedic market, industrial participants have continually been engaged in product development and improvement programs. To sustain future growth, the Enlarged Group will have to develop and launch new products and technologies that meet market demand and any delays in its product launches may significantly impede its ability to compete. Introduction of new products and technologies requires significant resources in R&D. There is no assurance, however, that the products will achieve technological feasibility, obtain regulatory approval or gain market acceptance.

Reputable physicians and medical personnel in hospitals and universities have been engaged to assist in product R&D and in the training of surgeons on the safe and effective use of the products of the Business. Failure of the Enlarged Group to maintain these relationships may impede its ability to develop and market new and improved products and to train surgeons on the use of those products, which could in turn have material adverse impact on the business and results of operations of the Enlarged Group.

In addition, any unfavorable or inconsistent clinical data from clinical trials conducted by the Enlarged Group, its competitors or other third parties may adversely impact its ability to obtain product approvals from the relevant regulatory authorities.

Termination of co-branding arrangements may negatively affect sales of the products of the Business.

In accordance with the Asset Purchase Agreement, the Company and the Seller agreed to a period of time following the Acquisition whereby products of the Business will be co-branded and marketed jointly under the names of the Seller and the Company. This arrangement allows the Business to benefit from the goodwill of the Seller's name following the Acquisition. Following termination of this co-branding period, products sold by the Business cannot include any Seller name or derivations of the Seller name. There can be no assurance that such products will continue to be sold at the levels that they are sold under the prior co-branding arrangement, if at all. The Enlarged Group cannot predict what, if any, effect changes in the co-branding arrangements will have on the Enlarged Group's financial performance.

The Business could be significantly and adversely impacted by recently enacted healthcare reforms.

In March 2010, comprehensive healthcare reform legislation in the form of the Affordable Care Act was enacted in the U.S. An excise tax of 2.3% has been imposed on U.S. sales of medical devices as of 31 December 2012. The Affordable Care Act also includes numerous provisions to limit Medicare spending through reductions in various fee schedule payments and by instituting more sweeping payment reforms. Many of these provisions will be implemented through regulatory processes, and the policy details have not yet been finalized. Various healthcare reform proposals have also emerged at U.S. state level. Currently, the Enlarged Group cannot predict with

certainty the impact that these U.S. federal and state healthcare reforms will have on it and there is no assurance that such reform will not have an adverse effect on the operation of the Business.

If third-party payors decline to reimburse customers for the Business' products or reduce reimbursement levels, the demand for its products may decline and its ability to sell its products profitably may be harmed.

The products of the Business have been sold to surgeons, hospitals and other healthcare service providers, which receive reimbursements for healthcare services provided to their patients from third-party payors, such as domestic and international government programs, private insurance plans and managed care programs. Products of the Business are subject to reimbursement from third-party payors in the majority of international markets in which they are sold. Sales to surgeons, hospital and healthcare service providers may decline if an adequate level of reimbursement from third-party payors is not maintained. There is a risk that these third-party payors may deny reimbursement if they determine that the products of the Enlarged Group used in a procedure were not in accordance with cost-effective treatment methods, as determined by the third-party payors, or were used for an unapproved indication.

Third-party payors may contain their healthcare costs by limiting both coverage and the level of reimbursement for medical products. There is no assurance that third-party payors will change, reduce or eliminate the coverage currently available for treatments using the products of the Business or extend their coverage to new products of the Enlarged Group. Furthermore, many foreign markets, including Canada and some European and Asian countries, have also tightened reimbursement rates. Any such changes in reimbursement policies or healthcare cost containment initiatives that limit or restrict reimbursement for the products of the Enlarged Group may cause demand for its products to decline, or the Enlarged Group may be forced to reduce product price, which would in turn materially and adversely affect the sales and results of operations of the Enlarged Group.

If the Enlarged Group fails to recruit, hire and retain the skilled and experienced personnel, it may not be able to manage its operations and meet its strategic objectives effectively.

The continued success of the Enlarged Group depends, in part, upon the continued service of skilled and experienced managerial, scientific, sales and technical personnel, as well as its ability to continue to attract and retain additional highly qualified personnel. Personnel with specialized experience are scarce in the medical device industry. Any loss of any of the senior executives or key personnel of the Enlarged Group could have a material adverse effect on the ability of the Enlarged Group to manage its operations and meet its strategic objectives effectively. The Enlarged Group may also need to incur significant time and expense to locate suitable or qualified replacements. Further, any inability on its part to enforce non-compete arrangements related to key personnel who have left the business could have a material adverse effect on the business of the Enlarged Group.

Furthermore, as the Enlarged Group expects to continue to expand its operations and develop new products, it will need to recruit and retain qualified personnel in the future. Competition for personnel in the medical device industry is intense as the Enlarged Group has to compete for such personnel with other companies, academic institutions, governmental entities and other organizations. The Enlarged Group may be unable to attract or retain the personnel required to achieve its strategic objectives and failure to do so could materially and adversely impact its competitiveness, business, financial condition and results of operations.

Any disruptions in manufacturing facility could result in losses and materially and adversely affect the business, financial condition and results of operations of the Business.

The Business has relied on a single manufacturing facility in Arlington, Tennessee, U.S. for the production of its products. Any significant damage to the manufacturing facility from natural or other causes could be costly and time-consuming to repair, and could disrupt the manufacturing activities of the Business. In such an event, the Enlarged Group would be forced to rely on third-party manufacturers. This may result in additional production costs, and there is no assurance that the Enlarged Group would be able to identify qualified and suitable third-party manufacturers.

Despite the disaster recovery plans and property insurance currently in place, such plans and insurance may not be sufficient to cover all of the potential losses resulting from such damage and disruptions and may continue to be available to the Enlarged Group on acceptable terms, or at all.

The Enlarged Group's business plan relies on certain assumptions about the market for its products, which, if incorrect, may adversely affect its results of operations.

The Company believes that an increased aging population and increasingly active lifestyles will continue and that these trends represent a rising demand for its orthopaedic implant products. The projected demand for the products of the Enlarged Group could materially differ from actual demand if the assumptions regarding these trends and acceptance of the products by the medical community do not materialize, or if non-surgical treatments gain more widespread acceptance as a viable alternative to orthopaedic implants.

Fluctuations in foreign currency exchange rates could result in declines in the Enlarged Group's reported sales and earnings.

As a majority of the international sales of the Business are denominated in local currencies and not in RMB, the reported sales and earnings of the Business are subject to fluctuations in foreign exchange rates. Approximately 66.1% and 71.8% of the Enlarged Group's total net sales were denominated in foreign currencies during the years ended 31 December 2012 and 2011, respectively, and it is expected that foreign currencies will continue to represent a similarly significant percentage of its net sales of the Enlarged Group in the future.

The volatility of the foreign currency exchange rates are subject to changes in foreign exchange regulations and international economic and political developments. As the Group has not entered into hedging activities to mitigate the risk of foreign currency fluctuations, any fluctuations in exchange rates could adversely affect the value of the net assets and earnings of the Enlarged Group.

Risks relating to this circular

Forward looking statements contained in this circular are subject to risks and uncertainties.

This circular contains statements that are forward-looking and uses words typically used for forward-looking statements such as "will", "expect", "estimate", "anticipate", "plan", "believe", "may", "intend", "ought to", "continue", "project", "should", "seek", "potential" and other similar terms. Reliance on any forward-looking statements involves risks and uncertainties in this regard, including those identified in the risk factors discussed above. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this circular should not be regarded as representations by the Board that the Company's plans and objectives will be achieved.

6. INFORMATION ON THE BUSINESS

(a) Background of the Business

i. Products

The Business offers products that are used primarily to replace or repair knee, hip and other bones that have deteriorated or have been damaged through disease or injury.

Knee Reconstruction

The knee reconstruction portfolio of the Business provides surgeon treatment options for partial, total and revision knee reconstruction as well as limb preservation. Details of the key products offered under the knee reconstruction portfolio of the Business are listed below:

(i) The EVOLUTION™ Knee system. This system is differentiated through anatomic features that reproduce natural movement and stability, resulting in function more like a healthy knee.

Launched in July 2010, the EVOLUTION™ Medial-Pivot Knee system is based on the ADVANCE® Medial-Pivot Knee. The medial-pivot knee is designed to replicate the movement and stability of a healthy knee by incorporating a patented ball-in-socket feature on the medial side. The EVOLUTION® Knee system builds on over 10 years of excellent clinical history of the ADVANCE® Medical-Pivot system and includes advancements in implant function and fit.

(ii) To offer better implant fit for the patients, the EVOLUTION™ Knee features an expanded number of implant sizes with a more anatomic shape. The sizes and implant shapes were created through analysis of CAT scans from a global sampling of patients. This helps ensure that patients will receive the best implant fit possible. The less-invasive EVOLUTION™ instrumentation is an advancement over traditional total knee instrumentation because it allows the surgeons to fine-tune implant placement.

(iii) To support the EVOLUTION™ Knee, the Business offers the PROPHECY® pre-operative navigation system. The PROPHECY® system enables surgeons to utilize basic CAT or magnetic resonance imagery (MRI) scans to plan precise implant placement and alignment before surgery. Therefore, surgeons are able to envision the results of the operation before it actually occurs. In contrast to utilizing traditional instruments to align the knee during surgery, the PROPHECY® program utilizes computer imaging to develop patient-specific guides that follow the unique curvature of the patient's bone. Its goal is to improve accuracy and decrease patient anesthesia time.

Hip Reconstruction

The Business offers a comprehensive line of products for hip joint reconstruction. This product portfolio provides offerings in the areas of hip resurfacing, total hip reconstruction, implant revision and limb preservation. Additionally, the Business provides a complete line of advanced surface bearing materials, including cross-linked polyethylene and ceramic-on-ceramic articulations, enabling the Business to offer surgeons and their patients a vast expanse of treatment options. Details of the key products offered under the hip reconstruction portfolio of the Business are listed below:

(i) The DYNASTY® acetabular system offers surgeons the benefit of the BFH® technology (large articulation femoral heads) both in metal-on-metal and cross-linked polyethylene options. The DYNASTY® components feature BIOFOAM® cancellous titanium, designed to improve the ability for bone to integrate with the implant.

(ii) The PROFEMUR® hip system offers a variety of options featuring PROFEMUR® cobalt chrome modular necks in addition to traditional fixed necks. The modular necks allow surgeons to more easily perfect leg length and alignment during surgery. The PROFEMUR® hip line includes the PROFEMUR® Z, PROFEMUR® Plasma Z, PROFEMUR® TL, PROFEMUR® XM, PROFEMUR® PRESERVE, PROFEMUR® RENAISSANCE® and GLADIATOR® hips. These implants represent the popular hip implant philosophies in the marketplace so surgeons may utilize modularity without altering implant preference.

(iii) The PATH® and SUPERPATH™ less-invasive surgical techniques. Any of the PROFEMUR® hips may be implanted through the proprietary PATH® and SUPERPATH™ less-invasive surgical techniques. These surgical techniques offer patients more rapid recovery, less pain and blood loss due to a decrease in soft tissue trauma.

ii. Product Development

The R&D department of the Enlarged Group will focus on developing new products in the knee and hip reconstruction areas and on expanding its current product offerings and the markets in which such products are being sold. In addition, the Enlarged Group will maintain close working relationships with physicians and medical personnel in hospitals and universities who assist in product R&D. Realizing that new product offerings are a key to future success, the Enlarged Group is committed to a strong R&D program. In addition, the Business has clinical and regulatory departments devoted to verifying the safety and efficacy of its products according to regulatory standards enforced by the FDA and other international regulatory bodies. The total R&D expenses of the Business for the years ended 31 December 2011 and 2012 were US$17.3 million and US$13.3 million, respectively. The decrease is primarily attributable to decreased spending on R&D activities and clinical studies as the Business has encountered certain inefficiencies associated with the implementation of its enhanced compliance program such as execution delays of the implementation due to shortcomings in communication with physicians and in the timeliness of the ability of the Seller to enter into contracts with the physicians. As the abovementioned execution issues ultimately resulted in a slowdown of the R&D projects, the R&D expenses of the Business therefore recorded a decrease.

R&D activities in the hip and knee reconstruction areas have continued to develop technology and procedures aimed at improving patient satisfaction and function of the products. Efforts continue in the areas of advanced bearing and fixation surfaces which should improve the clinical performance of joint reconstruction devices. Further, the Business has continued to develop and optimize minimally invasive, tissue sparing procedures and instruments that allow patients to quickly return to work and resume their daily activities as well as decreasing the time and cost requirements of the surgical facility.

iii. Manufacturing Facilities and Quality

The headquarters of the Business and its manufacturing facilities are situated in Arlington, Tennessee, U.S.. At this facility, the Enlarged Group will primarily produce orthopaedic implants and some related surgical instrumentation while utilizing lean manufacturing philosophies. The majority of surgical instrumentation required for products manufacturing of the Business is produced to its specifications by qualified subcontractors who serve medical device companies. The Directors believe that the present manufacturing facility of the Business is adequate for its projected needs in the upcoming years.

As at the Latest Practicable Date, the Business maintains a comprehensive quality system that is certified to the European standards ISO 9001 and ISO 13485 and to the Canadian Medical Devices Conformity Assessment System (CMDCAS). The Business has registrations and certifications with the FDA as a medical device establishment which require periodic audits and routine inspections by various regulatory entities to determine if the Business has systems in place to ensure its products are safe and effective for their intended use and that the Business has been complying with applicable regulatory requirements. The Enlarged Group will also perform routine inspections and sample testing to ensure the quality of the products offered by the Business are up to in-house standard.

iv. Procurement and suppliers

The primary raw materials for the production of the reconstructive joint devices include various surgical grades of titanium, cobalt chrome, stainless steel, various grades of high density polyethylenes and ceramics. The Business has relied on a limited number of suppliers for the raw materials used in the production of its products. As at the Latest Practicable Date, the Seller has entered into certain strategic supply agreements with key raw materials and inventory suppliers. The Business has a full time procurement team with 8 employees who are responsible for sourcing all of the operation's raw materials, performing market research on their respective selling prices and maintaining adequate stock from these suppliers to meet market demand.

v. Sales, Marketing and Medical Education

The sales and marketing efforts of the Business are focused primarily on orthopaedic surgeons, who typically are the primary decision-makers in orthopaedic device purchases. The Seller has contractual relationships with surgeons, who help to train other surgeons in the safe and effective use of the products and help other surgeons perfect new surgical techniques. Such contractual relationships will be transferred to the Enlarged Group by way of assignment, where the existing contracts between the Seller and the surgeons will be assigned to the Purchaser or, in the event that an assignment of the contract is not feasible, the Purchaser will enter into new contracts with the surgeons. Such assignment and new contracts will become effective as of the Closing. The Seller also has working relationships with healthcare dealers including group purchasing organizations, healthcare organizations, and integrated distribution networks for sale of its implant products.

The Business offers clinical symposia and seminars, published advertisements and the results of clinical studies in industry publications. It also offers surgeon-to-surgeon education on its products using its surgeon advisors in an instructional capacity. Additionally, approximately 16,000 practicing orthopaedic surgeons in the U.S. receive information on its latest products through its distribution network, its website and brochure mailings.

Products of the Business were sold in the U.S. through a sales force of approximately 150 people as of 31 December 2012. This sales force primarily consists of direct, commission-based sales representatives and distributors or sales agents engaged principally in the business of supplying orthopaedic products to hospitals in their geographic areas.

The products offered by the Business are also marketed internationally through a combination of direct sales offices in certain key international markets and distributors in other markets. The Business has over 18 international subsidiaries located across the following countries: Italy, the United Kingdom, Belgium, France, Germany, the Netherlands, Japan, Canada, Brazil, Costa Rica, and Australia. Some of these subsidiaries support independent sales representatives who sell products throughout the world. The Business employs approximately 100 direct sales employees as of 31 December 2012 through its international subsidiaries. Products are also sold in other countries in Europe, Asia, Africa and Latin America through stocking distribution partners. Stocking distributors purchase products directly from the Business for resale to their local customers, with product ownership generally passing to the distributor upon shipment. As of 31 December 2012, through a combination of its direct sales offices and approximately 80 stocking distribution partners, the Business has approximately 750 international sales representatives who sell products in approximately 60 countries.

vi. Seasonal Nature of the Business

The Business traditionally experiences lower sales volumes in the third quarter than throughout the rest of the year as many of its reconstructive products are used in elective procedures, which generally decline during the summer months, typically resulting in selling, general and administrative expenses and R&D expenses as a percentage of sales that are higher during this period than throughout the rest of the year. In addition, the selling, general and administrative expenses of the Business in the first quarter include additional expenses that it incurs in connection with the annual meeting held by the AAOS. The AAOS meeting, which is the largest orthopaedic meeting in the world, features the presentation of scientific papers and instructional courses for orthopaedic surgeons. During this three-day event, the latest developed and most innovative products would be displayed for the surgeons.

vii. Competition

Competition in the orthopaedic device industry is intense and is characterized by extensive research efforts and rapid technological progress. Competitors include major companies in the orthopaedic and biologics industries, as well as academic institutions and other public and private research organizations that continue to conduct research, seek patent protection and establish arrangements for commercializing products that will compete with the products offered by the Business.

The primary competitive factors which will be faced by the Enlarged Group in relation to the products being offered by the Business include price, quality, innovative design and technical capability, breadth of product line, scale of operations and distribution capabilities. The ability of the Enlarged Group to compete is affected by its ability to:

- develop new products and innovative technologies;
- obtain and maintain regulatory clearance and reimbursement for its products;
- manufacture and sell its products cost-effectively;
- meet all relevant quality standards for its products and their markets;
- respond to competitive pressures specific to each of its geographic markets, including its ability to enforce non-compete agreements;
- protect the proprietary technology of its products and manufacturing processes;
- market its products effectively;
- attract and retain skilled employees and focused sales representatives; and
- maintain and establish stable and long lasting relationships with distributors.

viii. Intellectual Property

As at 31 December 2012, the Seller owns or has licenses to use more than 88 patents and has 53 pending patent applications worldwide related to the Business. All of the Seller's rights to the patents and pending patent applications related to the Business will be assigned or licensed to the Enlarged Group, as applicable, subject to, in the case of licenses, the receipt of any necessary consents from the counterparties to such licenses. It is anticipated that approximately 73 patents and 52 pending patent applications will be assigned to the Enlarged Group and approximately 15 patents and one pending patent application will be licensed to the Enlarged Group. The Enlarged Group seeks to aggressively protect technology, inventions and improvements that it considers important through the use of patents and trade secrets in the U.S. and significant foreign markets.

ix. Employees

As of the Closing Date, approximately 780 personnel will be employed by the Company to operate the Business in the following areas: 430 in manufacturing, 160 in sales and marketing, 155 in administration and 35 in R&D.

x. Liabilities

The Liabilities that the Purchaser is assuming in relation to the Business include (i) post-Closing obligations under contracts with customers, suppliers and distributors, leases and intellectual property licenses relating to the Business; (ii) accounts payable of the Business and other liabilities included in the Net Working Capital; (iii) post-Closing liabilities with respect to the employees of the Business who have accepted the Company's offer of employment; and (iv) all liabilities associated with the products of the Business sold after Closing. Those liabilities that are incurred after signing of the Asset Purchase Agreement but prior to Closing, current patent and product liability litigations and other liabilities associated with the Business prior to Closing are excluded from the Liabilities that the Purchaser is assuming.

(b) Financial Information about the Business

According to the accountants' report as set out in Appendix II to this circular, the net loss/profit before and after taxation of the Business for the financial years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, together with the net assets as at the respective year/period end dates are as follows:

	For the year ended 31 December 2011 *(USD'000)*	**For the year ended 31 December 2012** *(USD'000)*	**For the six months ended 30 June 2013** *(USD'000)*
Net (loss)/profit (before taxation for the year/period)	(28,135)	(10,602)	7,599
Net (loss)/profit (after taxation for the year/period)	(16,434)	(6,562)	4,588
Net assets as at year/period end date	285,901	267,526	272,193

The above financial information included in the accountants' report is prepared in order to present the historical operation of the Business in accordance with the basis of preparation as set out in Note 1(b) of Section B in Appendix II to this circular. Certain items of assets and liabilities included in the above net assets of the Business of US$272.2 million as at 30 June 2013 will not be taken up or recognized by the Company at the Closing Date of the Acquisition. Those items include (i) excluded assets and liabilities, primarily product liability provisions and the corresponding insurance recovery receivable, as specified in the Asset Purchase Agreement together with their deferred tax effect (referred to below as

"**Excluded Assets, Net**"); (ii) pre-existing goodwill of the Business as at 30 June 2013 which is not regarded as a part of the net identifiable assets acquired by the Company; (iii) certain deferred tax assets relating to the temporary differences between the book value and the tax basis of the acquired assets and liabilities of the Business and the cumulative tax losses of the Business as at 30 June 2013 that will no longer be available to the Company upon the completion of the Acquisition primarily due to the change in control of the Business and the change in legal entities owning those relevant assets and based on the directors' assumption that there will be no material book and tax basis differences of the identifiable assets and liabilities acquired in relation to the Business. The carrying amount of net assets of the Business as at 30 June 2013, after deducting the above items, amounted to approximately US$214.6 million (equivalent to approximately RMB1,318 million by applying an exchange rate of US$100 = RMB614.05 as at 30 June 2013). A reconciliation between the carrying amount of net assets of the Business as at 30 June 2013 as set out in the accountants' report in Appendix II to this circular and the carrying amount of the net assets of the Business after deducting the above items (referred to as "**Net Identifiable Assets Acquired**") as at 30 June 2013 is presented below:

	As at 30 June 2013 *USD'000*
Net assets of the Business as at 30 June 2013 as set out in accountants' report	272,193
Less: 1) Excluded Assets, Net *(Note 1)*	(15,750)
2) Pre-existing goodwill *(Note 2)*	(7,428)
3) Adjustment on deferred tax assets *(Note 3)*	(34,375)
Net Identifiable Assets Acquired as at 30 June 2013	214,640

Note 1: See Note 1(b) of Section B of the accountant's report set out in Appendix II to this circular.

Note 2: See Note 5(ii) to the unaudited pro forma financial information set out in Appendix IV to this circular.

Note 3: See Note 3 to the unaudited pro forma financial information set out in Appendix IV to this circular.

7. INFORMATION ON THE PARTIES

(a) Information about the Group

The Group is principally engaged in the development, manufacturing and sale of high-end interventional medical devices internationally. Its portfolio of products covers a wide spectrum of disease types such as cardiovascular, neurovascular, endovascular, electrophysiological, orthopaedic, surgical management, diabetes care and endocrinal management.

The Company, being the guarantor under the Asset Purchase Agreement, is a company incorporated in the Cayman Islands, the Shares of which are listed on the main board of the Stock Exchange.

The Purchaser is a wholly-owned subsidiary of the Company and was established to be the head European office of the Group. The Purchaser mainly engages in the sales and marketing, finance and other administrative functions including managing the Group's international distributors.

MicroPort US is a wholly-owned subsidiary of the Company and is principally engaged in R&D, manufacturing and sale of orthopedics products.

MicroPort Coop is an indirectly wholly-owned subsidiary of the Company and is the management headquarters for the Group's operations in Europe which mainly engages in administrative functions.

(b) Information about the Seller

The Seller is incorporated in the state of Delaware in the U.S. and its shares are listed on the Nasdaq Global Select Market (symbol: WMGI). The Seller and its subsidiaries are principally engaged in the manufacturing and distribution of orthopaedic implants and instruments worldwide. Its portfolio of products primarily includes (i) large joint implants for the hip and knee; (ii) extremity implants for the shoulder, elbow, hand, wrist and foot; and (iii) biologic products such as bone graft substitutes.

8. LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios under Chapter 14 of the Listing Rules exceed(s) 100%, the Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules and is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 of the Listing Rules.

PART B – FINANCIAL ASSISTANCE PROVIDED BY OTSUKA, THE PURCHASE OPTION, THE CONTINUING CONNECTED TRANSACTIONS UNDER THE JAPAN ORTHORECON DISTRIBUTION AGREEMENT AND THE OTSUKA EXPENSE ARRANGEMENT

1. THE CREDIT AGREEMENT

On 15 December 2013, for the purpose of financing the Acquisition, the Company as borrower, and Otsuka, a substantial shareholder of the Company, as lender entered into the Credit Agreement. Pursuant to the Credit Agreement, Otsuka has agreed to provide to the Company certain credit facilities of up to US$200 million (equivalent to approximately HK$1.56 billion). The Facilities are guaranteed by certain subsidiaries of the Company and are secured by the equity interests of certain subsidiaries of the Company and by substantially all of the assets of the Business to be acquired by the Company under the Asset Purchase Agreement.

Date

15 December 2013

Parties

(a) the Company, as borrower;

(b) Otsuka, as the initial lender; and

(c) Otsuka, as the administrative agent and the collateral agent.

The Facilities consist of three (3) tranches, namely, the Term A Loan, the Term B Loan and the Term C Loan. The key terms of the Facilities are as follows:

Term A Loan

Term A Loan:	US$60 million (equivalent to approximately HK$467 million)
Maturity date:	the date falling one (1) year after the date the Term Loans are drawn down

MicroPort Coop, the Company and Otsuka have entered into, as a condition of granting the Facilities, the Purchase Option Agreement, pursuant to which Otsuka shall have the option to purchase the entire equity interests of Wright Japan exercisable at Otsuka's sole discretion at any time during the period beginning 90 days before the maturity of the Term A Loan (which is one (1) year after the drawdown of the Term A Loan) and ending 30 days prior to the maturity date of the Term A Loan at an exercise price of US$60 million. Please refer to the section headed "3. Details of the Purchase Option" below for further details of the Purchase Option.

Term B Loan

Term B Loan:	US$40 million (equivalent to approximately HK$311 million)
Maturity date:	the date falling three (3) years after the date the Term Loans are drawn down

The Term B Loan is convertible at the option of Otsuka in whole or in part, together with accrued and unpaid interest thereon (save that accrued and unpaid interest in excess of US$2 million will be paid in cash and not be converted), into Shares at any time during the Conversion Period. Please refer to paragraph headed "The Conversion Option for Term B Loan" below for further details of the conversion option.

Term C Loan

Term C Loan:	US$100 million (equivalent to approximately HK$778 million)
Maturity date:	the date falling one (1) year after the date the Term Loans are drawn down

Interest Rate

Each Term Loan bears interest on the outstanding principal amount thereof at a rate equal to LIBOR plus 1% per annum. The default rate of interest is 14% per annum. Interest is payable on the last day of each six-month period which commences on the date of the disbursement of any of the Term Loan.

Prepayment

The Company may voluntarily prepay the Term C Loan in whole or in part, without premium or penalty. Any prepayment shall be in a principal amount of US$5 million or a whole multiple of US$1 million in excess thereof, or if less, the entire principal amount thereof then outstanding. Any prepayment of the Term C Loan shall be accompanied by all accrued interest on the amount prepaid to the date of prepayment, together with any additional amounts required by any Lender for breakage costs.

The Company is required to pay to the Lenders standard breakage costs under the Credit Agreement, consisting of losses, costs and expenses actually and directly incurred by the Lenders as a result of:

(i) any payment of any Term Loan being made on a day other than the last day of the interest period (except for a prepayment upon the exercise of the Purchase Option); or

(ii) any failure by the Company to prepay or borrow any Term Loan on the date or in the amount notified by the Company.

No voluntary prepayments are permitted in relation to any of the Term A Loan or the Term B Loan.

Mandatory Prepayments

The Lenders can require that the Company prepay the Term Loans in the following amounts upon the occurrence of the following events (with the Term C Loan being prepaid first):

(i) the net cash proceeds of certain dispositions by the Company or any of its subsidiaries of property or assets, where such proceeds exceed US$250,000, except where the proceeds will be used to replace such property or assets;

(ii) the net cash proceeds of equity issuances of the Company or its subsidiaries, other than issuances to (A) the Company or any of its subsidiaries or (B) any director, officer or employee of the Company or its subsidiaries where the number of shares so issued is less than 5% of the issued share capital of the Company as of the Closing Date;

(iii) the proceeds of certain indebtedness incurred by the Company or its subsidiaries, where such proceeds exceed US$250,000; and

(iv) any net cash proceeds received by the Company or its subsidiaries that are not received or generated in the ordinary course of business, where such proceeds exceeds US$250,000, except where the proceeds are used to rectify or address any issues giving rise to such proceeds.

Conditions Precedent

The obligations of Otsuka to provide the Term Loans are subject to fulfillment of various conditions precedent, including but not limited to:

(i) Closing of the Acquisition;

(ii) there shall have been no breach of (1) any representation or warranty in the Asset Purchase Agreement by the Seller that would result in the failure of the closing condition of the Seller under the Asset Purchase Agreement to be satisfied such that the Purchaser may terminate the Asset Purchase Agreement; or (2) certain customary representations and warranties in the Credit Agreement;

(iii) the Company and each guarantor shall be in compliance in all material respects with all the terms and provisions set forth in the Credit Agreement, the ancillary guarantee and security agreements, the Purchase Option Agreement and none of the major events of defaults shall have occurred and be continuing;

(iv) there has not, since 31 December 2012, occurred any event which has had or could reasonably be expected to have a Material Adverse Effect, or pose a material issue from a legal or regulatory perspective, or cause any material tax implication;

(v) the pro forma consolidated EBITDA for the Company and the Business for the latest 12-month period ending more than 15 days prior to the Closing Date shall not be less than US$50 million, and the pro forma consolidated EBITDA for the Business for the latest 12-month period ending more than 15 days prior to the Closing Date shall not be less than US$20 million; and

(vi) the approval of listing and permission to deal in the Conversion Shares having been granted by the Listing Committee of the Stock Exchange and such approval having not been withdrawn or revoked.

Events of default

The Credit Agreement contains customary warranties, covenants and events of default. The breach of the warranties or covenants or occurrence of the other events of default will entitle the Lenders to declare all or any portion of the unpaid principal amount of all outstanding Facilities, all interest accrued and unpaid thereon, and all other amounts owing or payable thereunder to be immediately due and payable and to exercise remedies in respect of the collateral for the Facilities.

In addition, an event of default will occur in the event that there is a change of control of the Company. For these purposes, a change of control is defined as:

(i) any person (or group of persons acting in concert), other than Otsuka, any person directly or indirectly obtaining equity interests in the Company from Otsuka, any Term B Lender or any person acting in concert with any of them, becoming the holder or beneficial owner of Shares in the Company representing more than 30% of the voting rights in the Company as a result of acquiring shares in the Company: (1) pursuant to an offer governed by and made in accordance with the Hong Kong Takeovers Code by that person or any member of such group, or (2) in any other manner where such acquisition results in that person or group being obliged to make an offer for Shares in the Company pursuant to Rule 26.1 of the Hong Kong Takeovers Code;

(ii) during any period of 12 consecutive months, a majority of the members of the Board or other equivalent governing body of the Company ceases to be composed of individuals (1) who were members of that Board or equivalent governing body on the first day of such period; (2) whose election or nomination to that Board or equivalent governing body was approved by individuals referred to in (1) above constituting at the time of such election or nomination at least a majority of that Board or equivalent governing body; or (3) whose election or nomination to that Board or other equivalent governing body was approved by individuals referred to in clauses (1) and (2) above constituting at the time of such election or nomination at least a majority of that Board or equivalent governing body (excluding, in the case of both clause (2) and clause (3), any individual whose initial nomination for, or assumption of office as, a member of that Board or equivalent governing body occurs as a result of an actual or threatened solicitation of proxies or consents for the election or removal of one or more directors by any person or group other than a solicitation for the election of one or more directors by or on behalf of the board of directors), provided that (A) the resignation of any Director and subsequent re-election by the Shareholders at a general meeting in order to comply with the articles of association of the Company shall be disregarded; and (B) any appointment or removal of a Director where Otsuka has voted for the appointment or removal (or where a Director of the Company who represents Otsuka has voted for the appointment or removal) shall be disregarded if it causes a change of control which would otherwise not have occurred;

(iii) any person or two or more persons acting in concert shall have acquired the power to direct or cause the direction of the management or policies of the Company, whether through the ability to exercise voting power, by contract or otherwise; or

(iv) Otsuka's shareholding in the Company represents less than 25% of the equity interests of the Company for any reason other than as a result of sales by Otsuka provided, that the following shall be disregarded in calculating such shareholding: (1) any issuance of equity interests, the net cash proceeds of which are used to repay the Term A Loan and/or the Term C Loan and (2) any equity interests held by any director, officer or employee of the Company or its subsidiaries.

(The terms "offer" and "voting rights" shall have the meanings given to them in the Hong Kong Takeovers Code and persons shall be regarded as acting in concert with one another if they are presumed (unless such presumption is rebutted) to be acting in concert pursuant to the Hong Kong Takeovers Code or if the Executive (as defined in the Hong Kong Takeovers Code) determines them to be in concert.)

Other events of default include, but are not limited to, the following:

(i) the Company or any of its direct or indirect subsidiaries (1) does not make any payment when due for indebtedness of more than US$1,000,000 (other than the Facilities); (2) does not perform any other agreement relating to indebtedness of more than US$1,000,000, or any other event occurs, and as a result thereof the indebtedness comes due or is capable of being declared due or cash collateral for such indebtedness may be required; or (iii) is the defaulting party under a swap contract or is the affected party with respect to a termination event under a swap contract and the termination payment it owes as a result thereof exceeds US$1,000,000;

(ii) certain subsidiaries of the Company breach any of the Credit Agreement, the associated guarantee and collateral documents, the Purchase Option Agreement, the License Agreement or the Japan OrthoRecon Distribution Agreement, and such breach (in the case of non-payment related and certain other specified breaches) is not remedied for 30 days after knowledge or notice of such breach; or

(iii) there occurs, in the reasonable judgment of the Lenders holding at least 66-2/3% of all Term Loans, any event that has had a material adverse effect upon (1) the operations, business, properties, liabilities, condition of the Company and the guarantors taken as a whole; (2) the ability of any of the Company and the guarantors to perform its obligations under any of the Credit Agreement, the ancillary guarantee and security agreements and the Purchase Option Agreement; or (3) the legality, validity, binding effect or

enforceability against the Company and the guarantors of any of the Credit Agreement, the ancillary guarantee and security agreements and the Purchase Option Agreement.

Undertakings

The Company has given various covenants to the Lenders regulating the conduct of the Group's business whilst any amount remains outstanding in respect of any of the Term Loans. The covenants in the Credit Agreement consist of affirmative covenants and negative covenants. The affirmative covenants are that the Company shall, and shall (except in the case of (i), (ii) and (iv) below) cause each of its subsidiaries to:

(i) deliver certain financial statements, financial information and projections to the administrative agent and each Lender;

(ii) deliver certain certificates, reports and additional information as specified in the Credit Agreement to the administrative agent;

(iii) not establish any employee benefit plan that is covered by Title IV of the United States Employee Retirement Income Security Act of 1974;

(iv) notify the administrative agent of (1) the occurrence of any default, (2) any matter that would result in a material adverse effect, and (3) any material change in accounting policies or financial reporting practices;

(v) pay (1) all uncontested tax liabilities, (2) all uncontested, lawful claims, and (3) all other obligations and liabilities except to the extent the failure to pay would not have a material adverse effect;

(vi) maintain its legal existence and good standing in the jurisdiction of its incorporation;

(vii) maintain all necessary permits, patents and trademarks and its properties and equipment, except where the failure to do so could not have a material adverse effect;

(viii) maintain customary insurance with respect to its properties and business;

(ix) comply in all respects with the requirements of all laws, except where being contested or where the failure to comply would not have a material adverse effect;

(x) maintain proper records and accounts in conformity with HKFRS and all applicable governmental authority requirements;

(xi) allow the Lenders and their agents to conduct inspections and audits;

(xii) use the proceeds of the Term Loans to effect the Acquisition and pay related fees and expenses;

(xiii) notify the administrative agent when any person becomes a material subsidiary and, subject to certain limitations in the Credit Agreement, cause such subsidiary to become a guarantor;

(xiv) upon request by a Lender or any of its agents, (1) correct any material defect in any loan document, and (2) take any further action as reasonably required to grant or protect more effectively such person's rights under any loan document;

(xv) take actions necessary to create and perfect security interests in the collateral acquired after the Closing Date;

(xvi) promptly after any person incorporated in the U.S. becomes a material subsidiary, grant a lien over its equity interests and assets;

(xvii) as soon as reasonably practical after the administrative agent requests, grant a lien over the equity interests and assets of any material subsidiary incorporated outside the U.S. or any European subsidiary that owns part of the Business;

(xviii) maintain, perform and enforce its rights under each of its material contracts, except where the failure to do so would not have a material adverse effect;

(xix) cause the obligations evidenced by the loan documents to rank at least pari passu with all other unsecured and unsubordinated indebtedness of the Company and the guarantors;

(xx) demonstrate, no later than two (2) months prior to the maturity date of the Term C Loan, that the Company has secured sufficient funds to refinance the Term C Loan, and apply the funds so procured to the repayment of the Term C Loan;

(xxi) carry out certain post-closing obligations relating to the collateral documents including obtaining the required governmental approvals in relation to the pledge of equity interests in MP Shanghai; and

(xxii) provide the administrative agent information required for screening to identify organized crime groups.

The negative covenants are that the Company shall not, nor shall it permit any of its subsidiaries to:

(i) create any lien upon any of its property, assets or revenues, other than liens permitted under the Credit Agreement;

(ii) create, incur, assume or suffer to exist any indebtedness, other than indebtedness permitted under the Credit Agreement;

(iii) merge or consolidate with or into another person, or liquidate or dissolve, or dispose of all or substantially all of its assets, other than as permitted under the Credit Agreement;

(iv) make any investments, except investments permitted under the Credit Agreement;

(v) dispose of assets, except dispositions permitted under the Credit Agreement;

(vi) declare or make any dividend or other distribution with respect to any shares or any payment on account of the cancellation of any shares, or incur any obligation to do so, or issue or sell any equity interests or accept any capital contributions, except as permitted under the Credit Agreement;

(vii) engage in any material line of business substantially different from those lines of business conducted by the Company and its subsidiaries on the Closing Date;

(viii) enter into any transaction of any kind with any affiliate of either the Company or a guarantor, other than on fair and reasonable terms substantially as favourable to the Company or the relevant guarantor as in a comparable arm's length transaction, except as permitted under the Credit Agreement;

(ix) enter into any contractual obligation that limits the ability (1) of any subsidiary to make restricted payments to, transfer property to, or invest in, the Company or any guarantor, (2) of any subsidiary to guarantee the indebtedness of the Company, or (3) of the Company or any subsidiary to create or incur liens on the property of such person, except, in each case, as permitted under the Credit Agreement;

(x) prepay or satisfy prior to the scheduled maturity, or make any payment in violation of any subordination terms of, any indebtedness, except as permitted under the Credit Agreement;

(xi) use the proceeds of any borrowing of Term Loans to purchase or carry margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System of the United States) or extend credit, or refund indebtedness incurred, for purchasing margin stock;

(xii) make any change in its accounting policies or reporting practices or fiscal year, except in each case as required by generally accepted accounting principles, HKFRS or applicable law;

(xiii) amend, modify, terminate or waive and of its rights under its organizational documents, any Acquisition documents, or any material contract, if such action would result in a material adverse effect;

(xiv) be classified as an organized crime group; and

(xv) be an employer of an occupational pension scheme which is not a purchase money scheme, except for any company acquired pursuant to the Acquisition.

The covenants, undertakings and events of default provided under the Credit Agreement are, in general, typical for acquisition financings of this nature, and are required by the Lenders to (i) ensure that they do not maintain credit exposure to the Company after a third party takes control of the Company and changes the composition of the majority of the Board and (ii) reduce the risk that the Company will conduct activities that the Lenders believe will reduce the Company's ability to repay the Term Loans. The Board therefore considers that the covenants, undertakings and events of default provided under the Credit Agreement are on normal commercial terms, and taken together, are fair and reasonable and in the interests of the Shareholders as a whole.

Upon repayment of the Term A Loan and the Term C Loan, and provided no event of default has occurred (or will with the passage of time occur), certain negative covenants that limit the Company's activities will be eliminated or significantly reduced while only the Term B Loan remains outstanding, as follows:

(i) the restriction on creating liens will be modified to allow for the creation of liens over any assets other than the U.S. portion of the Business;

(ii) the restriction on incurring indebtedness will be modified to allow the incurrence of at least US$200,000,000 of indebtedness;

(iii) the restriction on making investments will be completely eliminated;

(iv) the restriction on disposing of assets will be modified to allow dispositions of up to US$25,000,000 in the aggregate (in addition to other standard permitted dispositions); and

(v) the restriction on subsidiaries of the Company accepting capital contributions will terminate.

Guarantee and Security of the Facilities and Purchase Option Agreement

The Facilities, and the obligations of the Company and MicroPort Coop under the Purchase Option Agreement, are guaranteed by the following subsidiaries of the Company: (1) MicroPort Orthopedics Holdings Inc., (2) MicroPort US, (3) MicroPort Direct LLC, (4) Wright Japan, (5) MicroPort Orthopedics Corporation, (6) MicroPort Coop, (7) MicroPort Orthopedics NV, (8) MicroPort Orthopedics B.V., (9) MicroPort

Orthopedics Limited, (10) MicroPort Orthopedics GmbH, (11) MicroPort Medical Limited, and (12) Leader City Limited. The Facilities, and the obligations of the Company and MicroPort Coop under the Purchase Option Agreement, are secured by (i) the assets of MicroPort Orthopedics Holdings Inc., MicroPort US and MicroPort Direct LLC; (ii) the real property owned by MicroPort US; (iii) the equity interests in MicroPort Coop, MicroPort Orthopedics Holdings Inc., MicroPort US, MicroPort Direct LLC, MP Shanghai, Wright Japan, MicroPort Orthopedics SAS, MicroPort Orthopedics SRL, MicroPort Orthopedics NV, MicroPort Orthopedics Limited and MicroPort Orthopedics GmbH; and (iv) all right, title and interest in certain assets held by Wright Japan. The approximate total value of the collateral (including the underlying assets, where a security interest is granted in the equity interest of the subsidiary owning such assets, but apart from the value of the equity pledge over MP Shanghai) is US$312 million based on the unaudited consolidated management accounts of the Business as at 31 December 2012 prepared in accordance with US GAAP. The approximate value of the equity pledge over MP Shanghai is RMB 1,809 million based on the consolidated management accounts of MP Shanghai as at 31 December 2012 prepared in accordance with IFRS. The security arrangements for the Term Loans are standard as compared to other acquisition financings of this nature, and are required by the Lenders in order to reduce their risk exposure and to provide an adequate level of protection against the Company's default. It is therefore considered by the Board that such arrangement is fair and reasonable and in the interests of the Shareholders as a whole.

Upon repayment of the Term A Loan and the Term C Loan, and provided no event of default has occurred (or will with the passage of time occur), liens on the assets of the Company and its subsidiaries will be released, except for liens over the assets located in the U.S. constituting the Business and the equity interests in any entity owning such assets. Such remaining liens are to secure the amount of the Term B Loan that will remain outstanding and the obligations of the Company and MicroPort Coop under the Purchase Option Agreement. The approximate value of the assets located in the U.S. constituting the Business is US$246,000,000 based on the unaudited consolidated management accounts of the Business as at 31 December 2012 prepared in accordance with US GAAP. The accounts receivable generated from the U.S. portion of the Business, which is approximately US$29,000,000 based on the unaudited consolidated management accounts of the Business as at 31 December 2012, will be included in the Lenders' collateral package.

The Company will need to refinance the Term C Loan and, if Otsuka does not exercise the Purchase Option, the amount of the Term A Loan at any time prior to their maturity at the end of one (1) year after they are drawn down upon Closing of the Acquisition. The Company will also need to secure the financing for refinancing of the Term C Loan no later than 10 months after drawdown as a result of the undertaking that it has provided as referred to under the section headed "The Credit Agreement – Undertakings". However, the security arrangements applicable to the Term B Loan and the Purchase Option Agreement may adversely affect the Company's ability to refinance the Term A Loan and/or the Term C Loan with bank loans and the Company may need to consider alternative means of refinancing those Term Loans.

Assignment of Term Loans

After drawdown of the Term Loans, Otsuka may assign the whole or any part of the Term A Loan or the Term C Loan. The Term B Loan may not be assigned in whole or in part.

The Conversion Option for Term B Loan

A summary of the conversion mechanics is set out below:

Conversion Right

(i) Otsuka, as the Term B Lender, has the right to convert the outstanding principal amount of the Term B Loan, in whole or in part, together with accrued and unpaid interest thereon into Conversion Shares. The Conversion Right may be exercised on more than one occasion and at any time during the Conversion Period, provided that:

(a) in the event that the Conversion Date falls on a date which is on or prior to the date which is two (2) years after the Closing Date, the Shares issuable upon exercise of the Conversion Right, when aggregated with all Conversion Shares previously issued, shall not exceed two (2) percent of the number of Shares in issue on the Conversion Date;

(b) no conversion notice shall be deposited after the date which is 30 days before the expiry of the Conversion Period, but any conversion notice may specify a Conversion Date that is on or after such date;

(c) to the extent that the amount of accrued but unpaid interest exceeds US$2,000,000, the excess will not be converted but will be paid by the Company to the Term B Lender on the Conversion Date;

(d) if the Conversion Right is exercised in respect of part only of the Term B Loan, it shall be for a minimum principal amount of US$1 million; and

(e) no Shares issuable upon exercise of the Conversion Right shall be issued during any restricted periods applicable to an issue of Shares to the Term B Lender as prescribed under any applicable laws or regulations, in which case the Conversion Date in respect of such Shares shall be automatically postponed to the trading date immediately after the expiry of the relevant restricted period.

(ii) The number of Conversion Shares to be issued upon exercise of the Conversion Right shall be determined by dividing the principal amount of the Term B Loan to be converted together (subject to (i)(c) above) with accrued and unpaid interest up to (but excluding) the Conversion Date on such amount, by the Conversion Price in effect at the Conversion Date.

(iii) Fractions of Shares will not be issued on conversion, but will be rounded down and the principal and/or interest represented thereby will be paid out if over US$100 in aggregate.

(iv) If any part of the Term B Loan has become due and payable prior to the maturity date of the Term B Loan due to an occurrence of an event of default under the Credit Agreement or any part of the Term B Loan is not repaid when due, the Conversion Right attaching to the relevant part of the Term B Loan will revive and/or will continue to be exercisable up until the indefeasible payment in full of the relevant part of the Term B Loan.

Conversion Price and Adjustments to Conversion Price

The Conversion Price was determined after arm's length negotiations between the parties and is based on the average closing price of the Shares of the Company for the fifteen consecutive trading days commencing on the date on which the Announcement of the Company with respect to the Acquisition was made, plus 10% premium. The Company announced on 17 July 2013 that the average closing price of the Shares of the Company as quoted on the Stock Exchange for the fifteen consecutive trading days from the date of the Announcement with respect to the Acquisition on 26 June 2013 to and including 17 July 2013 was HK$6.22 per Share. After applying the 10% premium and being converted into US dollars at a mutually agreed fixed rate of US$1 = HK$7.775, this results in the Conversion Price of US$0.8800 per Conversion Share (subject to adjustment, from time to time, in the manner set forth below). As such, the Directors consider that the initial Conversion Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Conversion Price is subject to customary anti-dilution adjustments including, without limitation:

(i) dividends and other distributions by the Company;

(ii) consolidation, subdivision or reclassification;

(iii) capitalization of profits or reserves;

(iv) rights issues of Shares, rights to subscribe for Shares and other securities;

(v) issuance of new Shares or rights in respect of new Shares at less than the prevailing market price;

(vi) modification of rights of conversion;

(vii) demergers and spin-offs; and

(viii) other offers to the Shareholders of the Company.

Conversion Shares

The Conversion Shares will be fully paid, free from any liens or other third-party rights and such shares will rank pari passu in all respects with all other Shares in issue on the Conversion Date, except that they will not participate in any distribution for which the record date falls before the Conversion Date.

Application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares to be issued upon the exercise of the Conversion Right.

Based on the initial Conversion Price of US$0.8800 per Conversion Share, a maximum number of 47,727,272 Conversion Shares will be allotted and issued upon exercise of the Conversion Right in full (subject to adjustments from time to time and assuming the accrued and unpaid interest to be converted is equivalent to the maximum of US$2 million, which the Directors consider is unlikely to occur). This represents: (i) approximately 3.39% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 3.28% of the issued share capital of the Company as enlarged by the issuance of the Conversion Shares in full.

Other costs

Under the Credit Agreement, the Company is required to pay for (i) all out-of-pocket expenses reasonably incurred by Otsuka and its affiliates (including without limitation, fees, charges and disbursements of any outside counsel or advisor for appraisal, consulting, audit and any other services, and costs of printing, reproduction, document delivery, travel, communication and publicity) in connection with the preparation, review, negotiation, execution, delivery and implementation of the Credit Agreement, the associated guarantee and collateral documents, and the administration, amendment, modification or waiver thereof (whether or not the transactions contemplated thereunder shall be consummated); (ii) out-of-pocket expenses incurred by Otsuka or any Lender in connection with the enforcement or protection of its rights in connection with the Credit Agreement, the associated guarantee and collateral documents, or in connection with the Term Loans made under the Credit Agreement, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of the Term Loans; and (iii) all of the costs and expenses associated with the perfection of the security contemplated by the Credit Agreement, the associated guarantee and collateral documents. The parties have agreed to cap the maximum amount of out-of-pocket expenses reasonably incurred by Otsuka and its affiliates and reimbursed by the Company in connection with, amongst other things, the preparation, review, negotiation, execution, delivery and implementation of the commitment letter of the Facilities, the Credit Agreement, the associated guarantee and collateral documents, the Purchase Option Agreement, the License Agreement, the Japan OrthoRecon Distribution Agreement and the Expense Arrangement Side Letter (but excluding any costs and expenses payable in connection with the enforcement and protection of Otsuka's rights under the commitment letter of the Facilities, the Credit Agreement, the associated guarantee and collateral documents,

the Purchase Option Agreement, the License Agreement, the Japan OrthoRecon Distribution Agreement and the Expense Arrangement Side Letter) at US$7 million (equivalent to approximately HK$54.46 million).

2. REASONS FOR AND BENEFITS OF THE FACILITIES

To finance the Acquisition, the Company plans to use approximately US$90 million of cash from its existing cash resources, with the remaining US$200 million being provided from the Facilities to be provided by Otsuka.

In deciding to raise the US$200 million by way of the Facilities to be provided by Otsuka, the Directors took into account factors such as cost of capital, certainty of financing, dilution to shareholders, and ability to refinance. The Directors considered it appropriate to seek a one-year term financing from Otsuka because during the bidding process for the Acquisition, which was undertaken in a very short timescale, the Company was required to present to the board of the Seller evidence that external financing was available to the Purchaser. Apart from the financing proposal provided by Otsuka, the Purchaser sought from investment banks financing proposals to provide the required financing for the Acquisition and such proposals were in the form of bridge loan, bank debt and high yield debt. Given that the amount of time involved to raise bank debt and high yield debt is substantial and that there is no certainty that the Group would be able to secure such financing on terms that are acceptable to the Board, those options therefore, do not and did not meet the Purchaser's financing needs. The Purchaser also considered the terms of bridge loan offered by a banking institution but the financial cost offered was much higher than that available under the Term Loans, with a proposed transaction fee of approximately US$12 million, an interest rate of LIBOR plus 3% and a one-year maturity term. Given the abovementioned rationales, the Board considered that the financing proposal provided by Otsuka is the most suitable out of all available options. The Company therefore plans to re-finance the Term A Loan and the Term C Loan with a banking institution or through the public debt market for a loan with a longer term and more attractive cost of capital upon the maturity date of such Loans.

The Directors believe that the Facilities, including the grant of the Purchase Option, are in the best interests of the Company and its Shareholders as a whole, for the following reasons:

(a) Provision of financing that will allow for the Closing of the Acquisition

The Company has entered into the Asset Purchase Agreement pursuant to which the Company is required to pay US$290 million to the Seller to acquire the Business. The Facilities provide the Company with sufficient funding for the Acquisition under the Asset Purchase Agreement, taking into account the Company's existing cash resources.

(b) Attractive Cost of Capital

The Facilities offer the Company the most attractive cost of capital for the 12 months following Closing of the Acquisition. Assuming the US$200 million principal amount of the Term Loans and an interest rate of 1.0% plus LIBOR (at an assumed rate of 0.4% per annum) for each of the Term Loans, the first year interest expense the Company would have to pay is approximately US$2.8 million. The Company has announced in its interim results for the six months ended 30 June 2013 that the Group recorded a 13% decrease in turnover and a decrease of 59% in the net profit as compared to the same period last year. This result will create uncertainty with external financing groups in their ability to commit to our required financing amounts at an attractive cost of capital. Compared with other financing alternatives the Company considered, the Company concluded that this interest expense was the lowest amount achievable and therefore the best alternative for the Company at this time. The Company believes that it will be in a better position prior to the maturity of the Term A Loan and the Term C Loan to access the capital markets to refinance at more attractive interest rates than current market conditions would allow the Company to achieve (although the Company will need to secure the financing for refinancing of the Term C Loan no later than 10 months after drawdown as a result of the undertaking that it has provided as referred to under the section headed "The Credit Agreement – Undertakings").

(c) Greater Certainty of Financing

Otsuka has been a Shareholder of the Company for over eight years and is currently the largest Shareholder holding approximately 33.29% of the issued share capital of the Company as of the Latest Practicable Date. Two representatives of Otsuka are Directors of the Company. Due to Otsuka's long-term ownership holding and Board representation, Otsuka has witnessed the Company grow and evolve over the years into the global business that it is today. Otsuka has been involved with all of the Company's important strategic decisions. In deciding to negotiate the Facilities with Otsuka, the Directors believed that, owing to Otsuka's familiarity with the Company, the financing documentation process would be more efficient with a greater certainty of securing the financing at attractive terms and allow the Company to not have to endure and depend on volatile market conditions to secure the financing required to close the Acquisition.

(d) Minimal Dilution to Shareholders

Subject to the terms and conditions of the Facilities, the Company will issue to Otsuka up to 47,727,272 Conversion Shares (subject to adjustments) representing as at the Latest Practicable Date (i) approximately 3.39% of the existing issued share capital of the Company, and (ii) approximately 3.28% of the issued share capital of the Company as enlarged by the issuance of the Conversion Shares in full, if Otsuka exercises the Conversion Right attaching to the Term B Loan in full. The Company agreed to this conversion option in order to optimize the debt capacity of the Enlarged Group.

(e) Ability to refinance

Based on the terms of the Credit Agreement, the Company will be allowed to refinance the Term C Loan at any time prior to its maturity at the end of one (1) year. If Otsuka exercises the Purchase Option, the Company will realize US$60 million in proceeds from Otsuka to repay the Term A Loan. Alternatively, if Otsuka does not exercise its Purchase Option, the Company will have to seek external financing to repay the Term A Loan, as well as the Term C Loan. The Company believes that it will be in a position to refinance either the US$100 million for the Term C Loan or the combined amount of US$160 million for the Term A Loan and the Term C Loan when they become due one (1) year after they are drawn down upon Closing of the Acquisition. There can however be no assurances that the Company will be able to refinance at a cost of capital or on terms that are equal to or better than the Facilities to be provided by Otsuka.

The Company is not permitted to prepay any portion of the US$40 million convertible Term B Loan prior to its three-year maturity. Given the interest rate on the Term B Loan of 1.0% above LIBOR (and assuming LIBOR at 0.4% per annum), the anticipated interest expense for the Term B Loan over the three (3) years will be approximately US$1.7 million. The Company does not expect that the inability to prepay the Term B Loan will have any material impact on its operations.

The Company will need to refinance the Term C Loan and, if Otsuka does not exercise the Purchase Option, the amount of the Term A Loan at their maturity at the end of one (1) year after they are drawn down upon closing of the Acquisition. However, the security arrangements applicable to the Term B Loan and the Purchase Option Agreement may adversely affect the Company's ability to refinance the Term A Loan and/or the Term C Loan with bank loans and the Company may need to consider alternative means of refinancing those Term Loans.

3. DETAILS OF THE PURCHASE OPTION

The Purchase Option Agreement is entered into among the Company, MicroPort Coop, an indirectly wholly-owned subsidiary of the Company, as the seller, and Otsuka as the buyer on 15 December 2013. The Company is a party for the purpose of guaranteeing MicroPort Coop's obligations under the agreement. Pursuant to the agreement, MicroPort Coop has agreed to grant to Otsuka the option to acquire the entire equity interests of Wright Japan at an exercise price of US$60 million (equivalent to approximately HK$467 million). The price of the option itself is US$1. Otsuka can exercise this option, in whole and not in part, at any time during the period beginning 90 days prior to the maturity date of the Term A Loan (which is one (1) year after the drawdown of the Term A Loan) and ending 30 days prior to the maturity date of the Term A Loan. Otsuka's obligation to pay the exercise price will be set off against an equivalent amount of principal and/or accrued and unpaid interest owing to Otsuka and/or its affiliates in respect of the Term A Loan. Any principal and/or accrued and unpaid interest not set-off will remain payable in accordance with the Credit Agreement. If Otsuka elects not to exercise the option, the full amount of the Term A Loan and any accrued and unpaid interest will be due and payable on the maturity date of the Term A Loan in accordance with the Credit Agreement.

The Purchase Option Agreement contains customary operating covenants, representations and warranties. MicroPort Coop has agreed to indemnify Otsuka for breaches of covenants, representations and warranties. Representations and warranties will survive for 18 months after the exercise of the Purchase Option and MicroPort Coop's liability will be capped at US$18 million (equivalent to approximately HK$140 million). The Purchase Option Agreement is non-assignable and non-transferrable and is governed by Hong Kong law.

Under the Purchase Option Agreement, MicroPort Coop and the Company have to comply with certain ongoing obligations as follows:

(i) Otsuka was granted certain rights by MicroPort Coop to conduct a thorough due diligence review of Wright Japan and its business, subject to, prior to the Closing Date, the rights and obligations of the Seller under the Asset Purchase Agreement;

(ii) until the earlier of completion of the exercise of the option or the expiry of the option period, MicroPort Coop shall not sell, transfer or dispose any interest in any of the equity interests of Wright Japan or any right attaching to such equity interest; and

(iii) in addition, various actions of Wright Japan require the prior consent of Otsuka (such consent shall not be unreasonably withheld, conditioned or delayed), including: acquisition or disposal of any revenues, assets, business or undertakings (except in normal course of business) or to assume any liability and obligation (except in normal course of business); make capital expenditure or incur a commitment involving capital expenditure exceeding in total US$5,500,000; declare, pay or make any dividend or distribution; create encumbrance over the properties or another asset or redeem an existing encumbrance over the properties or another asset; enter into long term, onerous, unusual or material agreement, arrangement or obligation involving consideration, expenditure or liabilities in excess of US$4,000,000; amend or terminate material agreement to which it is a party or terminate any contract or commitment which is not capable of being terminated without compensation or which is not in the usual course of its business or which involves or may involve total annual expenditure of US$4,000,000; give a guarantee, indemnity or other agreement to secure, or incur financial obligations with respect to, another person's obligation; and compromise or settle litigation or arbitration proceedings or any action, demand or dispute or waive a right in relation to litigation or arbitration proceedings.

The obligations of the Company and MicroPort Coop under the Purchase Option Agreement are guaranteed and secured by the same guarantees and security given in relation to the Facilities (see the section of this letter headed "Guarantee and Security of the Facilities and Purchase Option Agreement" for further details).

The grant of the option to Otsuka under the Purchase Option Agreement is subject to the completion of the Acquisition and to the Independent Shareholders' approval. If Otsuka exercises the Purchase Option, the Company will cease to hold any equity interest of Wright Japan upon completion of such exercise.

Pursuant to Rule 14.74(2) of the Listing Rules, the Company will make an announcement on the exercise of the Purchase Option by Otsuka as soon as reasonably practicable in accordance with the Listing Rules requirements.

The US$60 million exercise price of the Purchase Option was derived primarily by taking into consideration the revenue contribution of Wright Japan relative to the overall Business to be acquired by the Company under the Asset Purchase Agreement, which is approximately 20%. By applying this 20% contribution to the overall purchase price of US$290 million, the Company arrived at a purchase price of US$60 million. The US$60 million exercise price also assumes that Otsuka will exercise its right to take up the license available to it under the License Agreement and that, in due course, it will start developing and manufacturing certain products itself for sale in Japan, instead of the Enlarged Group developing and manufacturing those products and Otsuka distributing them under the Japan OrthoRecon Distribution Agreement. If Wright Japan were to develop and manufacture its own products (whether pursuant to the License Agreement or otherwise), it would have to bear the costs associated with the research, development and/or manufacture of products and those would be reflected in the financial statements of Wright Japan and could be used for valuation purposes; however because Wright Japan is currently just a distributor such costs are not available and the Company does therefore not believe that using an operating profit metric is appropriate for valuation purposes.

The Company is required to reimburse Otsuka for (i) all out-of-pocket expenses reasonably incurred by Otsuka and its affiliates (including without limitation, fees, charges and disbursements of any outside counsel or advisor for appraisal, consulting, audit and any other services, and costs of printing, reproduction, document delivery, travel, communication and publicity) in connection with the preparation, review, negotiation, execution and delivery of the Purchase Option Agreement, and the administration, amendment, modification or waiver thereof (whether or not the transactions contemplated thereunder shall be consummated); and (ii) all out-of-pocket expenses incurred by Otsuka in connection with the implementation (including the due diligence review of Wright Japan), enforcement or protection of its rights in connection with the Purchase Option Agreement. Any stamp duty, excise, sales, transfer and other similar taxes payable in connection with the transfer of the equity interests of Wright Japan following the exercise of the Purchase Option shall be shared equally by MicroPort Coop and Otsuka.

The License Agreement

MicroPort US and Otsuka have also entered into the License Agreement concurrently with the execution of the Purchase Option Agreement on 15 December 2013. In connection with the Purchase Option Agreement and conditional upon and until effective from completion of Otsuka's exercise of the Purchase Option, MicroPort US will grant to Otsuka, for no additional fee, a perpetual, fully paid-up, royalty-free, non-transferable and non-sublicensable (save as provided below), exclusive license to make, have made, use, sell, offer for sale, import any and all products, services and technologies, and otherwise practise, use, develop, improve, reproduce, distribute, make derivative works of, display, perform, market, commercialize and otherwise exploit implants and joint replacements used in connection with total and partial hip or knee replacement surgery and included in MicroPort US's product catalog on the Closing Date. The license is for use only within Japan and

within a field limited to hip and knee replacement surgery; provided, however, Otsuka may sublicense to its affiliates, other than affiliate that is a competitor of the Enlarged Group. The intellectual property subject to the license includes trade secrets, trademarks and patents issued and patent applications filed in Japan and in existence on the Closing Date. The license will terminate automatically if Otsuka does not establish an R&D or manufacturing facility to exploit, develop or manufacture the licensed products or the intellectual property within five (5) years following the completion of the exercise of the Purchase Option by Otsuka. All intellectual property based on the licensed intellectual property but developed by or on behalf of Otsuka will be owned by Otsuka. The License Agreement may not be assigned by either party without the prior written consent of the other party. MicroPort US has also given warranties concerning, amongst other things, its rights and authority to grant the license to Otsuka under the License Agreement.

MicroPort US and Otsuka have agreed to negotiate in good faith a license on arm's length basis in relation to any improvements to the intellectual property subject to the License Agreement which are developed by MicroPort US subsequent to the Closing Date. The granting of any license for such improvements will be subject to the Company complying with the relevant requirements under Chapter 14A of the Listing Rules.

MicroPort US has also agreed to use commercially reasonable efforts to provide to Otsuka, for a period of no more than three (3) years commencing on the earlier of the date of initial request from Otsuka or the date on which the R&D or manufacturing facility is established by Otsuka (provided that it is established within five (5) years following the exercise of the Purchase Option or the license granted under the License Agreement will automatically terminate), technical assistance and training and assistance with respect to the R&D or manufacturing facility and related matters (including dispatch of MicroPort US's technical personnel to the R&D or manufacturing facility that Otsuka sets up). MicroPort US will not be required to provide a duration longer than three (3) months per year (with a five-day working week and eight hours per day per personnel) of such assistance and training to Otsuka over the three-year period. Otsuka shall reimburse MicroPort US for (i) all reasonable out-of-pocket costs and expenses incurred by MicroPort US; (ii) the pro-rata portion of the compensation and benefits of the employees providing such assistance and training; and (iii) any costs or expenses incurred by MicroPort US in respect of the assistance specifically provided to or requested by Otsuka. The amounts will be determined based on the actual time incurred by MicroPort US in providing the assistance and training and there will be no "mark-up" to the amounts charged, nor is there any charge for overhead or administration of MicroPort US. The provision of technical assistance and training with respect to the R&D or manufacturing facility by MicroPort US to Otsuka is a term of the License Agreement and as such is considered part of the Purchase Option Agreement because the entering into of the License Agreement is a requirement under the Purchase Option Agreement. The Directors are of the view that the provision of technical assistance and training with respect to the R&D or manufacturing facility by MicroPort US to Otsuka is an integral part of the commercial agreement with respect to the License Agreement and therefore it is more appropriate to view it as part of the License Agreement, and the License Agreement as part of the Purchase Option Agreement. As execution of the Purchase Option Agreement (and the License Agreement and the Japan OrthoRecon Distribution Agreement) is a condition to the execution of, and drawdown of the financing under, the Credit

Agreement, the Directors consider that the arrangements under the Credit Agreement, Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement are as a whole on normal commercial terms and fair and reasonable.

MicroPort US is required to reimburse Otsuka for (i) all the out-of-pocket costs and expenses reasonably incurred by Otsuka and its affiliates (including, without limitation, fees, charges and disbursements of any outside counsel or advisor for appraisal, consulting, audit and any other services, and costs of printing, reproduction, document delivery, travel, communication and publicity) in connection with the preparation, review, negotiation, execution, delivery and implementation of the License Agreement and the administration, amendment, modification or waiver thereof (or any proposed amendment, modification or waiver); and (ii) all out-of-pocket expenses reasonably incurred by Otsuka and its affiliates in connection with the enforcement or protection of their rights in connection with the License Agreement.

4. FINANCIAL EFFECTS OF THE PURCHASE OPTION

The equity interests in Wright Japan are part of the Business being acquired by the Group pursuant to the Asset Purchase Agreement, and the consideration to be paid by the Group for the Business being acquired pursuant to the Asset Purchase Agreement is US$290 million, subject to adjustment (as more particularly described in Part A of this Letter from the Board). Following the completion of the Acquisition, Wright Japan will become a wholly-owned subsidiary of the Company and the results, assets and liabilities of Wright Japan will be consolidated into the consolidated financial statements of the Enlarged Group. The book value of the net assets attributable to Wright Japan for inclusion in the consolidated financial statements ("**Book Value**") at the date of completion of the Acquisition will be determined by the Directors in accordance with HKFRS after the Closing. The Directors currently estimate that the Book Value to be approximately US$36 million.

If Otsuka were to exercise the Purchase Option to purchase Wright Japan, the investment in Wright Japan would be deconsolidated from the consolidated financial statements of the Enlarged Group at the time the disposal of Wright Japan is completed following the exercise of the Purchase Option. A gain or loss on disposal of Wright Japan, determined by comparing the fair value of the consideration receivable by the Enlarged Group from the disposal of Wright Japan (minus the value, if any, attributable to the License Agreement) with the Book Value on the date of disposal, would be recorded in the Enlarged Group's consolidated income statement. The Directors have determined that the value of the License Agreement is, and is likely to be upon the exercise of the Purchase Option, negligible. Based on the estimated Book Value of US$36 million at the date of completion of the acquisition of Wright Japan under the Asset Purchase Agreement, the negligible value of the License Agreement and the price of US$60 million payable by Otsuka upon the exercise of the Purchase Option, the gain on disposal would be US$24 million. However, the Book Value at the time of disposal of Wright Japan following the exercise of the Purchase Option (if it is exercised) may be different from the estimated Book Value at the date of completion of the acquisition of Wright Japan under the Asset Purchase Agreement. Such difference may result from a number of factors including, but not limited to, Wright Japan's results of operation during the period from the date of completion of the acquisition of

Wright Japan under the Asset Purchase Agreement to the date of disposal of Wright Japan following the exercise of the Purchase Option. The actual accounting gain or loss will be calculated at the time when the disposal of Wright Japan is completed following the exercise of the Purchase Option by reference to the Book Value at that time and the value (if any) attributable to the License Agreement.

Earnings

The Enlarged Group would not record any revenue or profits of Wright Japan in future reporting periods from the point after the completion of the exercise of the Purchase Option and Wright Japan has been acquired by Otsuka. For the year ended 31 December 2012, Wright Japan's revenue and profit after taxation are US$60 million and US$0.38 million, respectively.

Assets and liabilities

According to the Credit Agreement and the Purchase Option Agreement, if the Term A Loan is not required to be mandatorily prepaid in whole or in part prior to the maturity date under the Credit Agreement and if Otsuka exercises the Purchase Option to acquire the equity interests of Wright Japan, the Enlarged Group's loan balance due to Otsuka would be offset by the amount of the consideration for the purchase of Wright Japan (US$60 million). Hence total indebtedness of the Enlarged Group would be reduced by approximately US$60 million following the exercise of the Purchase Option. Also, the Book Value of Wright Japan would be taken out from the consolidated statement of financial position of the Enlarged Group at the date of the disposal of Wright Japan.

5. PROPOSED CONTINUING CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND OTSUKA UNDER THE JAPAN ORTHORECON DISTRIBUTION AGREEMENT

The Japan OrthoRecon Distribution Agreement, which is a framework distribution agreement between the Company, MicroPort US, a wholly-owned subsidiary of the Company, and Otsuka, was entered into on the same date as the Purchase Option Agreement. The Japan OrthoRecon Distribution Agreement, will come into effect if and when the Purchase Option is exercised, pursuant to which the distribution of the hip and knee replacement products in Japan developed and manufactured by MicroPort US and its affiliates will be performed exclusively by Otsuka and its subsidiaries from time to time (including Wright Japan). The principal terms are as follows:

The Japan OrthoRecon Distribution Agreement

Date

15 December 2013

Parties

(a) Otsuka, as the distributor;

(b) MicroPort US, as the manufacturer; and

(c) the Company, as parent party.

Otsuka and the Company have agreed that their respective subsidiaries shall observe the terms of the Japan OrthoRecon Distribution Agreement.

Term

The Japan OrthoRecon Distribution Agreement shall continue for three (3) years from the JODA Effective Date. If the Purchase Option lapses or is terminated without having been exercised, the Japan OrthoRecon Distribution Agreement will terminate. Subject to (i) the terms of the Japan OrthoRecon Distribution Agreement being amended as required to comply with the Listing Rules then in force (including as to yearly caps); (ii) new minimum purchase levels being agreed in good faith between the parties; and (iii) any approval of the Independent Shareholders required under the Listing Rules at the time being obtained, upon expiry, the Japan OrthoRecon Distribution Agreement will be renewed for a further term of three (3) years (but without the option for further renewal) if Otsuka so requests no later than four months before expiry.

Distribution of hip and knee replacement products

Pursuant to the Japan OrthoRecon Distribution Agreement, the Enlarged Group will sell to the Distributor's Group Products developed and manufactured by MicroPort US and its affiliates, and the Distributor's Group shall distribute such Products in Japan. The Distributor's Group will be the Enlarged Group's exclusive distributor of the Products in Japan.

Pricing basis and payment terms

The Distributor's Group shall submit to the Enlarged Group individual purchase orders for the Products. Prices will be (i) determined and negotiated based on normal commercial terms, (ii) based on market price of the relevant Products offered by the Enlarged Group's distributors to the end-users together with the Enlarged Group's cost plus a reasonable profit margin, provided that the prices shall be no less favourable than those available to the distributors of the Enlarged Group in comparable markets.

The Enlarged Group shall provide a pro forma invoice to the Distributor's Group for each accepted order specifying the purchase prices of the ordered Products. The Distributor's Group will pay to the Enlarged Group the full amount as shown on each of such invoice in USD by wire transfer to the bank account designated by the Enlarged Group on the actual delivery date of the relevant Products. In the event that the Distributor's Group fails to make the payment within thirty (30) calendar days of the due date and if such breach is not remedied within thirty (30) calendar days upon

receipt of the reminder from the Enlarged Group, the Enlarged Group is entitled to charge a late payment fee of eight percent (8%) per year thereafter. Any such late payment fee payable will be listed in the invoice provided by the Enlarged Group to the Distributor's Group.

The Enlarged Group will also promptly provide to the Distributor's Group a formal invoice upon receipt of full payment of the purchase price of the relevant Products. In the event that the Distributor's Group fails to pay the full amount as shown on the formal invoice within twenty (20) business days of the due date, and provided that such invoice does not relate to any rejected Products which are either to be replaced or the invoice value of which is to be reduced or which are otherwise subject to dispute, the Enlarged Group will be entitled to, at its sole discretion and upon written notice to the Distributor's Group, stop and/or suspend further deliveries until the invoice is settled.

In addition, to the extent permitted by applicable law, the Distributor's Group will bear and fully indemnify the Enlarged Group for and against reasonable losses, damages and costs due to the Distributor's Group's delay or failure to perform its payment obligations under the Japan OrthoRecon Distribution Agreement.

Towards the end of each year, the international sales team of the Company negotiates the pricing and minimum purchase levels of all products with their distributors in all jurisdictions for the following year. These negotiations are conducted on arm's length terms. For the Japan OrthoRecon Distribution Agreement, the process will be the same except the Company will refer in its negotiations with Otsuka to prices that have been agreed with distributors in markets comparable to Japan, especially the U.S. and European markets. The finance team will then review and approve the proposed pricing for the ensuing year and, finally, the proposed pricing will be submitted to the executive committee of the Company for its approval. During the year, purchase orders submitted by Otsuka will need to conform to the agreed pricing schedule for that year, and each order will be checked by the international sales team and approved by the finance team.

Historical transaction value

The most appropriate historical transaction values to use for the purposes of the Japan OrthoRecon Distribution Agreement are the transactions between Wright Japan and members of the Selling Group relating to distribution of the Products by Wright Japan in Japan. These are as follows:

	For the year ended 31 December 2010 *(USD'million)*	**For the year ended 31 December 2011** *(USD'million)*	**For the year ended 31 December 2012** *(USD'million)*
Distribution of the Products	26.14	28.54	25.74

The pricing basis of the Products sold by the Selling Group to Wright Japan prior to the Acquisition will not change materially as a result of the acquisition of Wright Japan by Otsuka (upon the exercise of the Purchase Option by Otsuka), and the Directors therefore consider that the historical transaction value for transactions between Wright Japan and the Selling Group is an appropriate basis for the annual caps.

Proposed annual caps

Otsuka will only be able to exercise the Purchase Option during the period beginning 90 days prior to the maturity date of the Term A Loan, and therefore the Japan OrthoRecon Distribution Agreement will not become effective before 16 October 2014 at the very earliest. The proposed annual caps for the transactions contemplated under the Japan OrthoRecon Distribution Agreement for each of the three (3) calendar years including and following the JODA Effective Date are set out as follows:

	For the period from the JODA Effective Date to 31 December 2014 *(USD'000)*	**For the year ended 31 December 2015** *(USD'000)*	**For the year ended 31 December 2016** *(USD'000)*	**For the period from 1 January 2017 to the expiry date of the three-year term of the Japan OrthoRecon Distribution Agreement** *(USD'000)*
Distribution of the Products under the Japan OrthoRecon Distribution Agreement	9,398	40,598	46,688	42,719

The proposed annual caps for the transactions between the Enlarged Group and the Distributor's Group under the Japan OrthoRecon Distribution Agreement have been determined by reference to (i) the historical transaction values for similar transactions between Wright Japan and the Seller in 2010, 2011 and 2012 with respect to the distribution of the Products in Japan; (ii) the expected inflation of approximately 1.4% per annum in the costs of manufacturing the relevant products based on the 12-month change in the Producer Price Index of the Products; (iii) the estimated growth in sales volume of the relevant Products in Japan which is estimated to be 2%, 8% and 15% for the years ending 31 December 2014, 2015 and 2016, respectively, taking into account the projected increase in market shares due to improved penetration of EVOLUTION® knee implant product in Japan, the introduction of new techniques for hip implant surgery, and the enhanced efficiency in sales infrastructure; and (iv) a buffer of 30% to accommodate any unexpected increase in sales volume.

Other major terms

Minimum purchase commitments

Minimum purchase commitments by the Distributor's Group for the Products for each year within the three-year term are set out in the Japan OrthoRecon Distribution Agreement. These are as follows:

	For the period from the JODA Effective Date to 31 December 2014 *(USD'000)*	For the year ended 31 December 2015 *(USD'000)*	For the year ended 31 December 2016 *(USD'000)*	For the period from 1 January 2017 to the expiry date of the three-year term of the Japan OrthoRecon Distribution Agreement *(USD'000)*
Minimum purchase commitment of the Products under the Japan OrthoRecon Distribution Agreement	5,783	24,983	28,731	26,289

Subject to the Enlarged Group's compliance in all material aspects with the terms of the Japan OrthoRecon Distribution Agreement, if the Distributor's Group does not meet such minimum purchase commitment for the period commencing from 1 January 2017 to the earlier of the termination or the expiry date of the Japan OrthoRecon Distribution Agreement, the Distributor's Group may at MicroPort US's discretion lose its exclusivity to distribute the Products in Japan and the Enlarged Group shall have the right to terminate the Japan OrthoRecon Distribution Agreement.

The Buy-back Arrangement

The Distributor's Group is permitted for a period of six (6) months following termination of the Japan OrthoRecon Distribution Agreement to sell and distribute those stocks of the Products as it may at the time have in store or under its control. At the end of the six-month period, the Distributor's Group shall sell, and the Enlarged Group shall buy, the remaining stocks of the Products at the same price as was paid by the Distributor's Group for those stocks and be responsible for the corresponding shipping costs of such stocks to be repurchased. The parties have agreed to cap the maximum aggregate purchase price and the costs of shipping relating to the remaining stock that the Enlarged Group is obliged to repurchase under the Buy-back Arrangement at US$139,403,000 (equivalent to approximately HK$1.08 billion).

The proposed cap of the Buy-back Arrangement has been agreed by the parties commercially based on the fact that, in theory, all Products purchased by the Distributor's Group under the Japan OrthoRecon Distribution Agreement could be returned by the Distributor's Group to the Enlarged Group following the termination of

the Japan OrthoRecon Distribution Agreement. In recognition that such situation is unlikely to occur in practice, the corresponding shipping costs have also been included in the proposed cap.

It is common for a distribution agreement to contain a buy-back provision and the Directors (including the independent non-executive Directors) are of the view that the terms of the Buy-back Arrangement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole when viewed together with the other terms of the Japan OrthoRecon Distribution Agreement.

Other costs

MicroPort US is required to reimburse Otsuka for (i) all the out-of-pocket costs and expenses reasonably incurred by Otsuka and its affiliates (including, without limitation, fees, charges and disbursements of any outside counsel or advisor for appraisal, consulting, audit and any other services, and costs of printing, reproduction, document delivery, travel, communication and publicity) in connection with the preparation, review, negotiation, execution, delivery and implementation of the Japan OrthoRecon Distribution Agreement and the administration, amendment, modification or waiver thereof (or any proposed amendment, modification or waiver); and (ii) all out-of-pocket expenses reasonably incurred by Otsuka and its affiliates in connection with the enforcement or protection of their rights in connection with the Japan OrthoRecon Distribution Agreement.

6. REASONS FOR AND BENEFITS OF THE PURCHASE OPTION (INCLUDING THE LICENSE AGREEMENT) AND THE JAPAN ORTHORECON DISTRIBUTION AGREEMENT

Activities of Wright Japan

Wright Japan began operations in 2001 as an exclusive distributor of Wright Medical's products in Japan. Wright Japan is a wholly-owned subsidiary of the Seller with locations in Tokyo, Osaka, and Fukuoka and will be acquired by the Company as part of the Acquisition. Wright Japan employs approximately 51 administrative personnel as well as 54 direct sales representatives as at 30 June 2013. Wright Japan operates as an exclusive sales and distribution entity for the products of the Selling Group in Japan. In its capacity as a reseller, Wright Japan performs sales, marketing, and logistics functions. Wright Japan manages a network of independent brokers through which it distributes the orthopedic products in Japan.

Assuming Otsuka exercises the Purchase Option, Wright Japan will continue to be the exclusive distributor of the Company to market and sell the Products within Japan. The Directors believe that this will have the following benefits for the Company:

(i) Given that Otsuka is a well-recognized company in Japan with an operating history of over 50 years, with Otsuka's market reputation in Japan, the Business within Japan could experience a more rapid growth under Otsuka's management;

(ii) Although Wright Japan would be sold to Otsuka, the Company would still be in a position to recognize manufacturing profits because through the Japan OrthoRecon Distribution Agreement with Otsuka, MicroPort US will manufacture the Products and sell to Otsuka for distribution in Japan (although it is possible that some Products may cease to be distributed by Otsuka if it develops or manufactures its own equivalent pursuant to the establishment of an R&D or manufacturing facility in accordance with the License Agreement); and

(iii) By disposing of Wright Japan to Otsuka, the Company does not have to continue to invest in sales and marketing activities in Japan and will free up capital for the Company to redeploy in other areas of its business.

The Company has been supplying its medical products, mainly DES systems and balloon catheters to the Otsuka Group under distribution arrangements dating from 2004 (in the case of distribution in Japan) and 2008 (in the case of distribution in certain other Asian countries). The Company has had a long business history with Otsuka for the execution of these manufacturer-distributor type partnerships. As the Otsuka Group has extensive distribution capabilities in its home country, Japan, it will be beneficial for the Company to utilize these distribution channels to increase the sales of products of the acquired Business. Furthermore, due to Otsuka's greater financial wherewithal than that of the Company, it may not be financially optimal for the Company to continue to operate a direct sales force in Japan, as new product launches would incur significant cost and resources, and to grow the Business in the market in China at the same time. Therefore, the Directors consider that the best alternative is to utilize Otsuka's commercial capabilities and distribution network in Japan for the products of the Business, similar to the practice with Otsuka for the Company's DES business by having the Company and MicroPort US enter into the Japan OrthoRecon Distribution Agreement with Otsuka.

In view of (i) the long-established relationships between the Company and Otsuka; (ii) the aforesaid benefits of established distribution networks; and (iii) the execution of each of the Purchase Option Agreement, the License Agreement and the Japan OrthoRecon Distribution Agreement are part of the conditions for the granting of the Facilities by Otsuka, the Directors (including the independent non-executive Directors) are of the view that (i) the Purchase Option Agreement and the License Agreement are on normal commercial terms and are fair and reasonable; (ii) the Japan OrthoRecon Distribution Agreement is on normal commercial terms or on terms not less favourable than those of similar transactions with independent third parties, is fair and reasonable and in the ordinary and usual course of business; and (iii) the entering into of each of the Purchase Option Agreement, the License Agreement and the Japan OrthoRecon Distribution Agreement is in the best interest of the Company and its Shareholders.

To the best knowledge of the Directors, the Directors are not aware of any reason not to enter into the aforementioned Purchase Option Agreement, License Agreement and Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement).

7. THE OTSUKA EXPENSE ARRANGEMENT

On 15 December 2013, the Company and Otsuka also entered into the Expense Arrangement Side Letter, pursuant to which the Company agreed to reimburse Otsuka for (i) all out-of-pocket costs and expenses reasonably incurred by Otsuka and its affiliates (including without limitation, fees, charges and disbursements of any outside counsel or advisor for appraisal, consulting, audit and any other services, and costs of printing, reproduction, document delivery, travel, communication and publicity) in connection with the preparation, review, negotiation, execution, delivery and implementation of the commitment letter of the Facilities, the Credit Agreement, the associated guarantee and collateral documents, the Purchase Option Agreement, the License Agreement, the Japan OrthoRecon Distribution Agreement and the Expense Arrangement Side Letter and the administration, amendment, modification or waiver thereof (or any proposed amendment, modification or waiver); and (ii) all out-of-pocket expenses reasonably incurred by Otsuka and its affiliates in connection with the enforcement or protection of their rights in connection with the Expense Arrangement Side Letter, in the event that the Independent Shareholders' approval of the Company in respect of such agreements is not obtained at the EGM.

The maximum amount of such out-of-pocket expenses to be borne by the Company under the Expense Arrangement Side Letter shall not exceed US$7 million (equivalent to approximately HK$54.46 million) and shall be paid by the Company to Otsuka from time to time within two business days of demand for such reimbursement. The amount is determined and negotiated at arm's length basis and on normal commercial terms.

The Company is required to reimburse all out-of-pocket expenses reasonably incurred by Otsuka and its affiliates in accordance with the cost provisions under each of the Credit Agreement, the Purchase Option Agreement, the License Agreement and the Japan OrthoRecon Distribution Agreement. However, the Credit Agreement, Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement are subject to Independent Shareholders' approval, and in the event that Independent Shareholders' approval of such agreements is not obtained at the EGM, the expense reimbursement provisions of those agreements will not apply and provisions of the Expense Arrangement Side Letter will apply instead. On the other hand, if such Independent Shareholders' approvals are obtained, the Expense Arrangement Side Letter (including the maximum limit therein) shall cease to apply.

The costs reimbursement provisions (whether in the Credit Agreement, Purchase Option Agreement (including the License Agreement), the Japan OrthoRecon Distribution Agreement or the Expense Arrangement Side Letter) are common provisions in typical third party financing transactions. The Directors (including the independent non-executive Directors) are of the view that the terms of the Expense Arrangement Side Letter are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

8. INFORMATION ON OTUSKA GROUP

Otsuka engages in the research, development, and commercialization of medical devices. The company was founded in 2011 and is based in Tokyo, Japan. Otsuka operates as a subsidiary of Otsuka Holdings Co., Ltd, a company listed on the Tokyo Stock Exchange (stock code: 4587).

9. FINANCIAL INFORMATION OF WRIGHT JAPAN

Set out below is the financial information of Wright Japan based on its unaudited statutory management account for the financial years ended 31 December 2011 and 2012:

	For the year ended 31 December 2011 *(USD'000)*	**For the year ended 31 December 2012** *(USD'000)*
Net profits before taxation	2,020*Note 1*	1,461*Note 2*
Net profits after taxation	496*Note 1*	379*Note 2*

The total assets and net assets of Wright Japan based on its unaudited statutory management account as at 31 December 2012 amount to approximately US$34.3 million*Note 3* and US$9.2 million*Note 3*, respectively. The US$9.2 million net asset figure for Wright Japan does not include the book value attributed to the assets being licensed under the License Agreement, but the book value of such assets is negligible.

Note 1: the exchange rate of US$1 = JPY79.98 (the average exchange rate of 2011) has been used for currency translation

Note 2: the exchange rate of US$1 = JPY79.38 (the average exchange rate of 2012) has been used for currency translation

Note 3: the exchange rate of US$1 = JPY86.04 (the spot exchange rate as at 31 December 2012) has been used for currency translation

10. SHAREHOLDING STRUCTURE OF THE COMPANY BEFORE AND AFTER THE ISSUANCE OF THE CONVERSION SHARES PURSUANT TO THE TERM B LOAN

The following chart depicts the effects of the issuance of the Conversion Shares pursuant to the terms of the Term B Loan on the shareholding structure of the Company based on the issued share capital and shareholding structure of the Company as at the Latest Practicable Date and assuming full conversion of the principal of Term B Loan and the maximum cap of the accrued interest available for conversion to the Conversion Shares at the Conversion Price, assuming no further Shares will be allotted and issued after the Latest Practicable Date:

Name of Shareholders	As at the Latest Practicable Date Number of Shares	 Approximate % of the issued share capital of the Company	Immediately after the allotment and issuance of Conversion Shares pursuant to the terms of the Term B Loan assuming (i) full conversion of the principal of Term B Loan and the maximum cap of the accrued interest available for conversion to the Conversion Shares at the Conversion Price, and (ii) no further Shares will be allotted and issued after the Latest Practicable Date Number of Shares	 Approximate % of the issued share capital of the Company
Otsuka Group	468,994,120	33.29%	516,721,392	35.47%
Shanghai Zhangjiang Group	285,748,050	20.28%	285,748,050	19.62%
We'Tron Capital Limited	217,110,000	15.41%	217,110,000	14.91%
Others	437,041,020	31.02%	437,041,020	30.00%
Total	**1,408,893,190**	**100%**	**1,456,620,462**	**100%**

11. LISTING RULES IMPLICATIONS

Financial Assistance

The provision of the Facilities by Otsuka to the Company to settle part of the consideration of the Acquisition will constitute a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules, on the basis that Otsuka holds approximately 33.29% of the Shares and is therefore a connected person of the Company. Accordingly, the provision of the Facilities is subject to the requirements for reporting, announcement and approval of the Independent Shareholders under Chapter 14A of the Listing Rules. As the provision of the Facilities is required for the Acquisition, Otsuka and its associates will also abstain from voting on the resolution being presented at the EGM to approve the Acquisition.

The Purchase Option

As described above, Otsuka is a connected person of the Company and since the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in relation to the Purchase Option exceed 25% but are less than 75%, the grant of the Purchase Option and the exercise of the Purchase Option thereunder by Otsuka constitute a major disposal and a connected transaction under Chapter 14 and Chapter 14A of the Listing Rules and is therefore subject to requirements for reporting, announcement and approval of the Independent Shareholders under Chapter 14 and Chapter 14A of the Listing Rules.

Continuing connected transactions – The Japan OrthoRecon Distribution Agreement

As described above, Otsuka is a connected person of the Company. Immediately following completion of the disposal of the entire equity interests in Wright Japan assuming Otsuka exercises the Purchase Option, Wright Japan will become a wholly-owned subsidiary of Otsuka, hence become a connected person of the Company.

In connection with the Purchase Option Agreement, Otsuka, MicroPort US and the Company have entered into the Japan OrthoRecon Distribution Agreement, and will become effective on the JODA Effective Date. The transactions contemplated under such agreement will become continuing connected transactions of the Company. As the relevant applicable percentage ratios in respect of the aggregate amount of the annual caps of such continuing connected transactions exceed 5% and the aggregate amount of the annual caps of such proposed continuing connected transactions exceeds HK$10 million per annum, the transactions under the Japan OrthoRecon Distribution Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules, and are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Buy-back Arrangement under the Japan OrthoRecon Distribution Agreement

The Buy-back Arrangement is an arrangement under the Japan OrthoRecon Distribution Agreement which will only occur six months after the termination of the Japan OrthoRecon Distribution Agreement and the transaction contemplated under the Buy-back Arrangement will be treated as a one-off connected transaction of the Company. The relevant applicable percentage ratios in respect of the aggregate amount under the Buy-back Arrangement exceed 5%, and the Buy-back Arrangement is therefore subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. However as the Buy-Back Arrangement is part of the Japan OrthoRecon Distribution Agreement, it will be approved as part of the shareholder resolution on the Japan OrthoRecon Distribution Agreement.

The Otsuka Expense Arrangement

As described above, Otsuka is a connected person of the Company. As the applicable percentage ratios in respect of the payment of expenses by the Company to Otsuka under the Otsuka Expense Arrangement exceed 0.1% but are less than 5%, the Otsuka Expense Arrangement constitutes a connected transaction under Chapter 14A of the Listing Rules, and is therefore subject to reporting and announcement requirements and is exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

PART C – PROPOSED GRANT OF THE SPECIFIC MANDATE TO ISSUE CONVERSION SHARES

The Company will issue to Otsuka a total of 47,727,272 Conversion Shares (subject to adjustments from time to time) upon exercise of the Conversion Right attached to the Term B Loan by Otsuka pursuant to the terms and conditions of the Credit Agreement. The Company will seek approval from its Independent Shareholders at the EGM for the grant of the Specific Mandate to allot and issue the Conversion Shares pursuant to the terms and conditions of the Credit Agreement.

We'Tron Capital Limited and the Shanghai Zhangjiang Group together hold 502,858,050 Shares in the Company (representing approximately 53.50% of the voting rights attributable to the Independent Shareholders) as at the Latest Practicable Date and have undertaken to vote in favour of the resolution to approve the grant of the Specific Mandate for the allotment and issuance of the Conversion Shares.

PART D – ADDITIONAL INFORMATION

1. EXTRAORDINARY GENERAL MEETING

The EGM will be held at 9:30 a.m. on 3 January 2014 at Lounge, M Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong to consider and, if thought fit, approve, among other matters, the Acquisition, the Facilities, the Purchase Option Agreement (including the License Agreement), the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries: save for Otsuka Group, no Shareholder is required to abstain from voting for the relevant resolution(s) to approve the transactions contemplated under the Credit Agreement, the Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate to issue Conversion Shares. None of the Directors has a material interest in any of the transactions contemplated under the Credit Agreement, the Purchase Option Agreement (including the License Agreement), the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the Expense Arrangement Side Letter, and none of the Directors has been required to abstain from voting on the relevant Board resolutions with respect to the transactions contemplated under the Credit Agreement, the Purchase Option Agreement (including the License Agreement), the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the Expense Arrangement Side Letter.

As Otsuka Group has material interests in the transactions contemplated under the Credit Agreement, the Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares, and as the provision of the Facilities is required for the Acquisition, Otsuka Group and its associates, who are in aggregate interested in 468,994,120 Shares (representing

approximately 33.29% of the issued share capital of the Company) as at the Latest Practicable Date are required to abstain from voting on the relevant resolutions relating the Acquisition, the Facilities, the Purchase Option Agreement (including the License Agreement), the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares at the EGM.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquires: (i) the Selling Group, which is headquartered in the U.S. and whose common stock is listed in the Nasdaq Global Select Market, is a third party independent of the Company and its connected persons: and (ii) save for Otsuka Group, no Shareholder is required to abstain from voting for the relevant resolutions to be proposed at the EGM.

We'Tron Capital Limited and the Shanghai Zhangjiang Group together hold 502,858,050 Shares (representing approximately 53.50% of the voting rights attributable to the Independent Shareholders) as at the Latest Practicable Date and have undertaken to vote in favour of the resolutions to approve the transactions contemplated under the Asset Purchase Agreement, the Credit Agreement, the Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares to be proposed at the EGM.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, there is no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

Merrill Lynch, Pierce, Fenner & Smith Incorporated has been appointed as the financial adviser to the Company in connection with the Acquisition and the transactions contemplated thereunder.

The Independent Board Committee comprising all the three independent non-executive Directors has been established to advise the Independent Shareholders in relation to the transactions contemplated under the Credit Agreement, the Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares.

Platinum Securities Company Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Your attention is drawn to the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out in its letter on pages 82 to 119 of this circular.

A notice convening the EGM is set out on pages EGM-1 to EGM-4 of this circular.

Pursuant to the Listing Rules and the articles of association of the Company, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. An announcement on the poll vote results will be published by the Company after the EGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.microport.com). To be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the EGM if you so wish.

2. RECOMMENDATION

On the basis of the information set out in this circular, the Directors (excluding the views of the independent non-executive Directors in respect of the transactions contemplated under the Credit Agreement, the Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares which are included in the letter from the Independent Board Committee set forth on pages 80 to 81 of this circular) are of the opinion that the terms of the Asset Purchase Agreement, the Credit Agreement, the Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. The Board therefore recommends the Independent Shareholders to vote in favour of all resolutions set out in the notice of the EGM.

Yours faithfully,
By Order of the Board
MicroPort Scientific Corporation
Dr. Zhaohua Chang
Chairman

MicroPort Scientific Corporation
微創醫療科學有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 853)

15 December 2013

To the Independent Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION
(2) FINANCIAL ASSISTANCE CONSTITUTING A CONNECTED TRANSACTION
(3) PURCHASE OPTION TO BE GRANTED CONSTITUTING A MAJOR DISPOSAL AND A CONNECTED TRANSACTION
(4) CONTINUING CONNECTED TRANSACTIONS
(5) BUY-BACK ARRANGEMENT CONSTITUTING A CONNECTED TRANSACTION
(6) PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE CONVERSION SHARES
(7) NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the circular issued by the Company to the Shareholders dated 15 December 2013 (the "Circular") which this letter forms a part of. Terms defined in the Circular shall have the same meanings as those used in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders in respect of the transactions contemplated under the Credit Agreement, the Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares, details of which are set out in the "Letter of the Board" in the Circular.

We wish to draw your attention to the letter of advice from the Independent Financial Adviser as set out on pages 82 to 119 of the Circular, which contains its advice and recommendation to us as to whether or not the terms of the Credit Agreement, the Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, as well as the principal factors and reasons for its advice and recommendation.

* *for identification purpose only*

Having considered the advice given by the Independent Financial Adviser, we are of the opinion that the transactions contemplated under the Credit Agreement, the Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Credit Agreement, the Purchase Option Agreement (including the License Agreement), the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the transactions contemplated thereunder and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares.

Yours faithfully,
The Independent Board Committee of
MicroPort Scientific Corporation

Mr. Zezhao Hua	**Mr. Jonathan H. Chou**	**Dr. Guoen Liu**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.

PLATINUM Securities Company Limited

21/F LHT Tower
31 Queen's Road Central
Hong Kong

Telephone (852) 2841 7000
Facsimile (852) 2522 2700
Website www.platinum-asia.com

15 December 2013

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION
(2) FINANCIAL ASSISTANCE CONSTITUTING A CONNECTED TRANSACTION
(3) PURCHASE OPTION TO BE GRANTED CONSTITUTING A MAJOR DISPOSAL AND A CONNECTED TRANSACTION
(4) CONTINUING CONNECTED TRANSACTIONS
(5) BUY-BACK ARRANGEMENT CONSTITUTING A CONNECTED TRANSACTION
(6) PROPOSED GRANT OF SPECIFIC MANDATE TO ISSUE CONVERSION SHARES
(7) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Credit Agreement, the Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares (together the "Facilities Transactions"), and the continuing connected transactions contemplated under the Japan OrthoRecon Distribution Agreement ("Continuing Connected Transactions"), details of which are contained in the Letter from the Board as set out in the Circular. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders as to whether the Facilities Transactions and the Continuing Connected Transactions are fair and reasonable so far as the

Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole; and to give independent advice to the Independent Board Committee and the Independent Shareholders.

In formulating our opinion, we have relied on the information and facts supplied to us by the Directors and/or management of the Company. We have reviewed, among other things: (i) the commitment letter of the Facilities, (ii) the Credit Agreement; (iii) the Purchase Option Agreement; (iv) the Announcement; (v) the Facility Announcement; (vi) the announcements of the Company dated 25 June 2013, 18 July 2013 and 25 July 2013; (vii) the unaudited 2013 interim result of the Company ("2013 Interim Result").

We have assumed that all information, facts, opinions and representations contained in the Circular are true, complete and accurate in all material respects and we have relied on the same. The Directors have confirmed that they take full responsibility for the contents of the Circular and have made all reasonable inquiries that no material facts have been omitted from the information supplied to us.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Circular and of the information and representations provided to us by the Directors and/or management of the Company. Furthermore, we have no reason to suspect the reasonableness of the opinions and representations expressed by the Directors and/or management of the Company which have been provided to us. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the Facilities Transactions and the Continuing Connected Transactions.

We are independent from, and are not associated with the Company or any other party to the Facilities Transactions and the Continuing Connected Transactions, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules and accordingly, are considered eligible to give independent advice on the Facilities Transactions and Continuing Connected Transactions. We will receive a fee from the Company for our role as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Facilities Transactions and the Continuing Connected Transactions. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Facilities Transactions and the Continuing Connected Transactions or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

As Otsuka Group has material interests in the Facilities Transactions and the Continuing Connected Transactions, and as the provision of the Facilities is required for the Acquisition, Otsuka Group and its associates, who are in aggregate interested in 468,994,120 Shares (representing approximately 33.29% of the issued share capital of the Company) as at

the Latest Practicable Date are required to abstain from voting on the relevant resolutions relating the Acquisition, the Facilities Transactions and the Continuing Connected Transactions at the EGM.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquires: (i) the Selling Group, which is headquartered in the U.S. and whose common stock is listed in the Nasdaq Global Select Market, is a third party independent of the Company and its connected persons; and (ii) save for Otsuka Group, no Shareholder is required to abstain from voting for the relevant resolutions to be proposed at the EGM.

We'Tron Capital Limited and the Shanghai Zhangjiang Group together hold 502,858,050 Shares (representing approximately 53.50% of the voting rights attributable to the Independent Shareholders) as at the Latest Practicable Date and have undertaken to vote in favour of the resolutions to approve the Acquisition, the transactions contemplated under the Asset Purchase Agreement, the Credit Agreement, the Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares to be proposed at the EGM.

The Independent Board Committee, comprising Mr. Zezhao Hua, Mr. Jonathan H. Chou and Dr. Guoen Liu, has been established to advise the Independent Shareholders as to whether the Facilities Transactions and the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders regarding the terms of the Facilities Transactions and the Continuing Connected Transactions, we have taken into account of the following principal factors and reasons:

1. Background of the Credit Agreement

On 15 December 2013, for the purpose of financing the Acquisition, the Company as borrower, and Otsuka, a substantial shareholder of the Company, as lender entered into the Credit Agreement. Pursuant to the Credit Agreement, Otsuka has agreed to grant to the Company certain credit facilities amounting to US$200 million (equivalent to approximately HK$1.56 billion). The Facilities are guaranteed by certain subsidiaries of the Company and are secured by the equity interests of certain subsidiaries of the Company and by substantially all of the assets of the Business to be acquired by the Company under the Asset Purchase Agreement.

As discussed with the management of the Company, we understand that the security arrangements for the Term Loans are required by the Lenders in order to reduce their risk exposure and to provide an adequate level of protection against the Company's default. As such, we concur with the Board that such arrangement is fair and reasonable and in the interests of the Shareholders as a whole.

The Group is principally engaged in the development, manufacturing and sale of high-end interventional medical devices internationally. Its portfolio of products covers a wide spectrum of disease types such as cardiovascular, neurovascular, endovascular, electrophysiological, orthopaedic, surgical management, diabetes care and endocrinal management.

2. Reasons for, and benefits of, the entering into the Facilities

We have discussed with the management of the Company and understand that to finance the Acquisition, the Company plans to use approximately US$90 million of cash from its existing cash resources, with the remaining US$200 million being provided from the Facilities to be provided by Otsuka.

In deciding to raise the US$200 million by way of the Facilities to be provided by Otsuka, the Directors took into account factors such as cost of capital, certainty of financing, dilution to Shareholders, and ability to refinance. The Directors considered it is appropriate to seek a one-year term financing from Otsuka because during the bidding process for the Acquisition, which was undertaken in a very short timescale, the Company was required to present to the board of the Seller evidence that external financing was available to the Purchaser. Apart from the financing proposal provided by Otsuka, the Purchaser sought from investment banks financing proposals to provide the required financing for the Acquisition and such proposals were in the form of bridge loan, bank debt and high yield debt. Given that the amount of time involved to raise bank debt and high yield debt is substantial and that there is no certainty that the Group would be able to secure such financing on terms that are acceptable to the Board, those options therefore, do not and did not meet the Purchaser's financing needs. The Purchaser also considered the terms of bridge loan offered by a banking institution but the financial cost offered was much higher than that available under the Term Loans, with a proposed transaction fee of approximately US$12 million, an interest rate of LIBOR plus 3% and a one-year maturity term. We have reviewed the relevant information in relation to the aforementioned bridge loan offered by a banking institution and noted that the transaction fee and interest rate associated with such loan offer were significantly higher than that available under the Term Loans.

Apart from that, we have also discussed with and understand from the Directors that the Company has negotiated and entered into a commitment letter of the Facilities with Otsuka, it is not practicable then to start negotiating with a different finance provider while at the same time continuing to negotiate the detailed terms of the Facilities with Otsuka. To do so could jeopardise the availability of the Facilities, with no guarantee of alternative financing being available, and it would in turn jeopardise the entire Acquisition. Given the abovementioned rationales, the Board considered that the financing proposal provided by Otsuka is the most suitable out of all available options. The Company therefore plans to re-finance the Term A Loan and the Term C Loan with a banking institution or through the public debt market for a loan with a longer term and more attractive cost of capital upon the maturity date of such Loans.

The Directors believe that the Facilities, including the grant of the Purchase Option, are in the best interests of the Company and its Shareholders, for the following reasons:

(a) Provision of financing that will allow for the Closing of the Acquisition

The Company has entered into the Asset Purchase Agreement pursuant to which the Company is required to pay US$290 million to the Seller to acquire the Business. The Facilities provide the Company with sufficient funding for the Acquisition under the Asset Purchase Agreement, taking into account the Company's existing cash resources.

As discussed with the Directors, we understand that the Company sees the Acquisition as an attractive opportunity and was required to make a swift response to secure the position of being the winning bidder for the Business. Hence, the Company has to obtain the financing in a short period of time. The Directors considered that obtaining financing from other independent creditors may hinder the progress of the Acquisition, and therefore the Company decided to engage into the Facilities which will be able to provide a timely provision of financing that will allow for the Closing of the Acquisition. As such, we concur with the Directors that such Facilities could provide a timely financing to the Company and are in the interests of the Shareholders as a whole.

(b) Attractive Cost of Capital

The Facilities offer the Company the most attractive cost of capital for the 12 months following Closing of the Acquisition. Assuming the US$200 million principal amount of the Term Loans and an interest rate of 1.0% plus LIBOR (at an assumed rate of 0.4% per annum) for each of the Term Loans, the first year interest expense the Company would have to pay is approximately US$2.8 million. The Company has announced in its interim results for the six months ended 30 June 2013 that the Group recorded a 13% decrease in turnover and a decrease of 59% in the net profit as compared to the same period last year. This result will create uncertainty with external financing groups in their ability to commit to the Company's required financing amounts at an attractive cost of capital. Compared with other financing alternatives the Company considered, the Company concluded that this interest expense was the lowest amount achievable and therefore the best alternative for the Company at this time. The Company believes that it will be in a better position prior to the maturity of the Term A Loan and the Term C Loan to access the capital markets to refinance at more attractive interest rates than current market conditions would allow the Company to achieve (although the Company will need to secure the financing for refinancing of the Term C Loan no later than 10 months after drawdown as a result of the undertaking that it has provided as referred to under the section headed "The Credit Agreement – Undertakings" in the Circular).

We have assessed and noted that the existing weighted average cost of capital of the Company is 9.00% and, in comparison, the interest rate offered by the Term Loans is considered to be more attractive. Besides, we understand from the management of

the Company that the interest expense is the lowest amount achievable and therefore the best alternative for the Company available. We concur with the Directors that it is fair and reasonable and is in the interests of the Shareholders as a whole.

(c) Greater Certainty of Financing

Otsuka has been a Shareholder of the Company for over eight years and is currently the largest Shareholder holding approximately 33.29% of the issued share capital of the Company as of the Latest Practicable Date. Two representatives of Otsuka are Directors of the Company. Due to Otsuka's long-term ownership holding and Board representation, Otsuka has witnessed the Company grow and evolve over the years into the global business that it is today. Otsuka has been involved with all of the Company's important strategic decisions. In deciding to negotiate the Facilities with Otsuka, the Directors believed that, owing to Otsuka's familiarity with the Company, the financing documentation process would be more efficient with a greater certainty of securing the financing at attractive terms and allow the Company to not have to endure and depend on volatile market conditions to secure the financing required to close the Acquisition.

As discussed with the Directors, Otsuka is the largest shareholder of the Company and is committed to the development of the Company. The Closing of the Acquisition demands US$290 million from the Company, which will in turn increase the financial burden of the Company through the increase in debt to finance this Acquisition. As a committed shareholder to the Company, Otsuka is willing to provide the Facilities to the Company in a timely manner and at comparable favourable terms. We concur with the Directors that the Facilities can provide greater certainty of financing to the Company and is in the interests of the Shareholders as a whole.

(d) Minimal Dilution to Shareholders

Subject to the terms and conditions of the Facilities, the Company will issue to Otsuka up to 47,727,272 Conversion Shares (subject to adjustments) representing as at the Latest Practicable Date (i) approximately 3.39% of the existing issued share capital of the Company, and (ii) approximately 3.28% of the issued share capital of the Company as enlarged by the issuance of the Conversion Shares in full, if Otsuka exercises the Conversion Right attaching to the Term B Loan in full. The Company agreed to this conversion option in order to optimise the debt capacity of the Enlarged Group.

As discussed with the Directors, we understand that the Conversion Shares represent approximately 3.39% of the existing issued share capital of the Company and approximately 3.28% of the issued share capital of the Company as enlarged by the issuance of the Conversion Shares in full, if Otsuka exercises the Conversion Rights attaching to the Term B Loan in full. We consider that, in light of the Company's need to obtain the Facilities in a timely fashion, the dilution effect of the Conversion Shares, if converted, is minimal to Shareholders and is fair and reasonable. As such, we concur with the Directors that the Facilities are in the interest of the Shareholders as a whole.

(e) Ability to refinance

Based on the terms of the Credit Agreement, the Company will be allowed to refinance the Term C Loan at any time prior to its maturity at the end of one (1) year. If Otsuka exercises the Purchase Option, the Company will realise US$60 million in proceeds from Otsuka to repay the Term A Loan. Alternatively, if Otsuka does not exercise its Purchase Option, the Company will have to seek external financing to repay the Term A Loan, as well as the Term C Loan. The Company believes that it will be in a position to refinance either the US$100 million for the Term C Loan or the combined amount of US$160 million for the Term A Loan and the Term C Loan when they become due one (1) year after they are drawn down upon Closing of the Acquisition. There can however be no assurances that the Company will be able to refinance at a cost of capital or on terms that are equal to or better than the Facilities to be provided by Otsuka.

The Company is not permitted to prepay any portion of the US$40 million convertible Term B Loan prior to its three-year maturity. Given the interest rate on the Term B Loan of 1.0% above LIBOR (and assuming LIBOR at 0.4% per annum), the anticipated interest expense for the Term B Loan over the three (3) years will be approximately US$1.7 million. The Company does not expect that the inability to prepay the Term B Loan will have any material impact on its operations.

The Company will need to refinance the Term C Loan and, if Otsuka does not exercise the Purchase Option, the amount of the Term A Loan at their maturity at the end of one (1) year after they are drawn down upon Closing of the Acquisition. However, the security arrangements applicable to the Term B Loan and the Purchase Option Agreement may adversely affect the Company's ability to refinance the Term A Loan and/or the Term C Loan with bank loans and the Company may need to consider alternative means of refinancing those Term Loans.

As discussed with the Directors, we understand that although the security arrangement applicable to the Term B Loan may adversely affect the Company's ability to refinance the Term A Loan and the Term C Loan, it is still of the interest of the Company to obtain the Facilities because the dilution effect of the conversion feature under the Term B Loan is minimal and the Facilities can provide timely financing of US$160 million with minimum interest rate and transaction fee incurred by the Company. Both Term A Loan and Term C Loan have a maturity of one (1) year, we understand from the Directors that such short term of maturity could bring flexibility and provide options for the Company to pursue alternative financing from other sources in the future, including but not limited to the independent creditors. We concur with the Directors that loans with such short term of maturity could be considered as bridge loans for the Company to obtain timely financing in relation to the Closing of the Acquisition. We are of the view that the term of maturity of Term A Loan and Term C Loan is in the interests of the Shareholders as a whole.

By considering the above reasons, we are of the view that the Facilities can provide the Company with several advantages, including: (i) the provision of financing that will allow for the Closing of the Acquisition; (ii) an attractive cost of capital to finance for the Acquisition; (iii) the greater certainty of financing; (iv) minimal dilution to Shareholders; and (v) the ability to refinance.

3. Other terms of the Facilities

In forming our opinion, we have also considered the guarantee and security, covenants, undertakings, and the events of default of the Facilities.

3.1 Covenants, undertakings and events of default

As disclosed in the Circular, we note that the Board has considered the covenants, undertakings and events of default provided under the Credit Agreement are, in general, typical for acquisition financings of this nature, and are required by the Lenders to (i) ensure that the Lenders do not maintain credit exposure to the Company after a third party takes control of the Company and changes the composition of the majority of the Board and (ii) reduce the risk that the Company will conduct activities that the Lenders believe will reduce the Company's ability to repay the Term Loans.

Upon repayment of the Term A Loan and the Term C Loan, and provided no event of default has occurred (or will with the passage of time occur), certain negative covenants that limit the Company's activities will be eliminated or significantly reduced while only the Term B Loan remains outstanding, as follows:

(i) the restriction on creating liens will be modified to allow for the creation of liens over any assets other than the US portion of the Business;

(ii) the restriction on incurring indebtedness will be modified to allow the incurrence of at least US$200,000,000 of indebtedness;

(iii) the restriction on making investments will be completely eliminated;

(iv) the restriction on disposing of assets will be modified to allow dispositions of up to US$25,000,000 in the aggregate (in addition to other standard permitted dispositions); and

(v) the restriction on subsidiaries of the Company accepting capital contributions will terminate.

We have discussed with the Directors and understand that such terms are crucial to protect the interest of the Lenders in order to obtain the Facilities. We have also assessed independent creditors and noted that it is common to have such covenants, undertakings and events of default to protect the lenders. As such, we concur with the view of the Directors that such terms are common when engaging into other facilities from independent creditors. Therefore, we are of the view that these terms, as set out in the Credit Agreement, are on normal commercial terms and are fair and reasonable.

3.2 Guarantee and Security of the Facilities and Purchase Option Agreement

The Facilities, and the obligations of the Company and MicroPort Coop under the Purchase Option Agreement, are guaranteed by the following subsidiaries of the Company: (1) MicroPort Orthopedics Holdings Inc., (2) MicroPort US, (3) MicroPort Direct LLC, (4) Wright Japan, (5) MicroPort Orthopedics Corporation, (6) MicroPort Coop, (7) MicroPort Orthopedics NV, (8) MicroPort Orthopedics B.V., (9) MicroPort Orthopedics Limited, (10) MicroPort Orthopedics GmbH, (11) MicroPort Medical Limited, and (12) Leader City Limited. The Facilities, and the obligations of the Company and MicroPort Coop under the Purchase Option Agreement, are secured by (i) the assets of MicroPort Orthopedics Holdings Inc., MicroPort US and MicroPort Direct LLC; (ii) the real property owned by MicroPort US; (iii) the equity interests in MicroPort Coop, MicroPort Orthopedics Holdings Inc., MicroPort US, MicroPort Direct LLC, MP Shanghai, Wright Japan, MicroPort Orthopedics SAS, MicroPort Orthopedics SRL, MicroPort Orthopedics NV, MicroPort Orthopedics Limited and MicroPort Orthopedics GmbH; and (iv) all right, title and interest in certain assets held by Wright Japan. The approximate total value of the collateral (including the underlying assets, where a security interest is granted in the equity interest of the subsidiary owning such assets, but apart from the value of the equity pledge over MP Shanghai) is US$312 million based on the unaudited consolidated management accounts of the Business as at 31 December 2012 prepared in accordance with US GAAP. The approximate value of the equity pledge over MP Shanghai is RMB1,809 million based on the consolidated management accounts of MP Shanghai as at 31 December 2012 prepared in accordance with IFRS. The security arrangements for the Term Loans are standard as compared to other acquisition financings of this nature, and are required by the Lenders in order to reduce their risk exposure and to provide an adequate level of protection against the Company's default.

We have reviewed the unaudited consolidated management account of the Business and consolidated management accounts of MP Shanghai and consider that the determination of value of the collateral is fair and reasonable. Furthermore, we note that the borrowing amount that will be provided by the Facilities is approximately 33% of the value of collateral. We have also discussed with the management of the Company in relation to the value of collateral compared with the borrowing amount provided from the Facilities and understand that bridge loan offered by other financial institutions required similar level of collateral. As such, we consider that such arrangement is fair and reasonable and in the interests of the Shareholders as a whole.

Upon repayment of the Term A Loan and the Term C Loan, and provided no event of default has occurred (or will with the passage of time occur), liens on the assets of the Company and its subsidiaries will be released, except for liens over the assets located in the U.S. constituting the Business and the equity interests in any entity owning such assets. Such remaining liens are to secure the amount of the Term B Loan that will remain outstanding and the obligations of the Company and MicroPort Coop under the Purchase Option Agreement. The approximate value of the assets located in the U.S. constituting the Business is US$246,000,000 based on the unaudited consolidated management accounts of the Business as at 31 December 2012 prepared in accordance with US GAAP. The accounts receivable generated from the U.S. portion of

the Business, which is approximately US$29,000,000 based on the unaudited consolidated management accounts of the Business as at 31 December 2012, will be included in the Lenders' collateral package. We have discussed with the management in relation to the liens on the asset over the assets located in the U.S. upon the repayment of the Term A Loan and the Term C Loan and understand that only the value of assets located in the U.S. constituting the Business, which is approximately US$246,000,000 is large enough to be used as collateral for the remaining Term B Loan, compared with the sum of values of assets located in the other regions. Furthermore, the Conversion Right under the Term B Loan provides Otsuka an opportunity to increase its shareholding in the Company which contains substantial amount of assets in the U.S.. As such, it is common for Otsuka as the lender to require the major assets of the Group as collateral for the remaining Term B Loan in order to secure the value of underlying Conversion Shares, and also the Term B Loan. In light of the above, we are of the view that such arrangement is fair and reasonable.

The Company will need to refinance the Term C Loan and, if Otsuka does not exercise the Purchase Option, the amount of the Term A Loan at any time prior to their maturity at the end of one (1) year after they are drawn down upon Closing of the Acquisition. The Company will also need to secure the financing for refinancing of the Term C Loan no later than 10 months after drawdown as a result of the undertaking that it has provided as referred to under the section headed "The Credit Agreement – Undertakings" in the Circular. However, the security arrangements applicable to the Term B Loan and the Purchase Option Agreement may adversely affect the Company's ability to refinance the Term A Loan and/or the Term C Loan with bank loans and the Company may need to consider alternative means of refinancing those Term Loans.

We have discussed with the Directors and understand that the guarantee and security of the Facilities are crucial to protect the interest of the Lenders in order to obtain the Facilities. We are also of the view that such terms are common when engaging into other facilities from independent creditors as well. As such, we are of the view that these terms, as set out in the Credit Agreement, are on normal commercial terms and are fair and reasonable.

4. Principal factors considered

As discussed with the Directors, the Facilities were determined after commercial negotiations between Otsuka and the Company on an arm's length basis, taking into account, inter alia, the following factors:

4.1 The Interest Rate

As advised by the Directors and based on our understanding, it is common practice for commercial banks in Hong Kong to set interest rate on loans with reference to HIBOR, LIBOR or the Hong Kong dollar best lending rate (the "Prime Rate") on corporate loans. We have searched through the internet and Bloomberg (as the case may be) and we noted that (i) according to the statistics released by the Hong Kong Monetary authority the "6-month HIBOR fixing" ranged from approximately 0.535% to 0.548% per annum from January 2013 to July 2013; and (ii) the "6-month

LIBOR fixing" ranged from approximately 0.396% to 0.506% per annum from January 2013 to July 2013; and (iii) the Hongkong and Shanghai Banking Corporation Limited's Prime Rate has remained at 5% per annum with effect from 10 November 2008.

As further advised by the Director, the Company is required to pay an interest rate of LIBOR plus 1.0% per annum (the "Interest Rate") for the Facilities. Based on the aforesaid "6-month LIBOR fixing" from January 2013 to July 2013, the Interest Rate would range from 1.396% to 1.506%.With this being the case, the Interest Rate is likely to be below the annual interest rates of the Company's existing loans which carry annual fixed interest rates ranging from 6.31% to 7.11%, as well as below the Hong Kong and Shanghai Banking Corporation Limited's Prime Rate. Lastly, we have inquired with the Directors and were advised that the Group's additional bank and other borrowings will carry interest rates that refer to the prime rate set by the People's Bank of China (the "China Prime Rate") with the range of "100% of China Prime Rate to 105% of China Prime Rate". The Interest Rate is hence below the said range.

To assess the fairness and reasonableness of the Interest Rate, we have also considered comparing the same with other similar market comparables. Nevertheless, we are of the opinion that the interest rate of loans is dependent on different factors, for example, competition in the market, costs of funds and the overall economic climate, not to mention those which are specific to the borrower itself such as its financial and liquidity position, its repayment ability, prospects of the borrower's business, security/collateral provided by the borrower and the reputation and credibility of the borrower and its owner(s). Due to the above possible variations, we consider that the Interest Rate cannot be directly compared with interest rates offered in similar market comparables, even if there are any, as they could vary largely on a case-by-case basis.

Given the above, in light of the fact that the Interest Rate is below the interest rates of all of the existing bank borrowings of the Group and the Hong Kong and Shanghai Banking Corporation Limited's Prime Rate, we consider that the Interest Rate is fair and reasonable so far as the Independent Shareholders are concerned.

4.2 Maturity

Unless previously repaid or converted in accordance with the terms and conditions of the Credit Agreement, the outstanding principal amount of the Term A Loan, the Term B Loan and the Term C Loan, are repayable by the Company upon its maturity on the date falling one (1) year after the drawdown date, three (3) years after the drawdown date and one (1) year after the drawdown date, respectively.

4.3 The Conversion Option for the Term B Loan

4.3.1 Conversion Right

(i) Otsuka, as the Term B Lender, has the right to convert the outstanding principal amount of the Term B Loan, in whole or in part, together with accrued and unpaid interest thereon into Conversion Shares. The Conversion Right may be exercised on more than one occasion and at any time during the Conversion Period, provided that:

(a) in the event that the Conversion Date falls on a date which is on or prior to the date which is two (2) years after the Closing Date, the Shares issuable upon exercise of the Conversion Right, when aggregated with all Conversion Shares previously issued, shall not exceed two (2) percent of the number of Shares in issue on the Conversion Date;

(b) no conversion notice shall be deposited after the date which is 30 days before the expiry of the Conversion Period, but any conversion notice may specify a Conversion Date that is on or after such date;

(c) to the extent that the amount of accrued but unpaid interest exceeds US$2,000,000, the excess will not be converted but will be paid by the Company to the Term B Lender on the Conversion Date;

(d) if the Conversion Right is exercised in respect of part only of the Term B Loan, it shall be for a minimum principal amount of US$1 million; and

(e) no Shares issuable upon exercise of the Conversion Right shall be issued during any restricted periods applicable to an issue of Shares to the Term B Lender as prescribed under any applicable laws or regulations, in which case the Conversion Date in respect of such Shares shall be automatically postponed to the trading date immediately after the expiry of the relevant restricted period.

(ii) The number of Conversion Shares to be issued upon exercise of the Conversion Right shall be determined by dividing the principal amount of the Term B Loan to be converted together (subject to (i)(c) above) with accrued and unpaid interest up to (but excluding) the Conversion Date on such amount, by the Conversion Price in effect at the Conversion Date.

(iii) Fractions of Shares will not be issued on conversion, but will be rounded down and the principal and/or interest represented thereby will be paid out if over US$100 in aggregate.

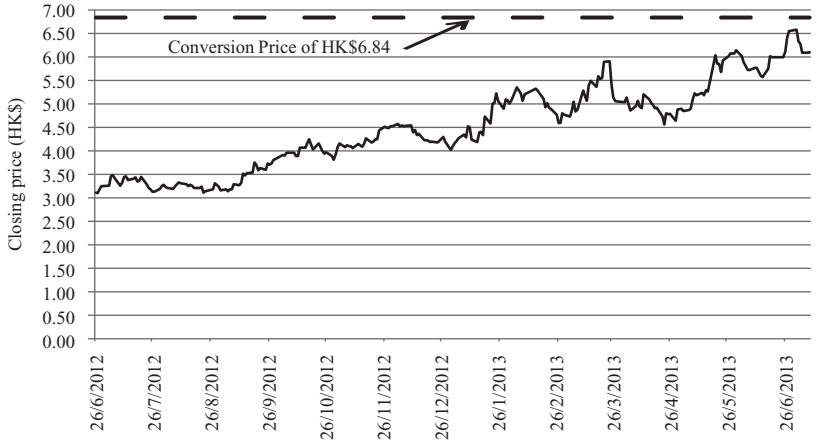
(iv) If any part of the Term B Loan has become due and payable prior to the maturity date of the Term B Loan due to an occurrence of an event of default under the Credit Agreement or any part of the Term B Loan is not repaid when due, the Conversion Right attaching to the relevant part of the Term B Loan will revive and/or will continue to be exercisable up until the indefeasible payment in full of the relevant part of the Term B Loan.

4.3.2 Share price performance and analysis of the Conversion Price

We have discussed with the management of the Company and understand that the Term B Loan is a convertible bond in nature. Indeed, the interest rate incurred by the Company is the coupon rate paid by the Company. As such, we conducted our analysis on the Conversion Price, as well as the interest rate incurred by the Company. We have discussed with and understand from the Directors that the Conversion Price was determined after arm's length negotiations between the parties and is based on the average closing price of the Shares of the Company for the fifteen consecutive trading days commencing on the date on which the Announcement of the Company with respect to the Acquisition was made, plus 10% premium. The Company announced on 17 July 2013 that the average closing price of the Shares of the Company as quoted on the Stock Exchange for the fifteen consecutive trading days from the date of the Announcement with respect to the Acquisition on 26 June 2013 to and including 17 July 2013 was HK$6.22 per Share. After applying the 10% premium and being converted into US dollars at a mutually agreed fixed rate of US$1 = HK$7.775, this results in the Conversion Price of US$0.8800 per Conversion Shares (subject to adjustment, from time to time, in the manner set forth the below). As such, the Directors consider that the initial Conversion Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We have reviewed the market price performance of the Shares in assessing the reasonableness and fairness of the initial conversion price of US$0.8800 per Conversion Shares for Term B Loan. Table 1 below shows the daily closing price of the Shares versus the Conversion Price for the 12-month period ended 25 June 2013 (the "Review Period"), being the last trading day before the Announcement was made (the "Last Trading Day"):

Table 1: Share price performance versus the Conversion Price during the Review Period



Source: Bloomberg

Note: Trading in the Shares was suspended on 19 June to 21 June 2013, 24 June to 25 June 2013.

The Conversion Price of US$0.8800 (which is equivalent to HK$6.846) per Conversion Shares represents:

(i) a premium of approximately 14.10% to the closing price of HK$6.00(Note) per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 14.10% to the average closing price of the Shares of approximately HK$6.00(Note) per Share for the 5 trading days ended on the Last Trading Day;

(iii) a premium of approximately 16.63% to the average closing price of the Shares of approximately HK$5.87(Note) per Share for the 10 trading days ended on the Last Trading Day;

(iv) a premium of approximately 17.43% to the average closing price of the Shares of approximately HK$5.83(Note) per Share for the 15 trading days ended on the Last Trading Day;

(v) a premium of approximately 16.43% to the average closing price of the Shares of approximately HK$5.88(Note) per Share for the 20 trading days ended on the Last Trading Day; and

(vi) a premium of approximately 17.43% to the average closing price of the Shares of approximately HK$5.83(Note) per Share for the 30 trading days ended on the Last Trading Day.

Note: The closing prices of the Shares were adjusted for dividend distributed by the Company.

As illustrated in the Table 1 above, we noted that the closing price of the Shares was traded within the range from HK$3.10 to HK$6.14 during the Review Period. As such, the Conversion Price of US$0.8800 under the Credit Agreement lies above the range of the closing prices during the Review Period. The Conversion Price represents a premium of approximately 54.52% over the average closing price of the Shares during the Review Period of approximately HK$4.43.

4.3.3 Historical trading volume of the Shares

Table 2: Historical trading volume of the Shares

Month	Total trading volume *(no. of Shares)*	No. of trading days	Average daily trading volume *(no. of Shares)*	No. of outstanding Shares *(no. of Shares)*	Percentage of average daily trading volume to no. of outstanding Shares *(Approximate %)*
Jun-12	11,692,914	21	556,805	1,421,451,000	0.04
Jul-12	18,972,646	21	903,459	1,421,519,000	0.06
Aug-12	8,268,105	23	359,483	1,422,508,000	0.03
Sep-12	26,404,666	20	1,320,233	1,423,539,000	0.09
Oct-12	27,505,697	20	1,375,285	1,422,671,000	0.10
Nov-12	36,700,177	22	1,668,190	1,418,131,000	0.12
Dec-12	18,888,028	19	994,107	1,411,365,000	0.07
Jan-13	71,457,278	22	3,248,058	1,407,372,000	0.23
Feb-13	36,137,832	17	2,125,755	1,405,927,000	0.15
Mar-13	99,223,417	20	4,961,171	1,406,212,000	0.35
Apr-13	46,492,007	20	2,324,600	1,407,312,000	0.17
May-13	51,721,943	21	2,462,950	1,407,979,000	0.17
Jun-13 (Up to the Last Trading Day)	17,788,570	11	1,617,143	1,408,193,000	0.11

Source: Bloomberg

Note: Trading in the Shares was suspended on 19 June to 21 June 2013, 24 June to 25 June 2013.

As illustrated in table 2 above, we noted that the average daily trading volume of the Shares ranged from approximately 0.03% to approximately 0.35% of the total number of outstanding Shares as at the respective months. As such, we consider that the overall liquidity of the Shares was generally thin during the Review Period.

By taking into account the above analysis on the historical price performance and trading volume of the Shares, being (i) the Conversion Price lies above the range of the closing prices during the Review Period; and (ii) the volume of

trading in Shares has been rather low during the Review Period, we consider that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

4.3.4 Comparison with other issues of convertible bonds/notes

In order to assess the fairness and reasonableness of the terms of the Credit Agreement, we have reviewed relevant comparable transactions which are selected based on the following criteria: (i) the transactions involve issue of convertible bonds or notes; (ii) the issuers are companies listed on the Main Board or the Growth Enterprise Market of the Stock Exchange; and (iii) the issues were announced in the three months immediately preceding the date of the Announcement under similar market sentiment (the "Selected Comparables"). We have, to our best effort, identified and made references to, so far as we are aware, 14 Selected Comparables which are exhaustive and the convertible bonds/notes of which were issued to either connected persons or independent third parties with zero to 2% of coupon rate per annum which are close and comparable to the interest rate of the Term B Loan, both of which we consider appropriate in our analysis since their respective issue price/subscription price is determined after arm's length negotiation between the relevant parties and we are of the view that each of them represents a fair and representative sample. Independent Shareholders should note that the Selected Comparables are not identical to the Company in terms of principal business, operations and financial position, and that the dilution impact of the Selected Comparables are not identical to that of the issue of the Convertible Notes. Nevertheless, we consider that the Selected Comparables could provide a general reference for the recent common market practice of companies listed on the Main Board or the Growth Enterprise Market of the Stock Exchange in the issues of convertible bonds/notes under specific mandate. Details of our analysis are set out in the following table:

Table 3: Analysis on issue of convertible bonds/notes of Selected Comparables

	Company name (stock code)	Date of agreement	Premium/ (discount) of conversion price to the closing price on the respective last trading day	Maturity
			%	*Year(s)*
1	Binhai Company Investment Limited (8035)	25/07/2013	(5.38)	3
2	Haitong International Securities Group Limited (665)	09/07/2013	13.00	5
3	South Sea Petroleum Holdings Limited (76)	09/07/2013	2.99	1
4	Pizu Group Holdings Limited (8053)	08/07/2013	1.65	3
5	Dingyi Group Investment Limited (508)	28/06/2013	(33.20)	2
6	China Household Holdings Limited (692)	26/06/2013	0.00	2.5
7	Hua Lien International (Holding) Company Limited (969)	31/05/2013	11.11	5
8	Hengan International Group Company Limited (1044)	20/05/2013	35.00	5
9	China Daye Non-Ferrous Metals Mining Limited (661)	08/05/2013	28.21	5
10	King Stone Energy Group Limited (663)	30/04/2013	86.30	3
11	Tonic Industries Holdings Limited (978)	24/04/2013	(44.48)	perpetual
12	United Gene High-Tech Group Limited (399)	18/2/2013 & 19/4/2013	(8.05)	10
13	Applied Development Holdings Limited (519)	16/04/2013	(17.65)	5
14	Mongolia Investment Group Limited (402)	08/04/2013	(1.96)	5
	Maximum		86.30	10.00
	Minimum		(44.48)	1.00
	Mean		4.82	4.19
	Term B Loan		**14.10**	**3.00**

Source: The website of the Stock Exchange (www.hkex.com.hk)

(i) Conversion Price

As shown in Table 3 above, the discount/premium represented by the conversion price per conversion share of the convertible bonds/notes issued by the respective Selected Comparables to the respective share closing price on the last trading day ranges from a discount of approximately 44.48% to a premium of approximately 86.30% with a mean of a premium of approximately 4.82%. It is noted that the premium of 14.10% represented by the Conversion Price of the Term B Loan to the closing price of the Share on the Last Trading Day falls within the range and is above the mean in the analysis.

(ii) Maturity

As shown in Table 3 above, the maturity of the convertible bonds/notes issued under the respective Selected Comparables ranges from 1 year to 10 years. It is noted that the maturity of 3 years of Term B Loan falls within the said range.

(iii) Other terms of the loan facilities

We have also reviewed other major terms of the loan facilities agreements and are not aware of any terms which are unusual. Based on the above analysis, we consider the key terms of the Term B Loan are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

After taking into account that (i) the reasons for, and the benefits of, entering into of the Credit Agreement as discussed above; (ii) the Conversion Price represents a premium to the closing price of the Share on the Last Trading Date and such premium is above the mean to that of the Selected Comparables; and (iii) the Conversion Price represents a premium of approximately 230% to the unaudited consolidated net assets per Share of the Company of approximately HK$2.08 as at 30 June 2013, we are of the view that the terms of the Term B Loan and other principal terms of the Credit Agreement are on normal commercial terms and are fair and reasonable. We also consider that the principal terms of the Term B Loan are on normal commercial terms, fair and reasonable and are in the interest of the Company and the Independent Shareholders as a whole.

4.3.5 Potential dilution to the shareholding of the public Shareholders

Set out below Table 4 depicts the effects of the issuance of the Conversion Shares pursuant to the terms of the Term B Loan on the shareholding structure of the Company based on the issued share capital and shareholding structure of the Company as at the Latest Practicable Date and assuming full conversion of the principal amount of the Term B Loan and the maximum cap of the accrued interest available for conversion to the Conversion Shares at the Conversion Price, assuming no further Shares will be allotted and issued after the Latest Practicable Date.

Table 4: Shareholding structure of the Company

	As at the Latest Practicable Date		Immediately after the allotment and issuance of Conversion Shares pursuant to the terms of the Term B Loan assuming (i) full conversion of the principal of Term B Loan and the maximum cap of the accrued interest available for conversion to the Conversion Shares at the Conversion Price, and (ii) no further Shares will be allotted and issued after the Latest Practicable Date	
Name of Shareholders	**Number of Shares**	**Approximate % of the issued share capital of the Company**	**Number of Shares**	**Approximate % of the issued share capital of the Company**
Otsuka Group	468,994,120	33.29%	516,721,392	35.47%
Shanghai Zhangjiang Group	285,748,050	20.28%	285,748,050	19.62%
We'Tron Capital Limited	217,110,000	15.41%	217,110,000	14.91%
Others	437,041,020	31.02%	437,041,020	30.00%
Total	**1,408,893,190**	**100%**	**1,456,620,462**	**100%**

In light of the above, we are of the view that the Conversion Option for the Term B Loan is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

4.4 Purchase Option for the Term A Loan

The Purchase Option Agreement is entered into among the Company, MicroPort Coop, an indirectly wholly-owned subsidiary of the Company, as the seller, and Otsuka as the buyer on 15 December 2013. The Company is a party for the purpose of guaranteeing MicroPort Coop's obligations under the agreement. Pursuant to the agreement, MicroPort Coop has agreed to grant to Otsuka the option to acquire the entire equity interests of Wright Japan at an exercise price of US$60 million (equivalent to approximately HK$467 million). The price of the option itself is US$1. Otsuka can exercise this option, in whole and not in part, at any time during the period that beginning 90 days prior to the maturity date of the Term A Loan (which is one (1) year after the drawdown of the Term A Loan) and ending 30 days prior to the maturity date of the Term A Loan. Otsuka's obligation to pay the exercise price will be set off against an equivalent amount of principal and/or accrued and unpaid interest owing to Otsuka and/or its affiliates in respect of the Term A Loan. Any principal and/or accrued and unpaid interest not set-off will remain payable in accordance with the

Credit Agreement. If Otsuka elects not to exercise the option, the full amount of the Term A Loan and any accrued and unpaid interest will be due and payable on the maturity date of the Term A Loan in accordance with the Credit Agreement.

As discussed with the management of the Company, we understand that the Purchase Option with an exercise price of US$60 million and price of US$1 is set as a package. We note the mechanism of setting a US$60 million Purchase Option is based on the revenue contribution of Wright Japan as to the other contributions from the rest of the businesses under the Asset Purchase Agreement. We consider such pricing mechanism is based on normal commercial practice and is fair and reasonable.

The Purchase Option Agreement contains customary operating covenants, representations and warranties. MicroPort Coop has agreed to indemnify Otsuka for breaches of covenants, representations and warranties. Representations and warranties will survive for 18 months after the exercise of the Purchase Option and MicroPort Coop's liability will be capped at US$18 million (equivalent to approximately HK$140 million). The Purchase Option Agreement is non-assignable and non-transferrable and is governed by Hong Kong law.

Under the Purchase Option Agreement, MicroPort Coop and the Company have to comply with certain ongoing obligations as follows:

(i) Otsuka was granted certain rights by MicroPort Coop to conduct a thorough due diligence review of Wright Japan and its business, subject to, prior to the Closing Date, the rights and obligations of the Seller under the Asset Purchase Agreement;

(ii) until the earlier of completion of the exercise of the option or the expiry of the option period, MicroPort Coop shall not sell, transfer or dispose any interest in any of the equity interests of Wright Japan or any right attaching to such equity interest; and

(iii) in addition, various actions of Wright Japan require the prior consent of Otsuka (such consent shall not be unreasonably withheld, conditioned or delayed), including: acquisition or disposal of any revenues, assets, business or undertakings (except in normal course of business) or to assume any liability and obligation (except in normal course of business); make capital expenditure or incur a commitment involving capital expenditure exceeding in total US$5,500,000; declare, pay or make any dividend or distribution; create encumbrance over the properties or another asset or redeem an existing encumbrance over the properties or another asset; enter into long term, onerous, unusual or material agreement, arrangement or obligation involving consideration, expenditure or liabilities in excess of US$4,000,000; amend or terminate material agreement to which it is a party or terminate any contract or commitment which is not capable of being terminated without compensation or which is not in the usual course of its business or which involves or may involve total annual expenditure of US$4,000,000; give a guarantee, indemnity or other agreement to secure, or incur financial

obligations with respect to, another person's obligation; and compromise or settle litigation or arbitration proceedings or any action, demand or dispute or waive a right in relation to litigation or arbitration proceedings.

The obligations of the Company and MicroPort Coop under the Purchase Option Agreement are guaranteed and secured by the same guarantees and security given in relation to the Facilities (see the section in this letter headed "3.2 Guarantee and Security of the Facilities and Purchase Option Agreement" for further details).

The grant of the option to Otsuka under the Purchase Option Agreement is subject to the completion of the Acquisition and to the Independent Shareholders' approval. If Otsuka exercises the Purchase Option, the Company will cease to hold any equity interest of Wright Japan upon completion of such exercise.

The US$60 million exercise price of the Purchase Option was derived primarily by taking into consideration the revenue contribution of Wright Japan relative to the overall Business to be acquired by the Company under the Asset Purchase Agreement, which is approximately 20%. By applying this 20% contribution to the overall purchase price of US$290 million, we arrived at a purchase price of US$60 million. The US$60 million exercise price also assumes that Otsuka will exercise its right to take up the license available to it under the License Agreement and that, in due course, it will start developing and manufacturing certain products itself for sale in Japan, instead of the Enlarged Group developing and manufacturing those products and Otsuka distributing them under the Japan OrthoRecon Distribution Agreement. If Wright Japan were to develop and manufacture its own products (whether pursuant to the License Agreement or otherwise), it would have to bear the costs associated with the research, development and/or manufacture of products and those would be reflected in the financial statements of Wright Japan and could be used for valuation purposes; however because Wright Japan is currently just a distributor such costs are not available and we do therefore not believe that using an operating profit metric is appropriate for valuation purposes.

The Company is required to reimburse Otsuka for (i) all out-of-pocket expenses reasonably incurred by Otsuka and its affiliates (including without limitation, fees, charges and disbursements of any outside counsel or advisor for appraisal, consulting, audit and any other services, and costs of printing, reproduction, document delivery, travel, communication and publicity) in connection with the preparation, review, negotiation, execution and delivery of the Purchase Option Agreement, and the administration, amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated thereunder shall be consummated); and (ii) all out-of-pocket expenses incurred by Otsuka in connection with the implementation (including the due diligence review of Wright Japan), enforcement or protection of its rights in connection with the Purchase Option Agreement. Any stamp duty, excise, sales, transfer and other similar taxes payable in connection with the transfer of the equity interests of Wright Japan following the exercise of the Purchase Option shall be shared equally by MicroPort Coop and Otsuka. We have discussed with the management of the Company and understand that the out-of-pocket expenses are expected to be minimal and the sharing of stamp duty, excise, sales, transfer and other

similar taxes payable in connection with the transfer of the equity interests of Wright Japan following the exercise of the Purchase Option are in the ordinary and usual course of business. As such, we consider such arrangement is fair and reasonable.

After discussion with the management of the Company in relation to the value of the Purchase Option, we understand that no valuation has been conducted for the Purchase Option. In addition, we noted that the exercise price of the Purchase Option was determined on the basis of revenue contribution of Wright Japan relative to the overall Business.

In order to assess (i) the value of the Purchase Option; and (ii) the fairness and reasonableness of the exercise price of the Purchase Option, we have discussed with the management of the Company in relation to the sales trend of Wright Japan and understand that the sales of Wright Japan has remained stable. Therefore, we have considered the price-to-sales ratio (the "PSR") as the benchmark to conduct our comparison between Wright Japan and other companies (the "Purchase Option Comparable Companies"), which are listed on the Tokyo Stock Exchange.

We have discussed with the management of the Company and understand that the revenue of Wright Japan was approximately JPY4.8 billion in 2012, and hence it implies that the PSR of Wright Japan is approximately 1.06x. In addition, we selected the Purchase Option Comparable Companies which are (i) engaged in similar businesses as Wright Japan; (ii) having their principal businesses based in Japan; and (iii) having a market capitalisation of no more than JPY10 billion. We consider the companies with a market capitalisation of no more than JPY10 billion belong to the category of small-to-medium enterprises in the similar industry as Wright Japan. Since the exercise price of Purchase Option falls within the range of zero to JPY10 billion, as such, we consider this is fair and reasonable to compare Wright Japan with the selected Purchase Option Comparable Companies.

The Purchase Option Comparable Companies have been selected exhaustively based on the above criteria, which have been identified, to the best of our endeavours, in our research through public information. For details, please refer to the information as shown below.

	Name	**Ticker**	**Mkt cap** *(JPY'mil)*	**Closing price** *(JPY)*	**FY12 PSR** *(x)*
1	Japan Medical Dynamic Marketing, Inc.	7600 JP	6,592	249	N/A *(Note)*
2	Japan Lifeline Company Limited	7575 JP	5,990	530	0.26
3	Medius Holdings Company Limited	3154 JP	5,056	1,668	0.04

Name	Ticker	Mkt cap *(JPY'mil)*	Closing price *(JPY)*	FY12 PSR *(x)*
Simple average				**0.15**
Wright Japan		**5,184**		**1.06**

Source: Bloomberg information as of 31 December 2012.

Note: Japan Medical Dynamic Marketing, Inc. changed its financial year ending date from 31 May to 31 March in 2012, and thus, there is only 10-month sales figures available for comparison. We consider such comparison is not directly comparable to that of the one at the table. Hence, we are of the view that including its sales figure will distort the fairness and reasonableness of such comparison.

We consider the two PSRs obtained from the above table provide us with the range of PSR of market participants in the medical industry for our analysis. From the above table, we noted that the average PSR derived by the Purchase Option Comparable Companies is approximately 0.15x, which is significantly lower than the PSR of Wright Japan, and it implies that the exercise price of the Purchase Option is higher than the market price that is considered as fair and reasonable by market participants. In other words, the potential acquisition of Wright Japan by Otsuka in the event of exercising the Purchase Option is in the interest of the Company and Shareholders as a whole.

By comparing the PSRs between Wright Japan and the Purchase Option Comparable Companies, we consider the Purchase Option is a deep out-of-money option by setting its exercise price at US$60 million. For the time value, it shows the likelihood that an option could become (i) in-the-money (if the option is out-of-money which is the case of Purchase Option); or (ii) increase its intrinsic value (if the option is already in-the-money) before its maturity. The time-value can be estimated by considering various factors altogether, including time-to-maturity, exercise price, current price of underlying, volatility of price of underlying, etc. For the case of Purchase Option, its time-value is worth of no value given that it is in deep out-of-money status (approximately 7.1 times over the fair market price, i.e. 1.06/0.15 = 7.1), the exercise price has dominated the value of Purchase Option and other factors have become insensitive. As such, we consider the Purchase Option has no value.

In light of the above, we are of the view that the Purchase Option has no adverse effect on the Company and Shareholders as a whole and the Purchase Option has no value. As such, we are of the view that the Purchase Option is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

4.5 License Agreement

MicroPort US and Otsuka have also entered into the License Agreement concurrently with the execution of the Purchase Option Agreement on 15 December 2013. In connection with the Purchase Option Agreement and conditional upon and until effective from completion of Otsuka's exercise of the Purchase Option, MicroPort

US will grant to Otsuka, for no additional fee, a perpetual, fully paid-up, royalty-free, non-transferable and non-sublicensable (save as provided below), exclusive license (the "License") to make, have made, use, sell, offer for sale, import any and all products, services and technologies, and otherwise practise, use, develop, improve, reproduce, distribute, make derivative works of, display, perform, market, commercialise and otherwise exploit implants and joint replacements used in connection with total and partial hip or knee replacement surgery and included in MicroPort US's product catalog on the Closing Date. The license is for use only within Japan and within a field limited to hip and knee replacement surgery; provided, however, Otsuka may sublicense to its affiliates other than affiliate that is a competitor of the Enlarged Group. The intellectual property subject to the license includes trade secrets, trademarks and patents issued and patent applications filed in Japan and in existence on the Closing Date. The license will terminate automatically if Otsuka does not establish an R&D or manufacturing facility to exploit, develop or manufacture the licensed products or the intellectual property within five (5) years following the completion of the exercise of the Purchase Option by Otsuka. All intellectual property based on the licensed intellectual property but developed by or on behalf of Otsuka will be owned by Otsuka. The License Agreement may not be assigned by either party without the prior written consent of the other party. MicroPort US has also given warranties concerning, amongst other things, its rights and authority to grant the license to Otsuka under the License Agreement.

MicroPort US and Otsuka have agreed to negotiate in good faith a license on arm's length basis in relation to any improvements to the intellectual property subject to the License Agreement which are developed by MicroPort US subsequent to the Closing Date. The granting of any license for such improvements will be subject to the Company complying with the relevant requirements under Chapter 14A of the Listing Rules.

After discussion with the management of the Company in relation to the value of the intellectual properties under the License Agreement, we understand that those intellectual properties are recorded at their cost. Also, the intellectual properties are mutually related to the distributorship and have no value if they are considered separately. As such, we are of the view that the intellectual properties and distributorship should be considered altogether.

MicroPort US has also agreed to use commercially reasonable efforts to provide to Otsuka, for a period of no more than three (3) years commencing on the earlier of the date of initial request from Otsuka or the date on which the R&D or manufacturing facility is established by Otsuka (provided that it is established within five (5) years following the exercise of the Purchase Option or the license granted under the License Agreement will automatically terminate), technical assistance and training and assistance with respect to the R&D or manufacturing facility and related matters (including dispatch of MicroPort US's technical personnel to the R&D or manufacturing facility that Otsuka sets up). MicroPort US will not be required to provide a duration longer than three (3) months per year (with a five-day working week and eight hours per day per personnel) of such assistance and training to Otsuka over the three-year period. Otsuka shall reimburse MicroPort US for (i) all reasonable

out-of-pocket costs and expenses incurred by MicroPort US; (ii) the pro-rata portion of the compensation and benefits of the employees providing such assistance and training; and (iii) any costs or expenses incurred by MicroPort US in respect of the assistance specifically provided to or requested by Otsuka. The amounts will be determined based on the actual time incurred by MicroPort US in providing the assistance and training and there will be no "mark-up" to the amounts charged, nor is there any charge for overhead or administration of MicroPort US. The provision of technical assistance and training with respect to the R&D or manufacturing facility by MicroPort US to Otsuka is a term of the License Agreement and as such is considered part of the Purchase Option Agreement because the entering into of the License Agreement is a requirement under the Purchase Option Agreement. We are of the view that granting of the License and provision of technical assistance and training with respect to the R&D or manufacturing facility by MicroPort US to Otsuka should be viewed as part of the License Agreement, and the License Agreement as part of the Purchase Option Agreement. As execution of the Purchase Option Agreement (and the License Agreement and the Japan OrthoRecon Distribution Agreement) is a condition to the execution of, and drawdown of the financing under, the Credit Agreement, we consider that the arrangements under the Credit Agreement, Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement are as a whole on normal commercial terms and fair and reasonable.

4.6 Japan OrthoRecon Distribution Agreement

We have discussed with the management of the Company and understand that Wright Japan began operations in 2001 as an exclusive distributor of Wright Medical's products in Japan. Wright Japan is a wholly-owned subsidiary of the Seller with locations in Tokyo, Osaka, and Fukuoka and will be acquired by the Company as part of the Acquisition. Wright Japan employs approximately 51 administrative personnel as well as 54 direct sales representatives as at 30 June 2013. Wright Japan operates as an exclusive sales and distribution entity for the products of the Selling Group in Japan. In its capacity as a reseller, Wright Japan performs sales, marketing, and logistics functions. Wright Japan manages a network of independent brokers through which it distributes the orthopedic products in Japan.

Assuming Otsuka exercises the Purchase Option, Wright Japan will continue to be the exclusive distributor of the Company to market and sell the Products within Japan. The Directors believe that this will have the following benefits for the Company:

(i) Given that Otsuka is a well-recognised company in Japan with an operating history of over 50 years, with Otsuka's market reputation in Japan, the Business within Japan could experience a more rapid growth under management of Otsuka;

(ii) Although Wright Japan would be sold to Otsuka, the Company would still be in a position to recognise manufacturing profits because through the Japan OrthoRecon Distribution Agreement with Otsuka, MicroPort US will manufacture the Products and sell to Otsuka for distribution in Japan (although it is possible that some Products may cease to be distributed by

Otsuka if it develops or manufactures its own equivalent pursuant to the establishment of an R&D or manufacturing facility in accordance with the License Agreement); and

(iii) By disposing Wright Japan to Otsuka, the Company does not have to continue to invest in sales and marketing activities in Japan and will free up capital for the Company to redeploy in other areas of its business.

In addition, we have discussed with the management of the Company and understand that the Company has been supplying its medical products, mainly DES systems and balloon catheters to the Otsuka Group under distribution arrangements dating from 2004 (in the case of distribution in Japan) and 2008 (in the case of distribution in certain other Asian countries). The Company has had a long business history with Otsuka for the execution of these manufacturer-distributor type partnerships. As the Otsuka Group has extensive distribution capabilities in its home country, Japan, it will be beneficial for the Company to utilise these distribution channels to increase the sales of products of the acquired Business. Furthermore, due to Otsuka's greater financial wherewithal than that of the Company, it may not be financially optimal for the Company to continue to operate a direct sales force in Japan, as new product launches would incur significant cost and resources, and to grow the Business in the market in China at the same time. Therefore, the Directors consider that the best alternative is to utilise Otsuka's commercial capabilities and distribution network in Japan for the products of the Business, similar to the practice with Otsuka for the Company's DES business by having the Company and MicroPort US enter into the Japan OrthoRecon Distribution Agreement with Otsuka.

After discussion with the management of the Company, we understand that expanding a direct sales force in Japan will be time consuming and will require financial resources. As a company with more financial resources, Otsuka can devote to build a larger sales force than the Company. In addition, Otsuka's home market is the Japanese market which may make it easier to attract sales personnel. We concur with the management of the Company and consider such arrangement is fair and reasonable and in the interests of the Shareholders as a whole.

After discussion with the management of the Company in relation to the exclusiveness of the distributorship, we understand that the management of the Company considers that Otsuka understands the market condition of Japan thoroughly as compared with other distributors given their long-established relationship with the Company. Also, we have discussed with the management of the Company and understand that in the medical device industry, there are significant regulatory guidelines that a manufacturer must adhere to in order to be able to sell into a country efficiently. From a clinical/regulatory perspective, products must only be sold by distributors based on the clinical indication for what the product was approved for by the country's regulatory body. This becomes difficult for a manufacturer to manage the distributors as it must force compliance on this issue. Every medical device that is implanted into a human must be tracked from the moment it leaves the manufacturing facility to the time it is implanted into a patient. This tracking process can be best handled by distributor organisations that have scale and experience in dealing and

complying with these stringent regulatory requirements. From a sales and marketing perspective, there are significant economies of scale in dealing with a larger distributor organisation. Effective selling and marketing efforts require frequent clinician training and attendance of industry academic conferences. The costs for these initiatives can be as significant as in millions of dollars. Also for branding purposes, it is far more efficient to engage one large distributor to control the branding and messaging, than to have uncoordinated and different branding when dealing with multiple distributors. In light of the above, it becomes far more efficient for a manufacturer to engage with one distributor organisation than to engage with multiple distributors to sell in a particular country.

To conclude, we have discussed with the management of the Company and consider that under a short timescale during the bidding process of the Acquisition, the Company was required to present to the board of the Seller evidence that external financing was available to the Purchaser. By comparing with other financing proposals offered by investment banks, the Term Loans offers the best terms and conditions, in terms of the interest rate and the transaction fees, to the Company. Moreover, as aforementioned, the execution of the Purchase Option Agreement (and the License Agreement and the Japan OrthoRecon Distribution Agreement) is required under the Credit Agreement, therefore the arrangements under the Credit Agreement, Purchase Option Agreement (including the License Agreement) and the Japan OrthoRecon Distribution Agreement should be considered as a whole and as such, we are of the view that (i) the Purchase Option Agreement and the License Agreement are on normal commercial terms and are fair and reasonable; (ii) the Japan OrthoRecon Distribution Agreement is on normal commercial terms or on terms not less favourable than those of similar transactions with independent third parties, is fair and reasonable and in the ordinary and usual course of business; and (iii) the entering into of each of the Purchase Option Agreement, the License Agreement and the Japan OrthoRecon Distribution Agreement is in the best interest of the Company and its Shareholders.

5. Proposed caps for the Continuing Connected Transactions between the Company and Otsuka under the Japan OrthoRecon Distribution Agreement

The Japan OrthoRecon Distribution Agreement, which is a framework distribution agreement between the Company, MicroPort US, a wholly-owned subsidiary of the Company, and Otsuka, was entered into on the same date as the Purchase Option Agreement. The Japan OrthoRecon Distribution Agreement, will come into effect if and when the Purchase Option is exercised, pursuant to which the distribution of hip and knee replacement products in Japan developed and manufactured by MicroPort US and its affiliates will be performed exclusively by Otsuka and its subsidiaries from time to time (including Wright Japan). The principal terms are as follows:

The Japan OrthoRecon Distribution Agreement

Date

15 December 2013

Parties

(a) Otsuka, as the distributor;

(b) MicroPort, US as the manufacturer; and

(c) the Company, as parent party.

Otsuka and the Company have agreed that their respective subsidiaries shall observe the terms of the Japan OrthoRecon Distribution Agreement.

Term

The Japan OrthoRecon Distribution Agreement shall continue for three (3) years from the JODA Effective Date. If the Purchase Option lapses or is terminated without having been exercised, the Japan OrthoRecon Distribution Agreement will terminate. Subject to (i) the terms of the Japan OrthoRecon Distribution Agreement being amended as required to comply with the Listing Rules then in force (including as to yearly caps); (ii) new minimum purchase levels being agreed in good faith between the parties; and (iii) any approval of the Independent Shareholders required under the Listing Rules at the time being obtained, upon expiry, the Japan OrthoRecon Distribution Agreement will be renewed for a further term of three (3) years (but without the option for further renewal) if Otsuka so requests no later than four months before expiry.

Distribution of hip and knee replacement products

Pursuant to the Japan OrthoRecon Distribution Agreement, the Enlarged Group will sell to the Distributor's Group. Products developed and manufactured by MicroPort US and its affiliates, and the Distributor's Group shall distribute such Products in Japan. The Distributor's Group will be the Enlarged Group's exclusive distributor of the Products in Japan.

Pricing basis and payment terms

After discussion with the management of the Company, we understand that the Distributor's Group shall submit to the Enlarged Group individual purchase orders for the Products. Prices will be (i) determined and negotiated based on normal commercial terms, (ii) based on market price of the relevant Products offered by the Enlarged Group's distributors to the end-users together with the Enlarged Group's cost plus a reasonable profit margin, provided that the prices shall be no less favourable than those available to the distributors of the Enlarged Group in comparable markets.

The Enlarged Group shall provide a pro forma invoice to the Distributor's Group for each accepted order specifying the purchase prices of the ordered Products. The Distributor's Group will pay to the Enlarged Group the full amount as shown on each of such invoice in USD by wire transfer to the bank account designated by the Enlarged Group on the actual delivery date of the relevant Products. In the event that

the Distributor's Group fails to make the payment within thirty (30) calendar days of the due date and if such breach is not remedied within thirty (30) calendar days upon receipt of the reminder from the Enlarged Group, the Enlarged Group is entitled to charge a late payment fee of eight percent (8%) per year thereafter. Any such late payment fee payable will be listed in the invoice provided by the Enlarged Group to the Distributor's Group.

The Enlarged Group will also promptly provide to the Distributor's Group a formal invoice upon receipt of full payment of the purchase price of the relevant Products. In the event that the Distributor's Group fails to pay the full amount as shown on the formal invoice within twenty (20) business days of the due date, and provided that such invoice does not relate to any rejected Products which are either to be replaced or the invoice value of which is to be reduced or which are otherwise subject to dispute, the Enlarged Group will be entitled to, at its sole discretion and upon written notice to the Distributor's Group, stop and/or suspend further deliveries until the invoice is settled.

In addition, to the extent permitted by applicable law, the Distributor's Group will bear and fully indemnify the Enlarged Group for and against reasonable losses, damages and costs due to the Distributor's Group's delay or failure to perform its payment obligations under the Japan OrthoRecon Distribution Agreement.

Towards the end of each year, the international sales team of the Company negotiates the pricing and minimum purchase levels of all products with their distributors in all jurisdictions for the following year. These negotiations are conducted on arm's length terms. For the Japan OrthoRecon Distribution Agreement, the process will be the same except the Company will refer in its negotiations with Otsuka to prices that have been agreed with distributors in markets comparable to Japan, especially the U.S. and European markets. The finance team will then review and approve the proposed pricing for the ensuing year and, finally, the proposed pricing will be submitted to the executive committee of the Company for its approval. During the year, purchase orders submitted by Otsuka will need to conform to the agreed pricing schedule for that year, and each order will be checked by the international sales team and approved by the finance team.

For the determination of reasonable margin, the Company sells primarily through distributors in the International Markets and determines the end user market price for a product by assessing price of similar products that are selling by competitors. The Company will decide whether its products should be sold at a premium, at a discount, or equal to the average selling price of competitor products. As such, market selling price is determined. After confirming the market selling price, the Company will deduct the margin to the distributors to cover its selling and marketing expenses from the market selling price, and this is referred as the transfer price that the company sells its product to distributors. In any events the Company tries to ensure that the transfer price implies a minimum level of profit margin above its cost of manufacturing. The transfer price negotiations are conducted with the distributor on an arm's length basis and take place during the fourth quarter of the calendar year to determine pricing for the following calendar year.

By implementing the above procedures, we consider that the price of Products are determined based on (i) normal commercial terms and with reference to the market price of the relevant Products, provided that the prices shall be no less favourable than those prices to the other distributors of the Enlarged Group in comparable markets; and (ii) the Enlarged Group's cost plus a reasonable profit margin. As such, we consider these procedures adopted by the Enlarged Group are consistent with the market practice and on normal commercial terms.

We have obtained and reviewed the internal control manual, as well as the sample collection of previous internal memorandums in relation to the negotiations between the Company and its distributors, we note that the price of the Products were determined on the basis as described in the paragraph above.

As mentioned above, we understand from the management of the Company that the Company relies on the distributorship of Wright Japan. Should Otsuka exercises the Purchase Option, the Company shall continue to utilise the existing network of Wright Japan to distribute its products to the Japan market. We also note that Otsuka shall demand technical assistance and training from the Company after exercising the Purchase Option in order to facilitate the distributorship. We concur with the management of the Company that the efficient and effective transfer of knowledge from the Company to Otsuka is crucial to the business of the Company in the Japan market. Hence, we consider such technical assistance and training to Otsuka and its employees and contractors at fees on cost basis without any mark-up is fair and reasonable and is in the interests of the Shareholders as a whole.

Historical transaction value

The most appropriate historical transaction values to use for the purposes of the Japan OrthoRecon Distribution Agreement are the transactions between Wright Japan and members of the Selling Group relating to distribution of the Products by Wright Japan in Japan. These are as follows:

	For the year ended 31 December 2010 *(USD 'million)*	**For the year ended 31 December 2011** *(USD 'million)*	**For the year ended 31 December 2012** *(USD 'million)*
Distribution of the Products	26.14	28.54	25.74

The pricing basis of the Products sold by the Selling Group to Wright Japan prior to the Acquisition will not change materially as a result of the acquisition of Wright Japan by Otsuka (upon the exercise of the Purchase Option by Otsuka), and the Directors therefore consider that the historical transaction value for transactions between Wright Japan and the Selling Group is an appropriate basis for the annual caps.

Proposed annual caps

Otsuka will only be able to exercise the Purchase Option during the period beginning 90 days prior to the maturity date of the Term A Loan, and therefore the Japan OrthoRecon Distribution Agreement will not become effective before 16 October 2014 at the very earliest. The proposed annual caps for the transactions contemplated under the Japan OrthoRecon Distribution Agreement for each of the three (3) calendar years including and following the JODA Effective Date are set out as follows:

	For the period from the JODA Effective Date to 31 December 2014 *(USD'000)*	**For the year ended 31 December 2015** *(USD'000)*	**For the year ended 31 December 2016** *(USD'000)*	**For the period from 1 January 2017 to the expiry date of the three-year term of the Japan OrthoRecon Distribution Agreement** *(USD'000)*
Distribution of the Products under the Japan OrthoRecon Distribution Agreement	9,398	40,598	46,688	42,719

The proposed annual caps for the transactions between the Enlarged Group and the Distributor's Group under the Japan OrthoRecon Distribution Agreement have been determined by reference to (i) the historical transaction values for similar transactions between Wright Japan and the Seller in 2010, 2011 and 2012 with respect to the distribution of the Products in Japan; (ii) the expected inflation of approximately 1.4% per annum in the costs of manufacturing the relevant products based on the 12-month change in the Producer Price Index of the Products; (iii) the estimated growth in sales volume of the relevant Products in Japan which is estimated to be 2%, 8% and 15% for the years ending 31 December 2014, 2015 and 2016, respectively, taking into account the projected increase in market shares due to improved penetration of EVOLUTION® knee implant product in Japan, the introduction of new techniques for hip implant surgery, and the enhanced efficiency in sales infrastructure; and (iv) a buffer of 30% to accommodate any unexpected increase in sales volume.

We have discussed with the management of the Company in relation to the estimated growth in sales volume of the relevant Products in Japan and understand that the management of the Company has considered various factors in determination of the growth in sales volume of relevant Products in Japan, including (i) the projected

increase in market shares due to improved penetration of EVOLUTION® knee implant product in Japan; (ii) the introduction of new techniques for hip implant surgery; and (iii) the enhanced efficiency in sales infrastructure. By considering these factors, the management of the Company has prepared the schedule of launching new Products in Japan. We have reviewed such schedule and noted that the growth in sales volume were estimated by the management of the Company by taking into consideration the above factors. We concur with the management of the Company that the proposed annual caps, taking into account, including but not limited to, the Producer Price Index and the estimated growth in sales volume, are fair and reasonable.

Other major terms

Minimum purchase commitments by the Distributor's Group for the Products for each year within the three-year term are set out in the Japan OrthoRecon Distribution Agreement. These are as follows:

	For the period from the JODA Effective Date to 31 December 2014 *(USD'000)*	**For the year ended 31 December 2015** *(USD'000)*	**For the year ended 31 December 2016** *(USD'000)*	**For the period from 1 January 2017 to the expiry date of the three-year term of the Japan OrthoRecon Distribution Agreement** *(USD'000)*
Minimum purchase commitment of the Products under the Japan OrthoRecon Distribution Agreement	5,783	24,983	28,731	26,289

Subject to the Enlarged Group's compliance in all material aspects with the terms of the Japan OrthoRecon Distribution Agreement, if the Distributor's Group does not meet such minimum purchase commitment for the period commencing from 1 January 2017 to the earlier of the termination or the expiry date of the Japan OrthoRecon Distribution Agreement, the Distributor's Group may at MicroPort US's discretion lose its exclusivity to distribute the Products in Japan and the Enlarged Group shall have the right to terminate the Japan OrthoRecon Distribution Agreement.

The Buy-back Arrangement

The Distributor's Group is permitted for a period of six (6) months following termination of the Japan OrthoRecon Distribution Agreement to sell and distribute those stocks of the Products as it may at the time have in store or under its control. At the end of the six-month period, the Distributor's Group shall sell, and the Enlarged Group shall buy, the remaining stocks of the Products at the same price as was paid by the Distributor's Group for those stocks and be responsible for the corresponding shipping costs of such stocks to be repurchased. The parties have agreed to cap the maximum aggregate purchase price and the costs of shipping relating to the remaining stock that the Enlarged Group is obliged to repurchase under the Buy-back Arrangement at US$139,403,000 (equivalent to approximately HK$1.08 billion).

The proposed cap of the Buy-back Arrangement has been agreed by the parties commercially based on the fact that, in theory, all Products purchased by the Distributor's Group under the Japan OrthoRecon Distribution Agreement could be returned by the Distributor's Group to the Enlarged Group following the termination of the Japan OrthoRecon Distribution Agreement. In recognition that such situation is unlikely to occur in practice, the corresponding shipping costs have also been included in the proposed cap.

We have discussed with the management of the Company and understand that it is common for a distribution agreement to contain a buy-back provision and the Directors (including the independent non-executive Directors) are of the view that the terms of the Buy-back Arrangement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole when viewed together with the other terms of the Japan OrthoRecon Distribution Agreement.

We have obtained sample distribution agreements, which are prepared by independent distributors in the market, from the management of the Company and note that the buy-back provision is a common market practice. As such, we are of the view that the Buy-back Arrangement is on normal commercial terms, is fair and reasonable and in the ordinary and usual course of business.

Reasons for and benefits of the Purchase Option (including the License Agreement) and the Japan OrthoRecon Distribution Agreement

Activities of Wright Japan

Wright Japan began operations in 2001 as an exclusive distributor of Wright Medical's products in Japan. Wright Japan is a wholly-owned subsidiary of the Seller with locations in Tokyo, Osaka, and Fukuoka and will be acquired by the Company as part of the Acquisition. Wright Japan employs approximately 51 administrative personnel as well as 54 direct sales representatives as at 30 June 2013. Wright Japan operates as an exclusive sales and distribution entity for the products of the Selling Group in Japan. In its capacity as a reseller, Wright Japan performs sales, marketing, and logistics functions. Wright Japan manages a network of independent brokers through which it distributes the orthopedic products in Japan.

Assuming Otsuka exercises the Purchase Option, Wright Japan will continue to be the exclusive distributor of the Company to market and sell the Products within Japan. The Directors believe that this will have the following benefits for the Company:

(i) Given that Otsuka is a well-recognised company in Japan with an operating history of over 50 years, with Otsuka's market reputation in Japan, the Business within Japan could experience a more rapid growth under Otsuka's management;

(ii) Although Wright Japan would be sold to Otsuka, the Company would still be in a position to recognise manufacturing profits because through the Japan OrthoRecon Distribution Agreement with Otsuka, MicroPort US will manufacture the Products and sell to Otsuka for distribution in Japan (although it is possible that some Products may cease to be distributed by Otsuka if it develops or manufactures its own equivalent pursuant to the establishment of an R&D or manufacturing facility in accordance with the License Agreement); and

(iii) By disposing of Wright Japan to Otsuka, the Company does not have to continue to invest in sales and marketing activities in Japan and will free up capital for the Company to redeploy in other areas of its business.

Furthermore, as mentioned in the section 4.6, we have discussed with the management of the Company and understand that the Company has been supplying its medical products, mainly DES systems and balloon catheters to the Otsuka Group under distribution arrangements dating from 2004 (in the case of distribution in Japan) and 2008 (in the case of distribution in certain other Asian countries). The Company has had a long business history with Otsuka for the execution of these manufacturer-distributor type partnerships. As the Otsuka Group has extensive distribution capabilities in its home country, Japan, it will be beneficial for the Company to utilise these distribution channels to increase the sales of products of the acquired Business. Furthermore, due to Otsuka's greater financial wherewithal than that of the Company, it may not be financially optimal for the Company to continue to operate a direct sales force in Japan, as new product launches would incur significant cost and resources, and to grow the Business in the market in China at the same time. Therefore, the Directors consider that the best alternative is to utilise Otsuka's commercial capabilities and distribution network in Japan for the products of the Business, similar to the practice with Otsuka for the Company's DES business by having the Company and MicroPort US enter into the Japan OrthoRecon Distribution Agreement with Otsuka.

We have discussed with the management of the Company and understand that expanding a direct sales force in Japan will be time consuming and will require financial resources. As a company with more financial resources, Otsuka can devote to build a larger sales force than the Company. In addition, Otsuka's home market is the Japanese market which may make it easier to attract sales personnel. We concur with the management of the Company and consider such arrangement is fair and reasonable and in the interests of the Shareholders as a whole.

After discussion with the management of the Company in relation to the exclusiveness of the distributorship, we understand that the management of the Company considers that Otsuka is better positioned to execute in the market place compared with other distributors given their long-established relationship with the Company. Also, instead of diversifying the distribution of Products with different distributors, the sales volume of the Products can be maximised by granting exclusive distributorship to Otsuka given its well-established distribution network in Japan. As a result, the manufacturing profit of the Company can also be maximised.

In view of (i) the long-established relationships between the Company and Otsuka; (ii) the aforesaid benefits of established distribution networks; and (iii) the execution of each of the Purchase Option Agreement, the License Agreement and the Japan OrthoRecon Distribution Agreement are part of the conditions for the granting of the Facilities by Otsuka, we are of the view that (i) the Purchase Option Agreement and the License Agreement are on normal commercial terms and are fair and reasonable; (ii) the Japan OrthoRecon Distribution Agreement is on normal commercial terms or on terms not less favourable than those of similar transactions with independent third parties, is fair and reasonable and in the ordinary and usual course of business; and (iii) the entering into each of the Purchase Option Agreement, the License Agreement and the Japan OrthoRecon Distribution Agreement is in the best interest of the Company and its Shareholders.

6. Annual review by the independent non-executive Directors and auditor of the Company

The Directors have confirmed to us that the Continuing Connected Transactions will be subject to the compliance requirements under Rules 14A.37 to 14A.41 of the Listing Rules including, inter alia, the independent non-executive Directors shall review annually and confirm in the Company's next and successive annual reports that they are in compliance with the relevant requirements under the Listing Rules. The auditors of the Company will also review the transactions annually during the relevant tenure and provide the Board with a letter in respect of each relevant financial year during which the Continuing Connected Transactions are conducted and confirm that it is in accordance with the terms of the Japan OrthoRecon Distribution Agreement.

We are of the view that the aforesaid conditions would ensure that appropriate measures will be taken by the Company to govern itself in conducting the Continuing Connected Transactions, thereby safeguarding the interests of the Independent Shareholders as well as the interests of the Company and the Shareholders as a whole.

7. Financial effects of Facilities Transactions

Financial effects of the Facilities

(i) Net assets

Based on the 2013 Interim Result, the Group had unaudited net assets attributable to the Shareholders of approximately RMB2,317.5 million for the half year ended 30 June 2013. Upon the completion of the Acquisition, total liabilities of the Group would increase by US$200 million given the Facilities provided by Otsuka and the cash balance of the Group would decrease by US$90 million. On the other hand, the asset value would be increased by US$290 million upon the completion of the Acquisition. As such, the total effect on the net asset value of the Group would remain unchanged.

In light of the above, we consider that the Facilities will not have an effect on the net asset value of the Group.

(ii) Gearing

We are advised by the Directors that, in accordance with the accounting policies of the Group, Term B Loan is a convertible debt instrument that contains a derivative component. At initial recognition the derivative component is measured at fair value and any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the Term B Loan are allocated to the liability and derivative components in proportion to the allocation of proceeds. The derivative component is subsequently re-measured at fair value and the liability component is subsequently carried at amortised cost. When the Term B Loan is converted, the carrying amount of the derivative and liability components are transferred to shareholders' equity as consideration for the shares issued. Assuming the transaction costs associated with Term B Loan are insignificant, we have used the impact on net assets as discussed in section (i) above in assessing the effect of Term B Loan and the issue of the new Conversion Shares on the gearing ratio of the Group discussed below.

As at 30 June 2013, the Group maintained a gearing ratio of approximately 0.1%. The drawdown of the Term Loans would increase the gearing ratio of the Group due to the increase of the Group's bank and other borrowings. Upon full conversion of the Term B Loan and assuming that the Group does not take out further bank or other borrowings prior to such conversion, the equity base of the Company would be strengthened and the gearing ratio of the Group would be improved.

In light of the above, we consider that the Facilities shall have a positive impact on the gearing of the Group.

(iii) Cash position

The Term A Loan, the Term B Loan and the Term C Loan, are repayable by the Company upon its maturity on the date falling one (1) year after drawdown date, three (3) years after drawdown date and one (1) year after drawdown date, respectively. The Directors expect that the issue of the Term Loans with an aggregate amount of US$200 million from Otsuka should ease the negative impact on Company's cash position as a result of partial settlement of the Acquisition of US$290 million, and the remaining US$90 million will be payable by Company's existing cash balances, which is in the interests of the Company.

In light of the above, we consider that the Facilities shall have a positive impact to the cash position of the Group.

Financial effects of the Purchase Option

(i) Earnings

The Enlarged Group would not record any revenue or profits of Wright Japan in future reporting periods from the point after the completion of the exercise of the Purchase Option and Wright Japan has been acquired by Otsuka. For the year ended 31 December 2012, Wright Japan's revenue and profit after taxation are US$60 million and US$0.38 million, respectively.

(ii) Assets and liabilities

According to the Credit Agreement and the Purchase Option Agreement, if the Term A Loan is not required to be mandatorily prepaid in whole or in part prior to the maturity date under the Credit Agreement and if Otsuka exercises the Purchase Option to acquire the equity interests of Wright Japan, the Enlarged Group's loan balance due to Otsuka would be offset by the amount of the consideration for the purchase of Wright Japan (US$60 million). Hence total indebtedness of the Enlarged Group would be reduced by approximately US$60 million following the exercise of the Purchase Option. Also, the book value of net assets attributable to Wright Japan would be taken out from the consolidated statement of financial position of the Enlarged Group at the date of the disposal of Wright Japan.

RECOMMENDATIONS

Having considered the abovementioned principal factors and reasons, we consider that the terms of the Facilities Transactions and the Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of all the ordinary resolutions to be proposed at the EGM to approve the the transactions contemplated under the Credit Agreement, the Purchase Option Agreement (including the License Agreement) and the

Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) and the proposed grant of the Specific Mandate for the allotment and issuance of the Conversion Shares.

Yours faithfully,
For and on behalf of
Platinum Securities Company Limited
Lenny Li
Director

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for each of the years ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2013 can be referred to in the respective annual reports and interim report of the Company, which have been published on both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.microport.com).

i. annual report of the Company for the year ended 31 December 2010 (pages 47 to 140);

ii. annual report of the Company for the year ended 31 December 2011 (pages 54 to 144);

iii. annual report of the Company for the year ended 31 December 2012 (pages 64 to 152); and

iv. interim report of the Company for the six months ended 30 June 2013 (pages 27 to 48).

2. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the expected completion of the transactions as mentioned in this circular and the financial resources available to the Enlarged Group (including but not limited to internally generated funds, cash and cash equivalents, the Term Loans and other external facilities from banks and financial institutions), the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

3. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 October 2013, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of RMB253 million, outstanding capital commitments of approximately RMB524 million, details of which are set out as follows:

Borrowings

As at 31 October 2013, the Enlarged Group had outstanding borrowings of RMB253 million, which comprised secured interest-bearing bank loans of RMB119 million.

Capital commitments

As at 31 October 2013, the Enlarged Group had outstanding capital commitments of RMB524 million for the purchase of property, plant and equipment.

Save as disclosed above and apart from intra-group liabilities, the Enlarged Group did not have any other outstanding loans, mortgages, charges, debentures, loan capital and bank overdrafts or other similar indebtedness, financial leases or hire purchase commitment, liabilities under acceptances (other than normal trade and other payables), or acceptance credits, or any guarantees or other material contingent liabilities at the close of business on 31 October 2013.

4. MATERIAL ADVERSE CHANGE

Save for the material decrease in the unaudited net profit of the Group for the six months ended 30 June 2013 due to the decrease in revenue from sales of DES and significant increase in R&D costs and other operating costs as disclosed in the Company's announcement dated 27 August 2013 and interim report published on 13 September 2013, as at the Latest Practicable Date and to the best of the knowledge and belief of the Directors, there has been no material adverse change in the financial or trading position of the Group since 31 December 2012, being the latest published audited financial statements of the Group were made up.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the Group for each of the years ended 31 December 2010, 2011 and 2012 as extracted from the annual reports of the Company and for the six months ended 30 June 2013 as extracted from the interim report of the Company. The financial data in respect of the Group, for the purpose of this circular, is derived from the audited consolidated financial statements of the Company for the years ended 31 December 2010, 2011 and 2012 and the unaudited consolidated financial statements of the Company for the six months ended 30 June 2013.

A. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2010

(I) BUSINESS OVERVIEW

The Group is a leading developer, manufacturer and marketer of medical devices in the PRC, focusing primarily on minimally invasive interventional products for the treatment of vascular diseases and disorders. As of 31 December 2010, the product offerings of the Group included 20 products, such as cardiovascular and other vascular devices, EP devices and diabetes devices.

(II) FINANCIAL REVIEW

For the year ended 31 December 2010, besides achieving its revenue and profit goals, the Company successfully raised HK$1,648.6 million from the IPO of the Company (net of listing expenses).

Revenue

Revenue of the Group increased by 29.8% from RMB560.7 million for the year ended 31 December 2009 to RMB727.7 million for the year ended 31 December 2010. DES remained the main contributor of the Group's revenue accounting for 86% of its total revenue, which is approximately the same as in 2009. The Group did not generate any revenue from its orthopedics device business during the years ended 31 December 2009 and 2010 as that business has been, and currently remains, in the research and development stage.

Revenue from DES

Revenue from sales of DES increased by 29.7% from RMB484.1 million for the year ended 31 December 2009 to RMB627.8 million for the year ended 31 December 2010. The increase was primarily due to an increase in the sales volume of Firebird 2. The Company believes that the increase in sales volume of Firebird 2 primarily resulted from (i) the overall growth of the market for drug-eluting stents in China, and (ii) the increasing recognition of the quality and performance of Firebird 2 in the medical community and among patients.

Revenue from TAA/AAA Stent Grafts

Revenue from sales of TAA/AAA stent grafts increased by 61.2% from RMB28.9 million for the year ended 31 December 2009 to RMB46.5 million for the year ended 31 December 2010. The increase was primarily due to the increases in sales volume of the TAA stent graft, Hercules T, and AAA stent graft, Hercules B. The increase in sales volume of Hercules T and Hercules B primarily resulted from (i) the overall growth of the market for TAA/AAA stent grafts, (ii) increase sales of TAA/AAA stent grafts from the international market, and (iii) the commercial launch of Hercules B in September 2009.

Revenue from Bare-metal Stents

Revenue from sales of bare-metal stents decreased by 26.1% from RMB20.3 million for the year ended 31 December 2009 to RMB15.0 million for the year ended 31 December 2010. The decrease was primarily due to a decrease in the selling price of the primary bare-metal stent, Mustang, in the international markets.

Revenue from Other Products

Revenue from sales of other medical devices and products increased by 39.9% from RMB27.5 million for the year ended 31 December 2009 to RMB38.4 million for the year ended 31 December 2010. The increase was primarily due to increases in the sales volume of the intracranial stent, Apollo, the operational stent graft, Cronus, and La Fenice, the insulin pump. The increase in sales volume of Apollo and Cronus primarily resulted from growth in the market demand for such products, while

increased marketing efforts and good service provided through the call centre resulted in the market awareness of La Fenice. The orthopedic devices did not generate any revenue in 2010 as this is a relatively new line of products for the Group.

Cost of Sales

Cost of sales increased by 25.8% from RMB78.0 million for the year ended 31 December 2009 to RMB98.2 million for the year ended 31 December 2010, primarily as a result of increased sales volume.

Gross Profit

As a result of the foregoing factors, gross profit increased by 30.4% from RMB482.7 million for the year ended 31 December 2009 to RMB629.5 million for the year ended 31 December 2010, and the gross profit margin remained relatively stable for the years ended 31 December 2009 and 2010.

Other Net Loss

The Group had other net loss of RMB30.5 million for the year ended 31 December 2010, as compared to other net loss of RMB1.9 million for the year ended 31 December 2009. This other net loss was primarily due to the less favorable exchange rate for offshore translation of the IPO proceeds into RMB. While the Group wanted to convert the IPO proceeds into the operating currency, RMB, it was not practical to obtain the necessary approval and execute the conversion in a short time frame. As of 31 December 2010, the Group had approximately 77.3% of its IPO proceeds placed in RMB denominated accounts.

Research and Development Costs

Research and development costs increased by 36.4% from RMB86.4 million for the year ended 31 December 2009 to RMB117.9 million for the year ended 31 December 2010. The increase was primarily due to (i) an increase in salaries, bonuses and related expenses for personnel engaged in research and development resulting from an increase in the number of the Group's research and development personnel and an increase in salaries, and (ii) an increase in purchases of supplies and materials used in connection with the Group's increased research and development efforts.

Sales and Marketing Costs

Sales and marketing costs increased by 31.4% from RMB98.2 million in the year ended 31 December 2009 to RMB129.0 million for the year ended 31 December 2010. The increase was primarily due to (i) an increase of headcount as well as salaries, bonuses and share based compensation expenses for personnel engaged in sales and marketing, and (ii) an increase in marketing expenses as a result of increased training provided to doctors, and increased attendance at conferences and seminars to promote the Group's products.

Administrative Expenses

Administrative expenses increased by 37.1% from RMB50.9 million for the year ended 31 December 2009 to RMB69.7 million for the year ended 31 December 2010. The increase was primarily attributable to the increase in salaries, bonuses and share based compensation expenses for the Group's employees.

Income Tax

The effective income tax rate reduced to 18.7% for the year ended 31 December 2010 from 25.4% for the previous financial year primarily due to a provision for dividend withholding tax in 2009, in respect of dividends distributed by the Group's subsidiary in China.

Profit Attributable to Equity Holders of the Company

Profit attributable to equity holders of the Company increased by 28.8% from RMB186.4 million for the year ended 31 December 2009 to RMB240.1 million for the year ended 31 December 2010.

(III) LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2010, the Group had RMB928.1 million, as compared to RMB90.2 million as of 31 December 2009 in cash and cash equivalents. The significant increase in cash and cash equivalents is attributable mainly to the Group's net IPO proceeds of approximately HK$1,648.6 million, of which approximately 77.3% has been placed in RMB denominated accounts as of 31 December 2010.

Borrowings and Finance Income

Total borrowings of the Group as at 31 December 2010 was RMB54.1 million as compared to RMB4.6 million as at 31 December 2009 and denominated in RMB. Fixed rate borrowings, which represent 92.4% of the total borrowings, bear a fixed interest rate of approximately 4.779% per annum. The increase is mainly attributable to the drawdown of a new short-term loan of RMB50 million during the year ended 31 December 2010. For the year ended 31 December 2010, net finance income of the Group was approximately RMB8.6 million as compared to net finance cost of RMB17.2 million for the year ended 31 December 2009. The finance income arose mainly from the fair value gain of redeemable convertible preference shares of RMB17.5 million immediately prior to their conversion into ordinary shares. All redeemable convertible preference shares were converted into ordinary shares upon listing of the Company.

Gearing Ratio

As at 31 December 2010, the gearing ratio (calculated by dividing total borrowings by total equity) of the Group remained at a low level of 0.027 (31 December 2009: 0.012).

Working Capital

The working capital of the Group (calculated as the difference between current assets and current liabilities) as of 31 December 2010 was RMB1,703.4 million (31 December 2009: RMB222.9 million).

Foreign Exchange Exposure

The Group is exposed to currency risk primarily from (i) sales and purchases which give rise to receivables and payables that are denominated in a foreign currency (mainly US$) and; (ii) IPO proceeds which were received by the Company were in HK$ and were mostly exchanged into RMB and US$. The Company has adopted US$ as its functional currency, thus the fluctuation of exchange rates between RMB and US$ exposes the Group to currency risk. During the year, the Group recorded a net exchange loss of RMB30.5 million (31 December 2009: exchange loss of RMB0.2 million). The Group does not employ any financial instruments for hedging purposes.

Capital Expenditure

During the year ended 31 December 2010, the Group's total capital expenditure amounted to approximately RMB96.8 million, which was used in the construction of the Group's new factory and the acquisition of machinery and fittings for the said factory.

Charge on Assets

As at 31 December 2010, the Group had pledged its building held for own use with a net book value of RMB27.2 million for the purpose of securing a loan with a carrying value of RMB4.1 million.

Contingent Liabilities

As at 31 December 2010, the Group had no material contingent liabilities or any significant outstanding contingent liabilities.

(IV) HUMAN RESOURCES

As at 31 December 2010, the Group employed approximately 1,204 employees. The Group's staff costs for the year ended 31 December 2010 amounted to RMB170.0 million. The Group offers competitive salary packages, as well as discretionary bonuses and contributions to social insurance to its employees. A share option scheme has also been adopted for employees of the Group. In order to ensure that the Group's employees remain competitive in the industry, the Group has adopted training programs for its employees managed by its human resources department.

(V) PROSPECTS

Being on the cutting edge of technology, the Group will continually introduce new products into the market. As the Company places great emphasis on its research and development, it has a series of products in the pipeline that are being developed or going through clinical trials. It is expected that some of these products will strengthen the Company's position in the existing market, while others will open new market opportunities for the Company. In general, the Company believes its future prospects should be shaped by (i) further developing and improving its existing products; (ii) diversifying the existing products offering to include complementary medical devices as well as medical devices for other disorders; and (iii) growing the sales network internationally to increase sales and awareness of the products of the Group.

B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2011

(I) BUSINESS OVERVIEW

The Group is a leading medical technology company that develops, manufactures and sells high-end medical devices in the PRC. Its products include those used for vascular diseases and disorders, such as cardiovascular, neurovascular, aortic and peripheral vascular, as well as devices for cardiology, EP, orthopedics and diabetes. These products are sold and marketed to over 1,000 hospitals throughout the PRC and in approximately 17 countries in Asia Pacific region (excluding the PRC), South America and Europe.

(II) FINANCIAL OVERVIEW

Revenue

Revenue of the Group amounted to RMB839.8 million for the year ended 31 December 2011, with an increase of approximately 15.4%, from RMB727.7 million for the year ended 31 December 2010. The Company is among the domestic leading suppliers of DES and this product accounted for most of the increase in revenue.

Revenue from Vascular Stents

- **Revenue from DES**

DES sales amounted to RMB729.3 million for the year ended 31 December 2011, which was 16.2% higher than the year ended 31 December 2010. This moderate revenue growth rate was a result of a slowdown in the stent market in the PRC and the increasing market competition, partly attributable to the government centralized procurement program. Nevertheless, the Company is maintaining its market leading position in the PRC.

- **Revenue from TAA/AAA Stent Grafts**

TAA/AAA stent grafts sales reported a revenue of RMB50.3 million for the year ended 31 December 2011, which was 8.2% higher than in 2010. While sales growth of TAA/AAA stent grafts did not perform as well compared to last year, the Company is pleased to maintain its market share under increasing domestic competition. Even multi-nationals medical companies were forced to cut their prices to compete with the Company in this market, signifying that its product quality are on par with them.

- **Revenue from Other Stents**

Revenue generated from the sales of other stents increased by 9.5% from RMB46.0 million for the year ended 31 December 2010 to RMB50.4 million for the year ended 31 December 2011. The Group's 9.5% comparable revenues increase was driven by a strong 31.0% increase from the intracranial stents, but hampered by declining sales of bare-metal stents.

Revenue from EP Devices

Revenue from the EP devices amounted to RMB5.5 million for the year ended 31 December 2011, which was approximately 269.0% increase from 2010 on a comparable basis. While there is still significant room for growth for the Group's EP devices, the financial performance of its EP devices is an indication of the increased acceptance of such products by the market. It also reflects the efforts that the Company's sales and marketing team has put into these products thus getting them off the ground.

Revenue from Orthopedic Devices

Sales derived from the Group's orthopedic devices for the year ended 31 December 2011 accounted for RMB1.5 million only, compared to none in the previous year. With the completion of the acquisition of Suzhou Best Medical Instruments Co., Ltd. ("**Suzhou Best**"), the Company's orthopedic devices marketing efforts, and the opportunity to market the Company's devices into Suzhou Best's networks, the Company expects revenue from this division to form a major part of its revenue in the coming years.

Revenue from Diabetic Devices

The Group's diabetic business was undergoing restructuring in order to optimize its product offering in this market as well organizational effectiveness in 2011. As a result, the revenue generated from the sales of diabetic devices decreased by 52.4% from RMB5.9 million for the year ended 31 December 2010 to RMB2.8 million for the year ended 31 December 2011.

Cost of Sales

Cost of sales increased by 39.8% from RMB98.2 million for the year ended 31 December 2010 to RMB137.3 million for the year ended 31 December 2011. The increase was primarily due to the increase in line with sales and the provision of obsolete stocks.

Gross Profit and Gross Profit Margin

As a result of the foregoing factors, gross profit increased by 11.6% from RMB629.5 million for the year ended 31 December 2010 to RMB702.6 million for the year ended 31 December 2011, and gross profit margin decreased from 86.5% for the year ended 31 December 2010 to 83.7% for the year ended 31 December 2011.

Other Revenue and Other Net Income

The Group had other revenue and other net income of RMB53.2 million and RMB40.7 million, respectively, for the year ended 31 December 2011. Compared to 31 December 2010, other revenue and other net loss was RMB22.9 million and RMB30.5 million, respectively. The increase of other revenue was driven by the interest income on the bank deposits while the increase of other net income was primarily attributable to the foreign exchange gain on deposits placed in to form of RMB.

Research and Development Costs

Research and development costs increased by 29.9% from RMB117.9 million for the year ended 31 December 2010 to RMB153.0 million for the year ended 31 December 2011. The increase was primarily due to (i) the increase in headcount, (ii) the increase in salaries, bonuses and related expenses, including amortization of options granted for personnel engaged in research and development, and (iii) the increased efforts in undergoing clinical studies and trials.

Distribution Costs

Distribution costs increased by 17.9% from RMB129.0 million for the year ended 31 December 2010 to RMB152.1 million for the year ended 31 December 2011. The increase was primarily due to (i) an increase of salaries, bonuses and other expenses, including amortization of options granted for personnel engaged in sales and marketing and (ii) an increase of marketing expenses as a result of increased attendance at conference and seminars for the Group's products promotion.

Administrative Expense

Administrative expenses increased by 40.5% from RMB69.7 million for the year ended 31 December 2010 to RMB97.9 million for the year ended 31 December 2011. The increase was primarily attributable to (i) the increases in salaries, bonuses and

related expenses for administrative personnel, as well as the expenses related to amortization of options granted and (ii) the additional local tax incurred due to the taxation reform.

Finance Costs

Finance costs increased from net finance income of approximately RMB8.6 million for the year ended 31 December 2010, to net finance cost of approximately RMB1.4 million for the year ended 31 December 2011. The net finance income in 2010 was mainly attributable to the fair value gain of redeemable convertible preference shares of RMB17.5 million immediately prior to their conversion into ordinary shares. All redeemable convertible preference shares were converted into ordinary shares upon listing of the Company.

Profit before Taxation

Profit before taxation increased from RMB295.2 million for the year ended 31 December 2010 to RMB374.1 million for the year ended 31 December 2011. The increase was primarily attributable to (i) the increase in total revenue and stringent cost control and (ii) the increase in other revenue and other net income.

Income Tax

Income tax decreased from RMB55.1 million for the year ended 31 December 2010 to RMB53.2 million for the year ended 31 December 2011. The decrease of the effective tax rate from 18.7% for the year ended 31 December 2010 to 14.2% for the year ended 31 December 2011 was attributable to the increase in tax-free other revenue and other net income.

Profit for the Year and Net Profit Margin

As a result of the foregoing factors, profit for the year increased by 33.6% from RMB240.1 million for the year ended 31 December 2010 to RMB320.9 million for the year ended 31 December 2011. The net profit margin increased from 33.0% for the year ended 31 December 2010 to 38.2 % for the year ended 31 December 2011.

(III) LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2011, the Group had cash and cash equivalent of RMB1,095.2 million (31 December 2010: RMB928.1 million). The Board's approach to manage liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities to avoid any unacceptable losses or damage to the Group's reputation.

Borrowing and Gearing Ratio

Total borrowing of the Group as at 31 December 2011 was RMB5.7 million, as compared to RMB54.1 million as of 31 December 2010. As at 31 December 2011, the gearing ratio (calculated by dividing total loans and bank borrowings by total equity) of the Group remained at a low level of 0.0027, as compared to 0.027 as 31 December 2010.

Working Capital

The working capital of the Group as of 31 December 2011 was RMB1,621.1 million, as compared to RMB1,703.4 million as 31 December 2010.

Foreign Exchange Exposure

The Group is exposed to currency risk primarily from the sales and purchases which give rises to receivables and payables that are denominated in a foreign currency (mainly US$). The Company has adopted US$ as its functional currency, thus the fluctuation of exchange rates between RMB and US$ exposes the Group to currency risk. During the year, the Group recorded a net exchange gain of RMB40.8 million, as compared to the net exchange loss of approximately RMB30.5 million as at 31 December 2010. The Group does not employ any financial instruments for hedging purposes.

Capital Expenditure

During the year, the Group's total capital expenditure amounted to approximately RMB155.3 million, which was used in acquiring equipment and machinery.

Acquisition

On 29 November 2011, the Company acquired 100% equity interest in Suzhou Best, a domestic manufacturer and marketer of orthopedic implants and related medical instruments. Total consideration for the acquisition was RMB110 million.

Charge on Assets

As at 31 December 2011, the Group had pledged its building held for own use with a net book value of RMB26.4 million for the purpose of securing a long term loan with a carrying value of RMB3.7 million. The Group had pledged another building for own use with a net book value of RMB9.9 million for the purpose of securing a short loan with a carrying value of RMB2.0 million.

Contingent Liabilities

As at 31 December 2011, the Group had no material contingent liabilities or any significant outstanding contingent liabilities.

(IV) HUMAN RESOURCES

As at 31 December 2011, the Group employed 1,323 employees, as compared to 1,204 employees as at 31 December 2010. The Group's staff costs for the year ended 31 December 2011 amounted to RMB222.0 million. The Group offered competitive salary package, as well as discretionary bonuses and contribution to social insurance to its employees. A share option scheme has also been adopted for employees of the Group. In order to ensure that the Group's employees remain competitive in the industry, the Group has adopted training programs for its employees managed by its human resources department.

(V) PROSPECTS

The medical market in the PRC continues to evolve under the forces of regulation, cost pressure and patient demand. The Group intends to lead that evolution. Research and development is always the top priority and a series of products are in the pipeline, which are actively developed and tested through clinical and studies, or are in the process of being validated by various government or licensing approvals. The Group strives to further develop and improve its existing products, diversify its existing and new products, and continue to look for additional strategic acquisitions of the businesses or technologies, which are complementary to the Group's existing businesses.

The Group is committed to continuous improvement across the enterprise, from product innovation to operational excellence in manufacturing, distribution and sales. Aside from the above mentioned strategies, the Group will not cease expanding its global presence and introducing new products into those markets. While crisis are looming over in Europe and other parts of the world, the Group believes that it can easily overcome them with a committed team and hence a bright future ahead.

C. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2012

(I) BUSINESS OVERVIEW

The Group is a leading medical technology company that develops, manufactures, and sells high-end interventional medical devices internationally with an ever-diversifying portfolio of products, covering a wide spectrum of disease types such as cardiovascular, neurovascular, endovascular, EP, orthopedic, surgical management, diabetes care and endocrinal management which are used in over 2,000 major hospitals throughout the PRC and around 24 other countries in Asia Pacific region (excluding the PRC), South America and Europe. During 2012, the Group further diversified its business and seven business segments, namely, cardiovascular, neurovascular, endovascular, EP, orthopedic, diabetes care and endocrinal management, and surgical management.

For the year ended 31 December 2012, the Group derived 83.8% of its net sales from its cardiovascular devices, 7.2% from its endovascular devices, 2.2% from its neurovascular devices, 1.0% from its EP devices, 3.6% from its orthopedic devices, 1.0% from its diabetes care and endocrinal management, and 1.2% from its surgical management.

(II) FINANCIAL REVIEW

Revenue

Revenue of the Group amounted to RMB931.0 million for the year ended 31 December 2012, with an increase of RMB91.1 million or 10.8% compared to the year ended 31 December 2011. The growth in sales was mainly attributed to the mild increase of cardiovascular devices by RMB24.2 million or 3.2% and a rapid growth of other non-cardiovascular devices by RMB66.9 million or 78.4%.

Revenue from Cardiovascular Devices

Revenue generated from the sales of cardiovascular devices increased by 3.2% from RMB754.6 million for the year ended 31 December 2011 to RMB778.8 million for the year ended 31 December 2012. The revenue increase was mainly resulted from the increase in sales volume of the domestic DES by 5.2%. The increase domestic DES was slower than that of 2011 due to the increasing market competition in the PRC. Nevertheless, the Company is still maintaining its marketing leading position in the PRC in 2012.

Revenue from Endovascular Devices

Revenue generated from the sales of endovascular devices increased by 16.2% from RMB58.0 million for the year ended 31 December 2011 to RMB67.4 million for the year ended 31 December 2012. With the increased market recognition of its endovascular devices, the Company contracted with more customers for its endovascular products. Accordingly, it is maintaining its leading market position with steady growth.

Revenue from Neurovascular Devices

Revenue generated from the sales of neurovascular devices increased by 18.8% from RMB17.5 million for the year ended 31 December 2011 to RMB20.8 million for the year ended 31 December 2012. Such growth was mainly attributed by the steady increase in sales volume of Apollo.

Revenue from EP Devices

Revenue generated from the EP devices increased by 76.4% from RMB5.5 million for the year ended 31 December 2011 to RMB9.7 million for the year ended 31 December 2012. Growth in the year ended 31 December 2012 was mainly attributed by the Company's continuous effort to develop the EP market and the market's increased recognition of the EP devices.

Revenue from Orthopedic Devices

Revenue generated from sales of orthopedic medical devices and products amounted to RMB33.1 million for the year ended 31 December 2012 which represented a growth of RMB31.7 million or 2,166.9% from 2011. Growth in the year ended 31 December 2012 was mainly attributed to the consolidation of full year operation results of Suzhou Health Medical Appliance Co., Ltd., which was acquired in November 2011.

Revenue from Diabetes Care and Endocrinal Management

Revenue generated from sales of diabetes care and endocrinal management medical devices increased by 246.4% from RMB2.8 million for the year ended 31 December 2011 to RMB9.7 million for the year ended 31 December 2012. The growth was mainly resulted from the successful launch of the new product, the LA FENICE® GnRH Infusion pump and expanded marketing on insulin pump in 2012.

Revenue from Surgical Management

Revenue generated from sales of surgical management devices amounted to RMB11.4 million for the year ended 31 December 2012. The growth was mainly resulted from the consolidation of the results of Dongguan Kewei Medical Instrument Co., Ltd. ("**Dongguan Kewei**"), which was acquired on 20 September 2012.

Cost of Sales

Cost of sales increased by 11.6 % from RMB137.3 million for the year ended 31 December 2011 to RMB153.1 million for the year ended 31 December 2012. The increase was primarily due to the increased sales volume.

Gross Profit and Gross Profit Margin

As a result of the increased sales volume, gross profit increased by 10.7% from RMB702.6 million for the year ended 31 December 2011 to RMB777.8 million for the year ended 31 December 2012, whilst gross profit margin remains stable.

Other Revenue and Other Net Income

The increase of other revenue was primarily attributed to the increase in government subsidies to encourage the research and development projects of the Group and continuing business expansion. While the decrease of other net income by RMB27.5 million was primarily due to the decrease of foreign exchange gain associated with the Company's time deposits denominated in RMB as the oversea exchange rate of RMB against US$, the Company's functional currency, has maintained relatively stable throughout the year of 2012.

Research and Development Costs

Research and development costs decreased by 4.7% from RMB153.0 million for the year ended 31 December 2011 to RMB145.8 million for the year ended 31 December 2012. The decrease was primarily due to (i) two research and development projects had reached the development stage, expenditures of which were eligible to be capitalised as intangible assets; and (ii) some projects development progress has not yet reached the stage which requires a higher expenditure level.

Distribution Costs

Distribution costs increased by 13.7% from RMB152.1 million for the year ended 31 December 2011 to RMB173.0 million for the year ended 31 December 2012. The increase was primarily due to (i) an increase of salaries, bonuses and related expenses for personnel engaged in sales and marketing; (ii) an increase of marketing expenses as a result of increased attendance at conference and seminars for the Group's products promotion; and (iii) the increased efforts in undergoing clinical studies and trials for existing products.

Administrative Expenses

Administrative expenses increased by 6.8% from RMB97.9 million for the year ended 31 December 2011 to RMB104.6 million for the year ended 31 December 2012. The increase was primarily attributable to the increased bad debt provision for receivables associated with one of the customers in Turkey.

Finance Costs

Finance costs increased from RMB1.4 million for the year ended 31 December 2011 to RMB1.7 million for the year ended 31 December 2012. The increase was primarily attributable to the increase of interest on bank borrowings of Dongguan Kewei.

Income Tax

Income tax increased from RMB53.2 million for the year ended 31 December 2011 to RMB61.4 million for the year ended 31 December 2012. The increase of the Group's profit before tax was primarily due to the increase of profit before tax of the PRC subsidiaries and the decrease in foreign exchange gain of the Company. As the Company is not subject to any income tax, the decrease in the Company's profits resulted in an increase of the effective tax rate from 14.2% for the year ended 31 December 2011 to 14.8% for the year ended 31 December 2012.

(III) LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2012, the Group had cash and cash equivalent of RMB413.1 million (31 December 2011: RMB1,095.2 million). The Group has achieved an operating cash inflow of RMB285.6 million for the year ended 31 December 2012. For the benefits of

the Group's business expansion and shareholders' interests, the Group has used cash of RMB808 million in investing activities, primarily for conducting products development projects, acquiring fixed assets, completing business acquisitions and placing surplus cash in time deposits. As at 31 December 2012, the Group's current assets exceeded its current liabilities by RMB1,401.4 million. The Directors will continue to manage liquidity of the Group, ensure sufficient liquidity at any time to meet its matured liabilities and avoid any unacceptable losses or damage to the Group's reputation.

Borrowing and Gearing Ratio

Total borrowing of the Group as at 31 December 2012 was RMB23.2 million, increased by RMB17.5 million as compared to RMB5.7 million as of 31 December 2011. The additional bank borrowing was obtained through the acquisition of Dongguan Kewei on 20 September 2012. As at 31 December 2012, the gearing ratio (calculated by dividing total loans and bank borrowings by total equity) of the Group remained at a low level of 0.01, as compared to 0.0027 as 31 December 2011.

Working Capital

Working capital of the Group as of 31 December 2012 was RMB1,401.4 million, which has been decreased by RMB219.7 million as compared to RMB1,621.1 million as 31 December 2011.

Foreign Exchange Exposure

The Group is exposed to currency risk primarily from the sales and purchases of its PRC subsidiaries which give rises to receivables and payables that are denominated in a foreign currency (mainly US$) and the Company's deposits denominated in RMB. The Company has adopted US$ as its functional currency, whilst its PRC subsidiaries, functional currencies are RMB. Thus the fluctuation of exchange rates between RMB and US$ exposes the Group to currency risk. The Group does not employ any financial instruments for hedging purposes.

Capital Expenditure

During the year, the Group's total capital expenditure amounted to approximately RMB342.3 million, which was mainly used in (i) building and purchasing lands and (ii) acquiring equipment and machinery and (iii) expenditures on research and development projects which are eligible for capitalisation as intangible assets.

Acquisition

On 20 September 2012, the Company completed the acquisition of 100% equity interest in Dongguan Kewei, a domestic research and development manufacturer of cardiac surgery device oxygenators in extra-corporal circulation and occluders for minimally invasive intervention devices for structural heart disease. The consideration for the acquisition consists of RMB108 million in cash and a written option with a fair value of RMB40 million that can be exercised by the seller of Dongguan Kewei in the

year of 2016. This written option has been recognised as the Group's non-current liabilities as at 31 December 2012. The acquisition fills the gap of the Company's product lines of cardiac surgery and structural heart diseases of the Company and further offers significant opportunities for expanding into other medical device markets. In addition, Dongguan Kewei has a developed distribution network/ relationship in the PRC cardiac surgery medical equipment industry, thus providing favourable platform to increase the Company's overall market shares.

During the year, the Company has acquired Winning Forward Ltd. and its subsidiary (collectively, "**Winning Forward**") at a cash consideration of RMB33.7 million. On 5 November 2012, the Company completed the acquisition of 100% equity interest in Winning Forward, a research and development manufacturer of percutaneous transluminal coronary angioplasty accessory.

The above acquisitions will facilitate the Group in expanding into the surgical devices and cardiovascular accessory devices business sectors, and achieve synergies by leveraging on the Group's existing sales network. As a result of above acquisitions, goodwill of RMB109 million has been recognised in 2012.

Charge on Assets

As at 31 December 2012, the bank borrowing of RMB20 million through the acquisition of Dongguan Kewei was secured by certain fixed assets with a net book value totally RMB30.8 million. The Group had pledged another building for own use with a net book value of RMB25.6 million for the purpose of securing a long term loan with a carrying value of RMB3.2 million.

Contingent Liabilities

As at 31 December 2012, the Group had no material contingent liabilities or any significant outstanding contingent liabilities.

(IV) HUMAN RESOURCES

As at 31 December 2012, the Group employed approximately 1,714 employees, as compared to 1,323 employees as 31 December 2011. The Group's staff costs for the year ended 31 December 2012 amounted to RMB208.1 million. The Group offered competitive salary package, as well as discretionary bonuses and contribution to social insurance to its employees. A share option scheme has also been adopted for employees of the Group. In order to ensure that the Group's employees remain competitive in the industry, the Group has adopted training programs for its employees managed by its human resources department.

(V) PROSPECTS

The medical devices market in the PRC has been growing rapidly with the development of national economic and government investment in social medical insurance, which attracts more and more multinational corporations to enter this market. In order to

compete effectively in the market, the Group will continuously perform proactive strategies, including but not limited to, (i) developing and improving its existing products; (ii) diversifying its existing and new products; (iii) maintaining its leading position in the domestic medical devices market in the PRC; (iv) continuing to look for additional strategic acquisitions of the businesses or technologies, which are complementary to the existing businesses of the Group; and (v) expanding global presence of the brands and products of the Group.

The Group is committed to continuous improvement across the enterprise, from product innovation to operational excellence in manufacturing, distribution and sales.

D. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2013

(I) BUSINESS REVIEW

The Group is a leading medical technology company that develops, manufactures and sells high-end medical devices in the PRC. Its products include those used for vascular diseases and disorders, such as cardiovascular, endovascular, neurovascular, as well as devices for EP, orthopedics, diabetes care and endocrinal management, and surgical management. These products are sold and marketed to more than 1,200 hospitals throughout the PRC and over 20 countries in the Asia Pacific region (excluding the PRC), South America and Europe.

(II) FINANCIAL REVIEW

Revenue

During the six months ended 30 June 2013, the Group generates revenue of RMB421.9 million, with basic earnings per share of RMB0.07, a decrease from RMB484.9 million recorded in the same period of 2012. Such decrement was primarily attributable to the decrease in the sales of cardiovascular devices.

Revenue from Cardiovascular Devices

The cardiovascular devices of the Group generated revenue of RMB330.5 million in the six months ended 30 June 2013, a decrease of 21.1% compared to RMB418.8 million over the same period of 2012. Such decrease was mainly attributable to the decrease in revenue on the business of drug-eluting slents owing to (i) the prices set by provincial tender lowering unit selling prices of the DES; (ii) more domestic manufacturers entering the drug-eluting slents market which results in more intense competition; and (iii) slower growth of percutaneous coronary intervention procedures. Nevertheless, the Company is still among the domestic leading suppliers of drug-eluting slents in the first half of 2013.

Revenue from Endovascular Devices

The endovascular devices of the Group generated revenue of RMB34.9 million in the six months ended 30 June 2013, an increase of 15.2% compared to approximately RMB30.3 million over the same period of 2012. Such growth was mainly attributable to the organic growth of TTT/AAA stent graft systems and increasing market recognition of the stent graft systems in surgical operations.

Revenue from Neurovascular Devices

The neurovascular devices segment of the Group generated revenue of RMB11.7 million in the six months ended 30 June 2013, an increase of 14.7% compared to RMB10.2 million over the same period of 2012. Such growth was mainly attributable to the steady increase in the sales volumes of Apollo and the launch of the Group's new product WILLIS®.

Revenue from EP Devices

The EP devices segment of the Group generated revenue of RMB7.3 million in the six months ended 30 June 2013, an increase of 102.8% compared to RMB3.6 million over the same period of 2012. Such significant increase was mainly attributable to (i) the EP devices have obtained further affirmation in the marketplace; and (ii) the Group has contracted with more customers for its EP devices during the six months ended 30 June 2013.

Revenue from Orthopedic Devices

The orthopedic devices segment of the Group generated revenue of RMB6.4 million in the six months ended 30 June 2013, a decrease of 62.1% compared to RMB16.9 million over the same period of 2012. Such decrease was mainly because (i) the sales of one of the old series of the Group's leading product ceased in 2013 as the result of new product development; and (ii) the Group has not yet obtained the registration certificate required for selling the new product in the market.

Revenue from Diabetes Care and Endocrinal Management

The diabetes care and endocrinal management segment of the Group generated revenue of RMB5.4 million in the six months ended 30 June 2013, an increase of 8.0% compared to RMB5.0 million over the same period of 2012. The growth was mainly resulted in the steady increased sales of LA FENICE® gonadotropin-releasing hormone infusion pump owning to the further affirmation in the marketplace.

Revenue from Surgical Management Segment

The surgical management segment of the Group generated revenue of RMB25.8 million in the six months ended 30 June 2013 as compared to nil over the same period of 2012. After the completion of acquisition of Dongguan Kewei in September 2012, of the Group's surgical management segment has started generating revenue and recorded a promising result during the first half of 2013.

Cost of Sales

During the six months ended 30 June 2013, cost of sales of the Group was RMB79.5 million, representing a 10.7% increase as compared to RMB71.8 million over the same period in 2012. Such increase was primarily attributable to the cost of Dongguan Kewei, which was acquired in September 2012, was consolidated in the first half of 2013.

Gross Profit And Gross Profit Margin

As a result of the foregoing factors, gross profit of the Group decreased by 17.1% from RMB413.1 million for the six months ended 30 June 2012 to RMB342.4 million in the same period as of 2013. The gross profit margin decreased to 81.2% as compared to 85.2% for the six months ended 30 June 2012. The decrement in gross profit margin in the first half of 2013 was mainly attributable to (i) the prices set by provincial tender lowering unit selling prices of drug-eluting slents; and (ii) increased proportion of the sale of low-margin products.

Other Revenue and Other Net Income

The Group had other revenue of RMB15.8 million and other net income of RMB3.1 million for the six months ended 30 June 2013, while other revenue and other net income were RMB24.7 million and RMB1.1 million, respectively, in the same period of 2012. The decrease in other revenue was caused by the decrease in interest income and grants from the PRC Government, while the increase in other net income was primarily attributable to the increase in foreign exchange gain on overseas deposits placed in the form of RMB.

Research and Development Costs

Research and development costs increased by 34.2% from RMB62.8 million for the six months ended 30 June 2012 to RMB84.3 million for the six months ended 30 June 2013. The increase was primarily due to continuous investment in R&D, and the new research and development projects commenced in the first half of 2013.

Distribution Costs

Distribution costs decreased slightly by 0.6%, from RMB64.9 million for the six months ended 30 June 2012 to RMB64.5 million for the six months ended 30 June 2013. The Group has been keeping stable input to the market during the six months ended 30 June 2013.

Administrative Expenses

Administrative expenses increased by 11.6% from RMB46.6 million for the six months ended 30 June 2012 to RMB52.0 million for the six months ended 30 June 2013. The increase was mainly attributable to (i) the administrative expenses incurred by Dongguan Kewei, which was consolidated in the first half of 2013; and (ii) the additional intangible assets' amortization mainly arising from the acquisition of products licences of Dongguan Kewei in September 2012 and Winning Forward in November 2012.

Other operating costs

Other operating costs increased from RMB0.3 million for the six months ended 30 June 2012 to RMB43.8 million for the six months ended 30 June 2013. The increase was primarily due to (i) the transaction costs for a contemplated acquisition in an amount of RMB18.3 million; and (ii) the impairment loss of RMB20.5 million for the goodwill associated with a business acquisition completed in prior years.

Finance Costs

Finance costs increased from RMB0.3 million for the six months ended 30 June 2012 to RMB1.5 million for the six months ended 30 June 2013. The increase was mainly driven by the interest expenses of financial liabilities incurred from the acquisition of Dongguan Kewei.

Income Tax

Income tax decreased from RMB41.2 million for the six months ended 30 June 2012 to RMB23.2 million for the six months ended 30 June 2013. The decrease in the Group's profit before tax was primarily due to the decrease in profit before tax of the PRC subsidiaries and the decrease in the Company's profit. This decrease in the Company's profit resulted in an increase in the effective tax rate from 15.6% for the six months ended 30 June 2012 to 20.1% for the six months ended 30 June 2013.

(III) LIQUIDITY AND FINANCIAL RESOURCES

As of 30 June 2013, the Group had RMB662.2 million of cash and cash equivalents on hand, as compared to RMB413.1 million as of 31 December 2012. The Directors will manage liquidity of the Group, ensure sufficient liquidity at any time to meet its matured liabilities and avoid any unacceptable losses or damages to the Group's reputation.

Borrowing and Gearing Ratio

Total borrowing of the Group as at 30 June 2013 was RMB3.2 million, as compared to RMB23.2 million as of 31 December 2012. As at 30 June 2013, the gearing ratio (calculated as total loans and bank borrowings divided by total equity) of the Group remained at a low level of 0.1%, as compared to 1% as 31 December 2012.

Working Capital

Working capital of the Group as at 30 June 2013 was RMB1,330.6 million, as compared to RMB1,401.4 million as at 31 December 2012.

Foreign Exchange Exposure

The Group is exposed to currency risk primarily from the sales and purchases of its PRC subsidiaries which gave rise to receivables and payables that are denominated in a foreign currency (mainly in USD), and the Company's deposit denominated in RMB. Given the Company has adopted USD as its functional currency whilst its PRC subsidiaries' functional currencies are in RMB, therefore the fluctuation of exchange rates between RMB and USD exposes the Group to currency risk. During the six months ended 30 June 2013, the Group recorded a net exchange gain of RMB2.1 million, as compared to RMB1.4 million for the six months ended 30 June 2012. The Group does not employ any financial instruments for hedging the foreign exchange exposure.

Capital Expenditure

During the six months ended 30 June 2013, the Group's total capital expenditure amounted to approximately RMB157.5 million (30 June 2012: approximately RMB114.2 million), which was used in (i) the construction of buildings; (ii) the acquisition of equipment and machinery; and (iii) the expenditures on R&D projects which were eligible for capitalization as intangible assets.

Charge on Assets

As at 30 June 2013, the Group had pledged its building held for own use with a net book value of approximately RMB25.2 million (31 December 2012: approximately RMB25.6 million) for the purpose of securing a long-term loan with a carrying value of approximately RMB3.2 million (31 December 2012: approximately RMB3.2 million).

Contingent Liabilities

As at 30 June 2013, the Group had no material liabilities or any outstanding contingent liabilities.

(IV) HUMAN RESOURCES

As at 30 June 2013, the Group employed approximately 1,800 employees, as compared to 1,419 employees as at 30 June 2012. The Group's staff costs for the six months ended 30 June 2013 amounted to RMB127.3 million. The Group offered competitive salary package, as well as discretionary bonuses and contributions to social insurance to its employees. A share option scheme has also been adopted for employees of the Group. In order to ensure that the Group's employees remain competitive in the industry, the Group has adopted training programs for its employees managed by its human resources department.

(V) PROSPECTS

The Group embraces the challenges arising from the current unstable and uncertain global economic conditions and the increasingly competitive pressure from multinational enterprise, and intends to create remarkable financial returns in its business and to its Shareholders. The Group will continue to (i) engage in strategic acquisitions to diversify its existing product portfolio, broaden its sources of income and enhance its geographical coverage, and (ii) invest in R&D and introduce innovative products to further broaden its existing product offerings.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Company's joint reporting accountants, KPMG, Certified Public Accountants, Hong Kong, and KPMG LLP, Certified Public Accountants, United States of America.

KPMG
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

KPMG LLP
50 N. Front Street
Suite 900, Memphis, Tennessee
United States of America

15 December 2013

The Directors
MicroPort Scientific Corporation

Dear Sirs,

INTRODUCTION

We set out below our report on the combined financial information relating to the OrthoRecon Business (the "Business" or the "Target Group") of Wright Medical Group, Inc. ("Wright Medical") comprising the combined statements of financial position of the Target Group as at 1 January 2010, 31 December 2010, 2011 and 2012 and 30 June 2013 and the combined income statements, the combined statements of comprehensive income, the combined statements of changes in parent's net investment and the combined cash flow statements of the Target Group, for each of the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the circular of MicroPort Scientific Corporation (the "Company") dated 15 December 2013 (the "Circular") in connection with the proposed acquisition of the Target Group by the Company (the "Proposed Acquisition").

Wright Medical is a company incorporated in Delaware of the United States of America ("U.S.") and its common stock is listed on the Nasdaq Global Select Market. Wright Medical prepares its consolidated financial statements comprising Wright Medical and its subsidiaries (collectively, the "Wright Medical Group") in accordance with accounting principles generally accepted in the U.S. ("US GAAP"). During the Relevant Periods, the Business did not operate in the form of standalone entities and was held and operated by Wright Medical and its wholly-owned subsidiaries. Details of these subsidiaries within which the Business was held and conducted are set out in note 25 in Section B below. As the Business constitutes only part of the Wright Medical Group, no financial statements for the Business have previously been prepared or reported on a standalone basis.

In connection with the Proposed Acquisition, the management of Wright Medical has prepared the combined financial statements of the Target Group for the Relevant Periods (the "Underlying Financial Statements") on the same basis as used in the preparation of the Financial Information set out in section B below. The Underlying Financial Statements for the Relevant Periods were audited by KPMG LLP in accordance with auditing standards generally accepted in the United States and the International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "IAASB").

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular in connection with the Proposed Acquisition based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control of the Company as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

JOINT REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Target Group in respect of any period subsequent to 30 June 2013.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, and on the basis of preparation set out in note 1(b) of section B below, a true and fair view of the state of affairs of the Target Group as at 1 January 2010, 31 December 2010, 2011 and 2012 and 30 June 2013 and the Target Group's combined results and cash flows for the Relevant Periods then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Target Group comprising the combined income statement, the combined statement of comprehensive income, the combined statement of changes in parent's net investment and the combined statement of cash flows for the six months ended 30 June 2012, together with the notes thereon (the "Corresponding Financial Information"), for which the directors of the Company are responsible, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A COMBINED FINANCIAL INFORMATION OF THE BUSINESS

Combined Statements of Financial Position

(In thousands of U.S. dollars)

	Note	At 30 June 2013	At 31 December 2012	2011	2010	1 January 2010
Noncurrent assets						
Fixed assets	*7*	92,291	101,804	122,119	132,488	114,988
Intangible assets	*8*	1,693	2,610	531	779	937
Goodwill	*9*	7,428	7,542	7,479	7,715	8,281
Deferred tax assets	*16*	38,037	39,151	33,805	20,335	21,002
Other noncurrent assets	*10*	28,786	15,937	6,552	2,756	2,479
Prepayment for fixed assets		–	622	–	–	–
		168,235	167,666	170,486	164,073	147,687
Current assets						
Inventories	*11*	80,915	86,921	106,140	108,504	110,613
Trade and other receivables	*12*	102,274	86,582	81,345	82,087	79,225
		183,189	173,503	187,485	190,591	189,838
Current liabilities						
Trade and other payables	*13*	43,548	36,936	34,122	37,350	33,497
Provisions	*14*	6,042	5,344	7,736	1,908	7,422
Income tax payable		3,648	3,045	2,513	2,620	–
Finance lease obligations	*15*	314	784	1,008	1,033	218
		53,552	46,109	45,379	42,911	41,137
Net current assets		129,637	127,394	142,106	147,680	148,701
Total assets less current liabilities		297,872	295,060	312,592	311,753	296,388

	Note	At 30 June 2013	At 31 December 2012	At 31 December 2011	At 31 December 2010	1 January 2010
Noncurrent liabilities						
Provisions	*14*	20,793	25,216	23,303	–	–
Finance lease obligations	*15*	42	20	806	1,764	444
Deferred tax liabilities	*16*	–	–	3	318	564
Other noncurrent liabilities	*17*	4,844	2,298	2,579	2,243	1,633
Total noncurrent liabilities		25,679	27,534	26,691	4,325	2,641
NET ASSETS		272,193	267,526	285,901	307,428	293,747
PARENT'S NET INVESTMENT						
Parent's net investment	*1*	278,349	272,080	291,658	312,276	293,910
Accumulated other comprehensive income		(6,156)	(4,554)	(5,757)	(4,848)	(163)
		272,193	267,526	285,901	307,428	293,747

The accompanying notes form part of the Financial Information.

Combined Income Statements

(In thousands of U.S. dollars)

	Note	Six Months Ended 30 June 2013	Six Months Ended 30 June 2012 (unaudited)	Year Ended 31 December 2012	Year Ended 31 December 2011	Year Ended 31 December 2010
Turnover	*4*	123,980	143,904	266,678	299,467	305,745
Cost of sales		(48,856)	(52,499)	(100,290)	(102,328)	(99,373)
Gross profit		75,124	91,405	166,388	197,139	206,372
Other expense	*5*	(323)	(342)	(306)	(478)	(11)
Research and development costs		(6,428)	(7,049)	(13,294)	(17,342)	(21,809)
Distribution costs		(49,482)	(54,747)	(105,115)	(123,977)	(126,253)
Administrative expenses *(note (a) below)*		(11,275)	(32,808)	(58,200)	(83,329)	(53,098)
Profit (loss) from operations		7,616	(3,541)	(10,527)	(27,987)	5,201
Interest expense		(17)	(45)	(75)	(148)	(33)
Profit (loss) before taxation		7,599	(3,586)	(10,602)	(28,135)	5,168
Income tax (expense)/benefit	*6*	(3,011)	1,238	4,040	11,701	(3,672)
Profit (loss) for the period		4,588	(2,348)	(6,562)	(16,434)	1,496

(a) The administrative expenses for the six months period ended 30 June 2013 and 2012 and for the years ended 31 December 2012 and 2011 reflect insurance receivable recoveries of $21.1 million , $2.5 million, $8.8 million and $8.4 million respectively. Out of these, insurance receivable recoveries of $19.4 million and $1.1 million recognized during the six months period ended 30 June 2013 and the year ended 31 December 2012, respectively, are related to costs of product claims incurred in prior periods. See note 21(b) of Section B.

The accompanying notes form part of the Financial Information.

Combined Statements of Comprehensive Income
(In thousands of U.S. dollars)

	Six Months Ended 30 June		Year Ended 31 December		
	2013	**2012**	**2012**	**2011**	**2010**
		(Unaudited)			
Profit (loss) for the period	4,588	(2,348)	(6,562)	(16,434)	1,496
Other comprehensive income for the period					
Items that may be classified subsequently to profit or loss:					
Foreign currency translation (net of nil tax for all periods)	(1,617)	(886)	653	(946)	(4,703)
Other	15	10	550	37	18
	(1,602)	(876)	1,203	(909)	(4,685)
Comprehensive income for the period	2,986	(3,224)	(5,359)	(17,343)	(3,189)

The accompanying notes form part of the Financial Information.

Combined Statements of Cash Flows

(In thousands of U.S. dollars)

	Note	Six Months Ended 30 June 2013	Six Months Ended 30 June 2012 (Unaudited)	Year Ended 31 December 2012	Year Ended 31 December 2011	Year Ended 31 December 2010
Operating activities						
Profit (loss) for the period		4,588	(2,348)	(6,562)	(16,434)	1,496
Adjustments for:						
Depreciation		15,036	14,931	28,309	31,836	30,188
Amortization of intangible assets		919	387	1,355	459	426
Non cash restructuring charges		–	553	559	3,052	60
Inventory reserves		2,063	2,593	5,983	5,490	4,252
Income tax expense/ (benefit)	*6*	3,011	(1,238)	(4,040)	(11,701)	3,672
Equity-settled share-based payment expenses	*19*	3,920	3,998	6,589	6,077	8,309
Excess tax benefits from share-based payment arrangements	*16*	(1,291)	(379)	(494)	(101)	257
Provisions charges		953	3,378	5,906	38,249	2,435
Insurance receivable recognized	*10 & 12*	(21,039)	(2,516)	(8,820)	(8,399)	–
Interest expense		17	45	75	148	33
Gain on sale of assets		–	–	(373)	–	(245)
Foreign currency exchange		111	179	(70)	141	214
		8,288	19,583	28,417	48,817	51,097
Changes in operating assets and liabilities:						
(Increase)/decrease in trade and other receivables		(2,255)	(2,736)	935	4,406	(2,862)
Decrease/(increase) in inventories		3,943	5,320	12,802	(4,856)	(2,143)
Increase/(decrease) in trade and other payables		6,612	405	2,814	(3,228)	3,853
(Decrease)/increase in pension liability		(132)	126	(661)	194	582
(Increase)/decrease in other assets		(4,625)	305	(7,359)	939	(277)
Increase in other liability		2,678	353	379	142	28

	Note	Six Months Ended 30 June 2013	Six Months Ended 30 June 2012 (Unaudited)	Year Ended 31 December 2012	Year Ended 31 December 2011	Year Ended 31 December 2010
Payments of provisions		(4,676)	(1,979)	(6,378)	(9,023)	(7,597)
Cash provided by operating activities		9,833	21,377	30,949	37,391	42,681
Interest paid		(17)	(45)	(75)	(148)	(33)
Net cash provided by operating activities		9,816	21,332	30,874	37,243	42,648
Investing activities						
Payments for the purchase of fixed assets	*7*	(5,533)	(1,467)	(8,850)	(28,144)	(46,925)
Proceeds from the sale of fixed assets		57	296	1,104	5,355	1,912
Payments for intangible assets		–	(2,126)	(3,435)	(206)	(271)
Net cash used in investing activities		(5,476)	(3,297)	(11,181)	(22,995)	(45,284)
Financing activities						
Payments of finance leases		(499)	(525)	(1,006)	(983)	(355)
Transfers (to) from parent's net investment		(3,841)	(17,510)	(18,687)	(13,265)	2,991
Net cash (used in)/ provided by financing activities		(4,340)	(18,035)	(19,693)	(14,248)	2,636
Net increase/(decrease) in cash and cash equivalents		–	–	–	–	–
Cash and cash equivalents – beginning and end of period		–	–	–	–	–

The accompanying notes form part of the Financial Information.

Combined Statements of Changes in Parent's Net Investment

(In thousands of U.S. dollars)

	Note	Parent's Net Investment	Other Comprehensive Income: Cumulative foreign currency translation reserve	Other Comprehensive Income: Other	Other Comprehensive Income: Sub-total	Total Parent's Net Investment
Balance at 1 January 2010		293,910	–	(163)	(163)	293,747
Changes in Parent's Net Investment for 2010:						
Profit for the year		1,496	–	–	–	1,496
Other comprehensive income						
– Foreign currency translation		–	(4,703)	–	(4,703)	(4,703)
– Other		–	–	18	18	18
Total comprehensive income		1,496	(4,703)	18	(4,685)	(3,189)
Deemed contributions from Parent	*1*	16,870	–	–	–	16,870
Balance at 31 December 2010		312,276	(4,703)	(145)	(4,848)	307,428
Changes in Parent's Net Investment for 2011:						
Loss for the year		(16,434)	–	–	–	(16,434)
Other comprehensive income						
– Foreign currency translation		–	(946)	–	(946)	(946)
– Other		–	–	37	37	37
Total comprehensive income		(16,434)	(946)	37	(909)	(17,343)
Deemed distributions to Parent	*1*	(4,184)	–	–	–	(4,184)
Balance at 31 December 2011		291,658	(5,649)	(108)	(5,757)	285,901
Changes in Parent's Net Investment for 2012:						
Loss for the year		(6,562)	–	–	–	(6,562)
Other comprehensive income						
– Foreign currency translation		–	653	–	653	653
– Other		–	–	550	550	550
Total comprehensive income		(6,562)	653	550	1,203	(5,359)
Deemed distributions to Parent	*1*	(13,016)	–	–	–	(13,016)
Balance at 31 December 2012		272,080	(4,996)	442	(4,554)	267,526

	Note	Parent's Net Investment	Other Comprehensive Income: Cumulative foreign currency translation reserve	Other Comprehensive Income: Other	Other Comprehensive Income: Sub-total	Total Parent's Net Investment
Changes in Parent's Net Investment for the 6 months ended 30 June 2013:						
Profit for the period		4,588	–	–	–	4,588
Other comprehensive income						
– Foreign currency translation		–	(1,617)	–	(1,617)	(1,617)
– Other		–	–	15	15	15
Total comprehensive income		4,588	(1,617)	15	(1,602)	2,986
Deemed contributions from Parent	*1*	1,681	–	–	–	1,681
Balance at 30 June 2013		278,349	(6,613)	457	(6,156)	272,193
Unaudited:						
Balance at 31 December 2011		291,658	(5,649)	(108)	(5,757)	285,901
Changes in Parent's Net Investment for the 6 months ended 30 June 2012:						
Loss for the period		(2,348)	–	–	–	(2,348)
Other comprehensive income						
– Foreign currency translation		–	(886)	–	(886)	(886)
– Other		–	–	10	10	10
Total comprehensive income		(2,348)	(886)	10	(876)	(3,224)
Deemed distributions to Parent		(11,735)	–	–	–	(11,735)
Balance at 30 June 2012		277,575	(6,535)	(98)	(6,633)	270,942

The accompanying notes form part of the Financial Information.

B. NOTES TO COMBINED FINANCIAL INFORMATION

1 DESCRIPTION OF THE BUSINESS AND BASIS OF PREPARATION

Pursuant to an agreement dated 18 June 2013, MicroPort Scientific Corporation (the "Company") agrees to acquire from Wright Medical Group, Inc. ("Wright Medical") its OrthoRecon business. The Financial Information set out in this report has been prepared to present the historical operations of the OrthoRecon business for the purpose of inclusion in the Circular. Throughout the Financial Information, the OrthoRecon business is referred to as the "Business" or the "Target Group".

a) Nature of the Business

The Business is a global orthopedic medical device group specializing in the design, manufacturing, and marketing of hip and knee implant products. The Business's hip and knee franchise brands include DYNASTY® and CONSERVE® hips, PROFEMUR® modular stems, SUPERPATH™ minimally invasive hip surgical instrumentation, and ADVANCE® and EVOLUTION® medial-pivot knee implants. The Business's products are sold through a network of employee sales representatives and independent sales representatives in the United States ("U.S.") and by a combination of employee sales representatives, independent sales representatives, and stocking distributors outside the US. The Business promotes its products in approximately 60 countries, with principal markets in the US, Europe, Canada, Australia, and Japan. The Business is currently part of Wright Medical, which is headquartered in Arlington, Tennessee.

b) Basis of Preparation

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied in the adoption of IFRS for the purpose of preparing the Underlying Financial Statements and the Financial Information. The transition date is 1 January 2010 (the "Transition Date"). The Business has never prepared financial statements or financial information on the basis of preparation presented herein and on any other basis for the OrthoRecon business. Prior to the first-time adoption of IFRS, the financial information of the Business included in this report was reflected in Wright Medical's consolidated results and was prepared in accordance with accounting principles generally accepted in the US.

Certain optional exemptions and certain mandatory exceptions as applicable for first-time IFRS adopters have been applied in preparing the Financial Information of the Business. Estimates made in preparing the Financial Information reflect the facts and circumstances which existed at the time such estimates were made.

The following optional exemptions of IFRS 1 have been applied in preparing the Financial Information set out in this report:

(i) IFRS 1 provides relief from full retrospective application that would require restatement of all business combinations prior to the Transition Date. IFRS 3 (revised 2008), Business Combinations, has been applied prospectively from the Transition Date. Therefore, business combinations occurring prior to the Transition Date have not been restated.

(ii) IFRS 1 permits cumulative translation gains and losses to be reset to zero upon transition to IFRS. Cumulative foreign currency translation gains and losses are reset to zero in opening Parent's Net Investment at the Transition Date.

(iii) In accordance with the exemption under IFRS 1, only share-based awards not vested at the Transition Date under IFRS 2, Share-based Payment, have been accounted for.

Since no financial statements of the Business has previously been prepared, the Financial Information set out in this report do not include any IFRS 1 first time adoption reconciliations.

The Financial Information has been prepared to reflect the cash flows, revenues, expenses, assets, and liabilities of the Business. The Business was conducted through, and assets and liabilities held in, Wright Medical and various of its wholly owned subsidiaries, all of which were under the common control of Wright Medical (see Note 25 for a listing of Wright Medical subsidiaries). Because the Business was not historically held by a single legal entity and was comingled within Wright Medical, parent's net investment is shown in lieu of shareholders' equity in the Financial Information. Parent's net investment represents the cumulative interest of Wright Medical in the Business through that date. The impact of transactions between the Business and Wright Medical that were not historically settled in cash is also included in parent's net investment.

During the Relevant Periods, the Business functioned as part of the larger group of companies controlled by Wright Medical, and accordingly, a process has been completed to specifically identify assets, liabilities, revenues, expenses and cash flows associated with the Business in preparing the Financial Information. Assets, liabilities and costs that were related to the larger business of Wright Medical were also assessed to allocate these items between OrthoRecon business and the rest of the business of Wright Medical. This allocation has been completed based on the following general process:

- Corporate overhead functions performed for the Business – These functions include, but are not limited to, executive oversight, legal, finance, human resources, internal audit, financial reporting, and tax planning. The costs of such services have been allocated to the Business based on the most relevant allocation method to the service provided, primarily based on relative percentage of revenue or headcount. Management of Wright Medical believes such allocations are reasonable; however, they may not be indicative of the actual expense that would have been incurred had the Business been operating as a separate entity apart from Wright Medical. The cost allocated for these functions is included in administrative expenses in the combined income statements for the Relevant Periods presented. A complete discussion of the Business's relationship with Wright Medical, together with the cost allocations, is included in Note 22.

- Corporate assets and other combined assets – There are certain shared assets the most significant of which are Wright Medical's capitalized software that is used by all businesses and surgical instruments. The Financial Information includes an allocation of these assets, primarily based on a relative percentage of revenue.

- Liabilities and other combined liabilities – There are certain liabilities that represent liabilities of the entire Wright Medical group that could not be specifically identified for each business. The most significant of these was accounts payable, which are combined due to the nature of how Wright Medical manages its accounts payable. An allocation method primarily based on relative percentage of revenue has been used.

The Company believes the basis of preparation described above results in the Financial Information reflecting the assets and liabilities associated with the Business and reflects costs associated with the functions that would be necessary to operate independently. However, as the Business did not operate as a stand-alone entity during the Relevant Periods, the Financial Information may not be indicative of the Business's future performance and do not necessarily reflect what its results of operations, financial position, and cash flows would have been had the Business operated as a separate entity apart from Wright Medical during the Relevant Periods.

The basis of preparation described above is intended to present the historical financial information of the Business. Pursuant to the terms of the Proposed Acquisition, as detailed in the section headed "the Asset Purchase Agreement" in this circular, Wright Medical Group will retain certain assets and liabilities related to the Business primarily the product liability provisions, and the corresponding insurance recovery receivable, for claims corresponding prior to the date of acquisition. Any product liability claims on products sold subsequent to the date of the acquisition will be the responsibility of the Company. The product liability claims, and associated insurance receivables, are described further in Note 14 to these combined financial statements.

The combined statement of financial position includes assets and liabilities that will not be transferred to the Company at the time of its acquisition of OrthoRecon. The amount of the assets and liabilities at 30 June 2013 including the respective tax impact are presented below (in thousands of U.S. dollars):

	Assets and Liabilities not acquired and the related deferred tax impact		
	Product Liability	**Other**	**Total**
Noncurrent assets			
Fixed assets	–	4,613	4,613
Deferred tax assets	–	1,653	1,653
Other noncurrent assets	14,985	–	14,985
	14,985	6,266	21,251
Current assets			
Inventories	–	115	115
Trade and other receivables	23,624	–	23,624
	23,624	115	23,739
Current liabilities			
Trade and other payables	–	2,370	2,370
Provisions	5,988	–	5,988
Finance lease obligations	–	68	68
	5,988	2,438	8,426
Net current assets	17,636	(2,323)	15,313
Total assets less current liabilities	32,621	3,943	36,564
Noncurrent liabilities			
Provisions	20,793	–	20,793
Finance lease obligations	–	21	21
Total noncurrent liabilities	20,793	21	20,814
Net assets	11,828	3,922	15,750

The Directors of the Company have also represented that upon the completion of the Proposed Acquisition, the goodwill and certain deferred tax assets of the Business are not expected to be recognised in the Company's consolidated financial statements, detailed information of which has been disclosed in the section headed "Financial Information about the Business" in this circular and in the section headed "Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group" in Appendix IV to this circular.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes International Accounting Standards and related interpretations, promulgated by the International Accounting Standards Board (IASB). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The IASB has issued certain new and revised IFRSs. For the purpose of preparing this Financial Information, the Target Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period ending 31 December 2013. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2013 are set out in Note 24.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosures provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the six months ended 30 June 2012 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) Measurement Basis

The measurement basis used in the preparation of the Financial Information is the historical cost basis.

(c) Use of Estimates

The preparation of Financial Information in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 3.

(d) Subsidiaries

Subsidiaries are entities controlled by entities within the Business. Control exists when the Business is exposed, or has rights to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries.

An investment in a subsidiary is reflected into the Financial Information from the date that control commences until the date that control ceases. Intragroup balances and transactions and any unrealized profits arising from intragroup transactions are eliminated in full in preparing the Financial Information. Unrealized losses resulting from intragroup transactions are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Changes in the Business's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and noncontrolling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Business loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any noncontrolling interest in the acquiree, and the fair value of the Business's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost, less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment.

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Land improvements	15 to 25 years
Buildings	10 to 45 years
Machinery and equipment	3 to 14 years
Furniture, fixtures and office equipment	1 to 14 years
Surgical instruments	6 years

Freehold Land is not depreciated.

(g) Intangible assets (other than goodwill)

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Business has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labor, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalized development costs are stated at cost, less accumulated amortization and impairment losses. Other development expenditure is recognized as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Business are stated at cost, less accumulated amortization (where the estimated useful life is finite) and impairment losses.

Expenditure on internally generated goodwill and brands is recognized as an expense in the period in which it is incurred.

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

Patents	10 years
Trademarks	7 years
License agreements	13 years
Customer relationships	10 years
Noncompete agreements	3 years
Distribution channels	9 to 10 years
Completed technology	6 to 10 years

Both the useful life and method of amortization are reviewed annually.

Intangible assets are not amortized, when their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Business determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Business

Assets that are held by the Business under leases, which transfer to the Business substantially all the risks and rewards of ownership, are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Business are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Business acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present values of the minimum lease payments of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, and are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Business will obtain

ownership of the asset, the life of the asset as set out in Note 2(f). Impairment losses are accounted for in accordance with the accounting policy in Note 2(j)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Business has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(i) Trade and other receivables

Trade receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts.

(j) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables are assessed for impairment based on historical bad debt experience, customer concentrations, customer creditworthiness, current economic trends, and the adequacy of the allowance account. When trade receivables and other receivables are considered uncollectible, they are written off against the allowance account. Changes in the carrying amount of the allowance account and subsequent recoveries are recognized in profit and loss.

(ii) Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

– Property, plant and equipment

– Intangible assets

– Goodwill

If any such indication exists, the asset's or CGU's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value, less costs to sell or its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a CGU).

– Recognition of impairment losses

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value, less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(k) Inventories

Inventories are carried at the lower of weighted average cost and net realizable value.

Cost includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(l) Trade and other payables

Trade and other payables are initially recognized at fair value. Trade and other payables are subsequently stated at amortized cost.

(m) Employee Benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans, and the cost of nonmonetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

The Business's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the end of the reporting period on high-quality corporate bonds that have maturity dates approximating the terms of the Business's obligations.

(iii) Share-based payments

The fair value of share-based compensation awards granted to employees is recognized as an employee cost with a corresponding increase in parent's net investment. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the parent's net investment. On the vesting date, the amount recognized as an expense is adjusted to reflect the actual number of awards that vest (with a corresponding adjustment to the parent's net investment), except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the shares. The settlement of the awards is the responsibility of Wright Medical and will not be settled by the Business.

(iv) Termination benefits

Termination benefits are recognized when, and only when, the Business demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan, which is without realistic possibility of withdrawal.

(n) Income tax

The Business operates in multiple tax jurisdictions around the world, and as such, the Business pays taxes as required by local country tax law. In jurisdictions which permit fiscal unity, the Business's operations were typically included with other Wright Medical operations in a consolidated group tax filing. For the purposes of the Financial Information, income taxes are presented on a separate company basis as if the Business operated as a stand-alone entity or a separate consolidated group in each material jurisdiction in which it operates. Current income taxes are assumed to be settled with Wright Medical, in the period after the related income taxes are recorded, through parent's net investment. The assumed settlement of current income taxes with Wright Medical, as well as other tax-related payments, have been recorded through transfers (to) from parent in the combined statements of cash flows. The effects of being included in Wright Medical's consolidated tax returns, including the utilization of any historical net operating losses, have been included in the parent's net investment.

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss, except to the extent that they relate to items recognized in other comprehensive income or directly in parent's net investment, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in parent's net investment.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, representing the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable

entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period or periods in which the tax loss or credit can be utilized.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the business has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- In the case of current tax assets and liabilities, the business intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- In the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - The same taxable entity; or

  - Different taxable entities, which in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(o) Provisions and contingent liabilities

Provisions are recognized for other liabilities of uncertain timing or amount when the business has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or nonoccurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Business and the revenue and costs, if applicable, can be measured reliably.

Revenue is recognized when the customer takes ownership and assumes risk of loss of the goods. For sales of medical devices through appointed sales distributors, the transfer of ownership occurs at the time when the medical devices are delivered or picked up by the distributors from the Business's premises.

Revenues from sales to hospitals are recorded when the hospital takes title to the product, which is generally when the product is surgically implanted in a patient. Revenue excludes sales taxes and is after deduction of any trade discounts and estimated returns.

(q) Foreign currencies

Wright Medical has a functional currency of the U.S. dollar and has elected the U.S. dollar as its presentation currency. The Business has also elected the U.S. dollar as its presentation currency given it is from the consolidated Wright Medical group. Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Nonmonetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into U.S. dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Combined statements of financial position items are translated into U.S. dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in parent's net investment in the cumulative foreign currency translation reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified to profit or loss when the profit or loss on disposal is recognized.

(r) Related parties

A person, or a close member of that person's family, is related to the Business if that person:

(i) has control or joint control over the Business

(ii) has significant influence over the Business

(iii) is a member of the key management personnel of the Business or the Business's parent

An entity is related to the Business if any of the following conditions applies:

(i) The entity and the Business are members of the same group (which means that each parent, subsidiary, and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a postemployment benefit plan for the benefit of employees of either the Business or an entity related to the Business.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 ACCOUNTING JUDGMENT AND ESTIMATES

(a) Critical accounting judgments in applying the Business's accounting policies

In the process of applying the Business's accounting policies, management has made the following accounting judgments:

(i) Corporate Allocations

The Financial Information includes allocations for certain expenses historically maintained by Wright Medical, but not recorded in the accounts of the Business. Such items have been allocated to the Business and included in the Financial Information based on the most relevant allocation method, primarily relative percentage of revenue or headcount. Management believes that this basis for allocation of expenses is reasonable.

(ii) Impairment of non-financial assets

The Business reviews the carrying amounts of its non-financial assets other than goodwill to determine whether there is any indication that those assets are impaired. In making the assessment for potential indicators of impairment, management is required to make certain judgments when determining whether events or circumstances exist that indicate the carrying amount may not be recoverable. During the periods presented, management concluded there were no indicators of impairment that required a further assessment.

(iii) Fixed asset useful lives

Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. Intangible assets are amortized on a straight-line basis over the estimated useful lives. The Business reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortization expenses to be recorded during any reporting period. The useful lives are based on the Business's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortization expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) Sources of estimation uncertainty

(i) Net realizable value of inventories

The Business regularly reviews inventory quantities on hand for excess and obsolete inventory and, when circumstances indicate, records a write-down of inventories to the net realizable value. The review of inventory for excess and obsolete quantities is based primarily on forecasted product demand and production requirements for the next 24 months. Actual demand may be higher or lower than forecasts which would affect the estimates of net realizable value at the reporting date and profit or loss in future periods.

(ii) Allowance for doubtful debts

The Business establishes an allowance for doubtful debts to reduce the trade receivable to the amount the Business believes will be ultimately collected. The Business estimates the allowance based on historical bad debt experience, customer concentrations, customer creditworthiness, and current economic trends. The Business believes the amount included in its allowance for doubtful accounts has been a historically appropriate estimate of the amount of accounts receivable that are ultimately not collected.

(iii) Impairment of goodwill

The Business performs impairment reviews by comparing the carrying value of the CGU concerned to that CGU's recoverable amount, being the higher of the value in use and fair value less costs to sell. Value in use is a valuation derived from the discounted future cash flows of the CGUs. The most important estimates in determining the present value of cash flows are growth rates used to calculate revenue growth and suitable discount rates in order to determine present value.

Growth rates are based on past performance, external market growth assumptions, and forecast trading conditions by the Business's management using a combination of Business's business plans and growth assumptions into perpetuity reflecting expected long-term growth in the market. The Business determines discount rates for its respective analyses of recoverability that are appropriate for the type, size, and specific countries related to each CGU by using a market participants perspective.

The Business reviews these estimates at least annually as of the date of each impairment test and believes them to be appropriate. However, changes in these estimates could change the outcomes of the impairment reviews and therefore affect future financial results, the effects of which would be recognized in the combined income statements, through operating profit. See Note 9 for further information on the impairment testing.

(iv) Income taxes

Due to the inherent complexities arising from the nature of the Business's business, and from conducting business and being taxed in a number of jurisdictions, significant judgments and estimates are required to be made for income taxes. The Business computes income tax expense for each of the jurisdictions in which it operates. However, actual amounts of income tax due only become final upon filing and acceptance of the tax return by relevant authorities, which may not occur for several years subsequent to issuance of the Financial Information.

The estimation of income taxes also includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income before they expire. This assessment is based upon existing tax laws and estimates of future taxable income. To the extent estimates differ from the final tax return, earnings may be affected in the subsequent period.

(v) Product liability claims and insurance recoveries

Periodically, claims arise involving the use of the Business's products. A provision is established when the likelihood of an unfavorable outcome is probable and an estimate of the amount of loss has been developed. The Business forms its estimate of the potential exposure to such claims based on the number of claims, settlement experience, insurance coverage, estimated legal costs and other input from its legal counsel. As additional information becomes available, the Business reassesses the estimated liability and insurance recoveries related to its pending claims and makes revisions as necessary. See Note 21(b) for further information on the Business's product liability claims.

(vi) Share-based payments

The Business records compensation expense associated with share-based payment awards based on fair value of the award at the date of grant. The Business is required to make assumptions regarding a number of complex and subjective variables in estimating the fair value. The assumptions used are described in Note 19.

4 TURNOVER

Turnover represents the sales value of goods supplied to customers. The sales to customers are primarily generated through two types of customers: (i) hospitals and surgery centers and (ii) stocking distributors, with the majority of revenue derived from sales to hospitals. The products are primarily sold through a network of employee sales representatives and independent sales representatives in the US and by a combination of employee sales representatives, independent sales representatives, and stocking distributors outside the US.

The amount of turnover by product type is as follows (in thousands of U.S. dollars):

	Six Months Ended 30 June		Year Ended 31 December		
	2013	2012	2012	2011	2010
		(Unaudited)			
Hip	67,848	80,975	149,234	171,940	174,446
Knees	54,142	60,771	113,219	122,523	126,356
Other	1,990	2,158	4,225	5,004	4,943
Total	123,980	143,904	266,678	299,467	305,745

There are no customers with whom transactions have exceeded 10% of the Business's turnover during any of the periods presented.

5 OTHER EXPENSE

Other expense in the combined income statements comprises (in thousands of U.S. dollars):

	Six Months Ended 30 June		Year Ended 31 December		
	2013	2012	2012	2011	2010
		(Unaudited)			
Net gain on sale of assets	–	–	(373)	–	(245)
Net foreign exchange loss	354	384	611	450	95
Other	(31)	(42)	68	28	161
Total	323	342	306	478	11

6 INCOME TAX IN THE COMBINED INCOME STATEMENTS

a) Taxation in the combined income statements represents (in thousands of U.S. dollars):

	Six Months Ended 30 June		Year Ended 31 December		
	2013	2012	2012	2011	2010
		(Unaudited)			
Current Tax					
Provision for the period/year	3,515	(1,238)	1,997	2,084	2,583
Deferred Tax					
Origination and reversal of temporary differences	(504)	–	(6,037)	(13,785)	1,089
Income tax expense (benefit)	3,011	(1,238)	(4,040)	(11,701)	3,672

b) Reconciliation between income tax expense (benefit) and accounting profit (loss) at applicable tax rates (in thousands of U.S. dollars):

	Six Months Ended 30 June		Year Ended 31 December		
	2013	2012	2012	2011	2010
		(Unaudited)			
Profit/(loss) before tax	7,599	(3,586)	(10,602)	(28,135)	5,168
Tax at weighted-average statutory rate (37.7%, 40.5%, 43.5%, 41.9%, 24.8%, respectively)	2,862	(1,454)	(4,610)	(11,787)	1,280
Permanent differences	251	318	311	526	2,220
Tax credits	(111)	(111)	(222)	(454)	(254)
Tax rate change	–	–	463	(1)	64
Tax reserves	9	9	18	15	362
Income tax expense/(benefit)	3,011	(1,238)	(4,040)	(11,701)	3,672

The weighted average statutory rate used for the six months ended 30 June 2013 and 2012, and the years ended 31 December 2012, 2011 and 2010 have been computed based on the sum of accounting income or loss before taxes in each jurisdiction, multiplied by the local statutory rate for each jurisdiction, divided by combined accounting income or loss before taxes. Changes in the accounting income tax rate from six months to six months and year to year are due to differences in the accounting income or loss before tax and in some cases, the local statutory rates of each jurisdiction.

7 FIXED ASSETS

(a) Fixed assets in the combined statements of financial position comprise (in thousands of U.S. dollars):

	Land and Land Improvements	Buildings	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Surgical Instruments	Construction in Progress	Total
Cost							
1 January 2010	3,881	25,743	50,393	34,363	114,309	7,019	235,708
Additions	–	28	226	396	21,054	27,080	48,784
Disposals	(12)	(370)	(902)	(521)	(18,952)	–	(20,757)
Transfers	1,275	3,889	14,311	4,290	–	(23,765)	–
Effect of foreign exchange differences	–	(66)	601	119	129	–	783
Other	–	(113)	–	178	–	–	65
31 December 2010	5,144	29,111	64,629	38,825	116,540	10,334	264,583
Additions	–	125	211	1,051	15,797	10,454	27,638
Disposals	(11)	(489)	(2,621)	(1,148)	(6,232)	–	(10,501)
Transfers	59	305	5,793	9,234	–	(15,391)	–
Effect of foreign exchange differences	–	(12)	315	126	649	–	1,078
31 December 2011	5,192	29,040	68,327	48,088	126,754	5,397	282,798
Additions	–	42	–	8	4,675	4,334	9,059
Disposals	–	(139)	(2,409)	(1,149)	(9,223)	–	(12,920)
Transfers	8	98	1,887	3,431	–	(5,424)	–
Effect of foreign exchange differences	–	8	(660)	(301)	(2,062)	–	(3,015)
31 December 2012	5,200	29,049	67,145	50,077	120,144	4,307	275,922
Additions	–	3	–	155	5,341	1,392	6,891
Disposals	–	–	(83)	(91)	(5,180)	–	(5,354)
Transfers	–	–	1,061	1,096	–	(2,157)	–
Effect of foreign exchange differences	–	20	(657)	(532)	(3,992)	–	(5,161)
30 June 2013	5,200	29,072	67,466	50,705	116,313	3,542	272,298

	Land and Land Improvements	Buildings	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Surgical Instruments	Total
Accumulated Depreciation and impairment						
1 January 2010	(263)	(3,428)	(28,501)	(23,800)	(64,728)	(120,720)
Additions	(80)	(1,251)	(7,568)	(3,707)	(17,582)	(30,188)
Disposals	9	344	849	494	17,334	19,030
Effect of foreign exchange differences	–	39	(402)	(145)	351	(157)
Other	–	–	–	(60)	–	(60)
31 December 2010	(334)	(4,296)	(35,622)	(27,218)	(64,625)	(132,095)
Additions	(130)	(1,165)	(7,623)	(4,726)	(18,192)	(31,836)
Disposals	11	453	1,332	1,111	917	3,824
Exchange adjustments	–	9	(255)	(98)	(228)	(572)
31 December 2011	(453)	(4,999)	(42,168)	(30,931)	(82,128)	(160,679)
Additions	(97)	(1,225)	(6,922)	(4,114)	(15,951)	(28,309)
Disposals	–	75	1,988	1,082	8,919	12,064
Effect of foreign exchange differences	–	(2)	572	253	1,100	1,923
Other	–	–	–	–	883	883
31 December 2012	(550)	(6,151)	(46,530)	(33,710)	(87,177)	(174,118)
Additions	(60)	(772)	(3,416)	(2,586)	(8,202)	(15,036)
Disposals	–	–	82	91	5,124	5,297
Effect of foreign exchange differences	–	6	633	424	2,645	3,708
Others	–	–	–	–	142	142
30 June 2013	(610)	(6,917)	(49,231)	(35,781)	(87,468)	(180,007)

	Land and Land Improvements	Buildings	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Surgical Instruments	Construction in Progress	Total
Net book value							
30 June 2013	4,590	22,155	18,235	14,924	28,845	3,542	92,291
31 December 2012	4,650	22,898	20,615	16,367	32,967	4,307	101,804
31 December 2011	4,739	24,041	26,159	17,157	44,626	5,397	122,119
31 December 2010	4,810	24,815	29,007	11,607	51,915	10,334	132,488
1 January 2010	3,618	22,315	21,892	10,563	49,581	7,019	114,988

All land improvements and buildings are on the freehold land of the Business.

The disposal for the year ended 31 December 2011 includes an impairment loss of $1.3 million, which was recognized in connection with restructuring activities. There were no asset impairments during the other periods.

None of the Business's assets are in Hong Kong.

Depreciation expense is reflected as follows in the combined income statements:

	Six Months Ended 30 June		Year Ended 31 December		
	2013	2012	2012	2011	2010
		(Unaudited)			
Cost of sales	3,590	3,487	6,650	7,316	6,771
Research and development costs	423	359	753	683	669
Distribution costs	9,492	9,552	18,174	20,780	19,534
Administrative expenses	1,531	1,533	2,732	3,057	3,214
	15,036	14,931	28,309	31,836	30,188

(b) Fixed assets held under finance leases

The Business leases certain production plant and machinery equipment leases expiring from 3 to 5 years. None of the leases includes contingent rentals.

The net book value of the assets held under finance leases is $2.0 million, $2.2 million, $2.7 million, $2.9 million and $0.3 million at 30 June 2013, 31 December 2012, 2011, and 2010 and 1 January 2010, respectively.

8 INTANGIBLE ASSETS

(a) Intangible assets in the combined statements of financial position comprise (in thousands of U.S. dollars):

	Distribution Channels	Trademarks, Patents and Customer Relationships	Non-Compete Agreements	Completed Technology	License Agreements	Total
Cost						
At 1 January 2010	21,957	296	53	1,279	3,993	27,578
Additions	–	20	251	–	–	271
Effect of foreign currency exchange differences	(1,488)	–	(3)	(59)	328	(1,222)
Write-off	–	–	(50)	–	–	(50)
At 31 December 2010	20,469	316	251	1,220	4,321	26,577
Additions	–	–	206	–	–	206
Effect of foreign currency exchange differences	(623)	–	19	(25)	5	(624)
Write-off	–	–	(270)	–	(2,460)	(2,730)
At 31 December 2011	19,846	316	206	1,195	1,866	23,429
Additions	–	–	3,435	–	–	3,435
Effect of foreign currency exchange differences	386	–	–	16	(25)	377
At 31 December 2012	20,232	316	3,641	1,211	1,841	27,241
Effect on foreign currency exchange differences	–	–	–	–	(30)	(30)
Write-off	(20,232)	–	(206)	(1,029)	(925)	(22,392)
At 30 June 2013	–	316	3,435	182	886	4,819

	Distribution Channels	Trademarks, Patents and Customer Relationships	Non-Compete Agreements	Completed Technology	License Agreements	Total
Accumulated Amortization						
At 1 January 2010	(21,957)	(88)	(15)	(1,158)	(3,423)	(26,641)
Additions	–	(44)	(199)	(41)	(142)	(426)
Effect of foreign currency exchange differences	1,488	–	–	59	(328)	1,219
Write-off	–	–	50	–	–	50
At 31 December 2010	(20,469)	(132)	(164)	(1,140)	(3,893)	(25,798)
Additions	–	(44)	(231)	(42)	(142)	(459)
Effect of foreign currency exchange differences	623	–	(12)	25	(7)	629
Write-off	–	–	270	–	2,460	2,730
At 31 December 2011	(19,846)	(176)	(137)	(1,157)	(1,582)	(22,898)
Additions	–	(43)	(1,127)	(43)	(142)	(1,355)
Effect of foreign currency exchange differences	(386)	-	–	(11)	19	(378)
At 31 December 2012	(20,232)	(219)	(1,264)	(1,211)	(1,705)	(24,631)
Additions	–	(22)	(826)	–	(71)	(919)
Effect of foreign currency exchange differences	–	–	–	–	32	32
Write-off	20,232	–	206	1,029	925	22,392
At 30 June 2013	–	(241)	(1,884)	(182)	(819)	(3,126)
Net book value						
30 June 2013	–	75	1,551	–	67	1,693
31 December 2012	–	97	2,377	–	136	2,610
31 December 2011	–	140	69	38	284	531
31 December 2010	–	184	87	80	428	779
1 January 2010	–	208	38	121	570	937

Amortization expense is included in administrative expenses in the combined income statements.

9 GOODWILL

Goodwill movement is as follows (in thousands of U.S. dollars):

At 1 January 2010	8,281
Effect of foreign currency exchange differences	(566)
At 31 December 2010	7,715
Effect of foreign currency exchange differences	(236)
At 31 December 2011	7,479
Effect of foreign currency exchange differences	63
At 31 December 2012	7,542
Effect of foreign currency exchange differences	(114)
At 30 June 2013	7,428

Impairment tests for CGU containing goodwill

Goodwill is allocated to the Business's CGU identified according to country (or a group of countries) of operation as follows (in thousands of U.S. dollars):

	30 June 2013	31 December 2012	31 December 2011	31 December 2010	1 January 2010
US	5,455	5,539	5,492	5,665	6,081
Europe, the Middle East and Africa (EMEA)	1,346	1,366	1,355	1,398	1,500
Canada	466	474	470	484	520
Japan	161	163	162	168	180
	7,428	7,542	7,479	7,715	8,281

The Business determines recoverable amounts of its CGUs based on a consideration of the higher of a CGU's fair value, less costs to sell, and its value in use. Fair value less costs to sell, is the best estimate of the amount obtainable from the sale of a CGU in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. This estimate is determined on the basis of available market information, including considerations of (i) the discounted present value of future cash flows over a five-year period, plus a terminal value, and (ii) earnings before interest and taxes ("EBIT") multiples for comparable companies.

Value in use, which the Business used to determine the recoverable amount of the CGU's for its impairment testing, is the present value of the future cash flows expected to be derived from the CGUs. Key assumptions used in the impairment tests for the units in the table above were sales growth rates and the rates used for discounting the projected cash flows. The Business based growth rates and margins used to estimate cash flows on past performance, external market growth assumptions, and forecast trading conditions drawn up by the Business's management. Cash flow projections are primarily based on three-year business plans. Cash flow projections beyond that time frame are extrapolated by applying a flat growth rate over the next two years, followed by a growth rate to perpetuity reflecting the expected long-term growth in the market. The Business discounts the cash flows using appropriate market participant rates for the type and size of business and the countries concerned.

The key assumptions used by the Business for the fair value calculations are as follows:

	31 December 2012	31 December 2011	31 December 2010	1 January 2010
US				
Long-term growth rate	5.0%	5.0%	5.0%	5.0%
Discount rate	9.5%	10.0%	11.0%	11.0%
Revenue multiple	0.8x	0.9x	1.0x – 1.2x	1.3x
EBITDA multiple	5.5x	5.0x	6.0x – 8.0x	5.5x
Control Premium	20.0%	20.0%	20.0%	20.0%
EMEA				
Long-term growth rate	5.0%	5.0%	5.0%	5.0%
Discount rate	11.5%	11.0%	11.5%	11.5%
Revenue multiple	0.6x – 0.8x	0.8x – 0.9x	1.1x – 1.3x	1.0x
EBITDA multiple	4.5x – 5.0x	4.5x – 5.5x	5.5x – 6.5x	5.5x
Control Premium	20.0%	20.0%	20.0%	20.0%
Canada				
Long-term growth rate	5.0%	5.0%	5.0%	5.0%
Discount rate	9.5%	9.5%	10.0%	10.5%
Revenue multiple	0.4x	0.3x	0.4x	0.5x
EBIT multiple	7.5x – 8.0x	6.5x – 7.0x	7.5x	8.5x
Control Premium	20.0%	20.0%	20.0%	20.0%
Japan				
Long-term growth rate	3.0%	3.0%	3.0%	3.0%
Discount rate	11.0%	10.5%	10.5%	11.0%
Revenue multiple	0.3x	0.2x	0.2x – 0.3x	0.2x
EBIT multiple	7.5x	7.5x – 8.0x	8.0x – 9.5x	8.5x
Control Premium	20.0%	20.0%	20.0%	20.0%

10 OTHER NON CURRENT ASSETS

Other financial assets in the combined statements of financial position comprise (in thousands of U.S. dollars):

	30 June 2013	31 December 2012	31 December 2011	31 December 2010	1 January 2010
Trade debtors	5,219	4,664	6,353	5,049	4,452
Allowance for doubtful debts	(2,956)	(3,981)	(5,476)	(3,239)	(2,910)
Insurance recoveries receivable	14,985	7,383	4,735	–	–
Prepaid royalty	7,806	5,763	–	–	–
Deposits	734	2,063	888	883	879
Other	2,998	45	52	63	58
	28,786	15,937	6,552	2,756	2,479

The majority of non-current trade debtors are comprised of trade accounts receivable with payment terms of greater than one year for one customer which is fully reserved for in the allowance for doubtful debts. The remaining non-current trade debtors is $2.3 million, $0.7 million, $0.9 million, $1.8 million and $1.5 million at 30 June 2013, 31 December 2012, 31 December 2011, 31 December 2010 and 1 January 2010 respectively. The amounts of non-current trade debtors not reserved for are expected to be collected between 12 and 24 months based on the payment terms established with the customers.

The prepaid royalty represents up front payments made to buy out certain royalty agreements with health care professionals such as surgeons who help in designing OrthoRecon products. The prepaid royalty will be amortized over the remaining agreement period based on actual sales. The remaining periods of these agreements range from 5 to 7 years. The prepaid royalty expected to be amortized within one year is classified as 'current' and included in Trade and other receivables in Note 12.

11 INVENTORIES

(a) Inventories in the combined statements of financial position comprise (in thousands of U.S. dollars):

	30 June 2013	31 December 2012	31 December 2011	31 December 2010	1 January 2010
Raw materials	5,844	6,616	7,937	8,121	8,412
Work in progress	12,908	10,939	14,014	17,394	16,456
Finished goods	62,163	69,366	84,189	82,989	85,745
	80,915	86,921	106,140	108,504	110,613

(b) The analysis of the amount of inventories recognized as an expense and included in the combined income statements (cost of sales) is as follows (in thousands of U.S. dollars):

	Six Months Ended 30 June		Year Ended 31 December		
	2013	2012	2012	2011	2010
		(Unaudited)			
Carrying amount of inventories sold	46,763	49,315	93,855	93,619	94,978
Write-down of inventories	2,063	3,028	6,418	7,220	4,252
	48,826	52,343	100,273	100,839	99,230

12 TRADE AND OTHER RECEIVABLES

Trade and other receivables in the combined statements of financial position comprise (in thousands of U.S. dollars):

	30 June 2013	31 December 2012	31 December 2011	31 December 2010	1 January 2010
Trade debtors	71,483	71,148	72,480	81,161	78,648
Less allowance for doubtful accounts	(4,429)	(4,702)	(3,109)	(6,231)	(5,661)
Trade debtors, net	67,054	66,446	69,371	74,930	72,987
Insurance recovery receivables	23,271	9,834	3,664	–	–
Income tax receivable	135	1,136	843	42	–
Prepaid royalty	2,830	1,872	–	–	–
Deposits, prepayments and miscellaneous receivables	8,984	7,294	7,467	7,115	6,238
Total	102,274	86,582	81,345	82,087	79,225

(a) Aging analysis

Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following aging analysis as of the end of the reporting period (in thousands of U.S. dollars):

	30 June 2013	31 December 2012	31 December 2011	31 December 2010	1 January 2010
Current	42,944	42,693	46,156	52,841	50,594
Less than one month past due	7,043	7,305	9,203	8,793	8,399
One to three months past due	5,437	3,713	5,734	6,243	6,028
More than three months past due	11,630	12,735	8,278	7,053	7,966
Amounts past due	24,110	23,753	23,215	22,089	22,393
	67,054	66,446	69,371	74,930	72,987

Trade receivables are due within 30 to 120 days from the date of billing.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Business is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows (in thousands of U.S. dollars). The allowance is classified in trade and other receivables or other noncurrent assets based on whether the trade debtors are current or noncurrent.

	Six Months Ended 30 June		Year Ended 31 December		
	2013	2012	2012	2011	2010
		(Unaudited)			
Beginning of period	8,683	8,585	8,585	9,470	8,571
Impairment loss (reversed)/recognized	(701)	(176)	107	(336)	(60)
Uncollectable amounts written off	(563)	(21)	(65)	(439)	1,157
Effect of foreign currency exchange differences	(34)	(47)	56	(110)	(198)
End of period	7,385	8,341	8,683	8,585	9,470

The individually impaired receivables are related to customers whose debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that these receivables are not expected to be recovered.

(c) Trade debtors that are not impaired

The aging analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	30 June 2013	31 December 2012	31 December 2011	31 December 2010	1 January 2010
Current	42,944	42,693	46,156	52,841	50,594
Less than one month past due	7,043	7,305	9,203	8,793	8,399
One to three months past due	5,437	3,713	5,734	6,243	6,028
More than three months past due	11,630	12,735	8,278	7,053	7,966
Amounts past due	24,110	23,753	23,215	22,089	22,393
	67,054	66,446	69,371	74,930	72,987

Receivables that are neither past due nor past due but not impaired relate to hospitals and international stocking distributors for whom collection history has been favorable. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances, as there has been no history of default and the balances are considered recoverable. The Business does not hold any collateral over these balances.

13 TRADE AND OTHER PAYABLES

Trade and other payables in the combined statements of financial position comprise (in thousands of U.S. dollars):

	30 June 2013	31 December 2012	31 December 2011	31 December 2010	1 January 2010
Trade payables	9,804	5,623	7,384	9,368	8,306
Other payables and accrued charges	33,081	30,714	26,010	27,697	24,817
Advances received	663	599	728	285	374
	43,548	36,936	34,122	37,350	33,497

The average credit period for trade payables ranges from 30 to 60 days. Payments to the suppliers are made as and when the invoices become due on respective due dates.

All the above balances are expected to be settled within one year.

14 PROVISIONS

The movements in provisions are as follows (in thousands of U.S. dollars):

	Restructuring	Product Liability	Total
At 1 January 2010	6,335	1,087	7,422
Additional provisions recognized	829	1,606	2,435
Provision utilized	(6,685)	(912)	(7,597)
Effect of foreign currency exchange differences	(338)	(14)	(352)
At 31 December 2010	141	1,767	1,908
Additional provisions recognized	8,470	29,779	38,249
Provision utilized	(7,167)	(1,856)	(9,023)
Effect of foreign currency exchange differences	(85)	(10)	(95)
At 31 December 2011	1,359	29,680	31,039
Additional provisions recognized	598	5,308	5,906
Provision utilized	(1,886)	(4,492)	(6,378)
Effect of foreign currency exchange differences	(2)	(5)	(7)
At 31 December 2012	69	30,491	30,560
Additional provisions recognized	–	953	953
Provision utilized	(15)	(4,661)	(4,676)
Effect of foreign currency exchange differences	–	(2)	(2)
At 30 June 2013	54	26,781	26,835

Provisions are classified as follows in the combined statements of financial position (in thousands of U.S. dollars):

	Restructuring	Product Liability	Total
1 January 2010			
Current provisions	6,335	1,087	7,422
Long-term provisions	–	–	–
Total	6,335	1,087	7,422
31 December 2010			
Current provisions	141	1,767	1,908
Long-term provisions	–	–	–
Total	141	1,767	1,908
31 December 2011			
Current provisions	1,359	6,377	7,736
Long-term provisions	–	23,303	23,303
Total	1,359	29,680	31,039

	Restructuring	Product Liability	Total
31 December 2012			
Current provisions	69	5,275	5,344
Long-term provisions	–	25,216	25,216
Total	69	30,491	30,560
30 June 2013			
Current provisions	54	5,988	6,042
Long-term provisions	–	20,793	20,793
Total	54	26,781	26,835

(i) Product Liability

The Business is subject to various product liability claims. The provision is primarily related to the claims associated with the products described in Note 21. The recorded cost of the claims is reflected in administrative expenses in the Business's combined income statements.

(ii) Restructuring Provision

On September 15, 2011, Wright Medical announced plans to implement a cost-restructuring plan to foster growth, enhance profitability and cash flow, and build stockholder value. The Business implemented numerous initiatives to reduce spending, including streamlining select aspects of its international selling and distribution operations, reducing the size of its product portfolio, adjusting plant operations to align with its volume and mix expectations, and rationalizing its research and development projects. The costs associated with the restructuring program relate primarily to severance and termination benefits, contract termination fees, noncash asset impairments, and excess and obsolete inventory write-down.

15 FINANCE LEASE OBLIGATIONS

The Business had obligations under finance leases repayable as follows (in thousands of U.S. dollars):

	30 June 2013		31 December 2012		31 December 2011	
	Present Value of Minimum Lease Obligation	Total Minimum Lease Payments	Present Value of Minimum Lease Obligation	Total Minimum Lease Payments	Present Value of Minimum Lease Obligation	Total Minimum Lease Payments
Within one year	314	326	784	810	1,008	1,079
After one year but within two years	14	16	18	17	788	849
After two years but within five years	28	30	2	2	18	21
After five years	–	–	–	–	–	–
	356	372	804	829	1,814	1,949
Less total future interest expense	–	(16)	–	(25)	–	(135)
Present value of lease obligations	356	356	804	804	1,814	1,814

	31 December 2010		1 January 2010	
	Present Value of Minimum Lease Obligation	Total Minimum Lease Payments	Present Value of Minimum Lease Obligation	Total Minimum Lease Payments
Within one year	1,033	1,161	218	246
After one year but within two years	941	1,049	258	277
After two years but within five years	823	854	186	179
	2,797	3,064	662	702
Less total future interest expense	–	(267)	–	(40)
Present value of lease obligations	2,797	2,797	662	662

16 INCOME TAX IN THE COMBINED STATEMENTS OF FINANCIAL POSITION

(a) Net deferred tax assets recognized

(i) The deferred tax assets (liabilities) recognized in the combined statements of financial position and the movements during the year are as follows (in thousands of U.S. dollars):

	30 June 2013	31 December 2012	31 December 2011	31 December 2010
Beginning of the year	39,151	33,802	20,017	20,438
Charge (credit) to income statement	504	6,037	13,785	(1,089)
Charge (credit) directly to parent's net investment	(1,291)	(494)	(101)	257
Effect of foreign currency translation	(327)	(194)	101	411
End of the year	38,037	39,151	33,802	20,017

(ii) The components of deferred tax assets (liabilities) recognized in the combined statements of financial position and the movements in the components during the year are as follows (in thousands of U.S. dollars):

Deferred tax arising from	Beginning of the period	Charge (credit) to profit	Charge (credit) directly to parent's net investment	Effect of foreign currency translation	End of period
30 June 2013					
Tax loss carryovers	19,765	(258)	–	(20)	19,487
Reserves and Allowances	12,136	(4,743)	–	(143)	7,250
Inventory Adjustments	15,849	(168)	–	–	15,681
Credit Carryforward	930	111	–	–	1,041
Stock Based Compensation	3,072	2,987	(1,291)	–	4,768
Other deferred tax asset	642	(81)	–	(24)	537
Property, plant and equipment	(12,549)	1,644	–	(151)	(11,056)
Goodwill and other intangible assets	250	44	–	(1)	293
Other deferred tax liability	(944)	968	–	12	36
Net deferred tax asset	39,151	504	(1,291)	(327)	38,037

Deferred tax arising from	Beginning of the period	Charge (credit) to profit	Charge (credit) directly to parent's net investment	Effect of foreign currency translation	End of period
31 December 2012					
Tax loss carryovers	13,645	6,094	–	26	19,765
Reserves and Allowances	14,928	(2,730)	–	(62)	12,136
Inventory Adjustments	18,305	(2,456)	–	–	15,849
Credit Carryforward	708	222	–	–	930
Stock Based Compensation	1,933	1,633	(494)	–	3,072
Other deferred tax asset	902	(274)	–	14	642
Property, plant and equipment	(15,439)	2,982	–	(92)	(12,549)
Goodwill and other intangible assets	159	90	–	1	250
Other deferred tax liability	(1,339)	476	–	(81)	(944)
Net deferred tax asset	33,802	6,037	(494)	(194)	39,151

Deferred tax arising from	Beginning of the period	Charge (credit) to profit	Charge (credit) directly to parent's net investment	Effect of foreign currency translation	End of period
31 December 2011					
Tax loss carryovers	7,923	5,734	–	(12)	13,645
Reserves and Allowances	6,721	8,176	–	31	14,928
Inventory Adjustments	18,969	(664)	–	–	18,305
Credit Carryforward	254	454	–	–	708
Stock Based Compensation	2,321	(287)	(101)	–	1,933
Other deferred tax asset	1,090	(206)	–	18	902
Property, plant and equipment	(14,748)	(791)	–	100	(15,439)
Goodwill and other intangible assets	697	(567)	–	29	159
Other deferred tax liability	(3,210)	1,936	–	(65)	(1,339)
Net deferred tax asset	20,017	13,785	(101)	101	33,802
31 December 2010					
Tax loss carryovers	–	7,926	–	(3)	7,923
Reserves and Allowances	5,448	1,130	–	143	6,721
Inventory Adjustments	19,969	(1,000)	–	–	18,969
Credit Carryforward	–	254	–	–	254
Stock Based Compensation	2,324	(260)	257	–	2,321
Other deferred tax asset	578	508	–	4	1,090
Property, plant and equipment	(7,250)	(7,752)	–	254	(14,748)
Goodwill and other intangible assets	710	39	–	(52)	697
Other deferred tax liability	(1,341)	(1,934)	–	65	(3,210)
Net deferred tax asset	20,438	(1,089)	257	411	20,017

(iii) Reconciliation to the combined statements of financial position (in thousands of U.S. dollars):

	30 June 2013	31 December 2012	31 December 2011	31 December 2010	1 January 2010
Net deferred tax assets recognized in the combined statements of financial position	48,764	52,394	50,421	37,278	28,319
Net deferred tax liabilities recognized in the combined statements of financial position	(10,727)	(13,243)	(16,619)	(17,261)	(7,881)
	38,037	39,151	33,802	20,017	20,438

(b) Deferred tax assets not recognized

As the Business in its entirety is not a separate legal entity for federal, state or non-U.S. income tax purposes, net operating losses previously generated by the Business may have already been utilized by Wright Medical and may not be available for subsequent utilization. Tax losses generated during the Business's financial statement period have been deemed to offset the Business's taxable income generated during the financial statement period, but no such losses have been deemed available for subsequent use.

17 OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities in the combined statements of financial position comprise (in thousands of U.S. dollars):

	30 June 2013	31 December 2012	31 December 2011	31 December 2010	1 January 2010
Defined benefit obligation	1,556	1,688	2,349	2,155	1,574
Royalty payable	2,959	–	–	–	–
Other	329	610	230	88	59
	4,844	2,298	2,579	2,243	1,633

18 STAFF COSTS AND EMPLOYEE RETIREMENT BENEFITS

The Business's total staff costs, which include compensation related to employee retirement benefit plans, comprise the following (in thousands of U.S. dollars):

	Six Months Ended 30 June		Year Ended 31 December		
	2013	2012	2012	2011	2010
		(Unaudited)			
Salaries, wages and other benefits	52,271	56,827	110,179	120,956	124,496
Contributions to defined contribution plan and costs associated with defined benefit retirement plan	468	522	1,008	1,062	1,062
Stock based compensation	3,920	3,998	6,589	6,077	8,309
Total	56,659	61,347	117,776	128,095	133,867

Staff compensation expense is reflected as follows in the combined income statements (in thousands of U.S. dollars):

	Six Months Ended 30 June		Year Ended 31 December		
	2013	2012	2012	2011	2010
		(Unaudited)			
Cost of sales	13,547	14,063	26,588	29,453	30,496
Research and development costs	3,644	4,414	8,578	9,290	11,032
Distribution costs	28,356	32,187	61,323	71,024	73,695
Administrative expenses	11,112	10,683	21,287	18,328	18,644
	56,659	61,347	117,776	128,095	133,867

(a) Defined benefit retirement plan

The Business's employees in Japan are covered by an unfunded defined benefit retirement plan. The Business has recorded its liability associated with this plan in other noncurrent liabilities.

(b) Defined contribution retirement plan

Wright Medical sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code, which covers US employees who are 21 years of age and over. Under this plan, Wright Medical matches voluntary employee contributions at a rate of 100% for the first 2% of an employee's annual compensation and at a rate of 50% for the next 2% of an employee's annual compensation. Employees vest in the employer contributions after three years of service. The Business recorded expense of $0.5 million, $0.5 million, $1.0 million, $1.1 million and $1.1 million associated with this plan for the six months ended 30 June 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010, respectively.

19 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

Wright Medical maintains equity incentive plans, which provide employees with restricted share-based awards and stock options and also maintains an employee stock purchase plan ("ESPP") for the benefit of its employees. Given that the Business receives employees' services in consideration for the participation of the Business's employees in these plans, a share-based payment expense for the awards granted to the Business's employees has been reflected in the combined income statements. The total share-based compensation recognized in the Business's Financial Information is as follows (in thousands of U.S. dollars):

	Six months ended 30 June		Year Ended 31 December		
	2013	2012	2012	2011	2010
		(Unaudited)			
Total cost of share-based compensation expense	3,917	4,045	6,564	6,057	8,334
Amounts capitalized as inventory and intangible assets	(300)	(531)	(803)	(881)	(853)
Amortization of capitalized amounts	303	484	828	901	828
Recognized as expense during the period	3,920	3,998	6,589	6,077	8,309
Income tax (benefit)/expenses recognized in profit	(408)	(90)	(651)	489	(254)
Impact to profit for the period	3,512	3,908	5,938	6,566	8,055

All share based awards will be settled by Wright Medical and will not become the obligation of the Company.

(a) Equity Incentive Plans

Wright Medical granted stock-based compensation awards under two specific plans, including the following:

- The 1999 Equity Incentive Plan (the "1999 Plan") – The 1999 Plan was adopted on 7 December 1999, and amended on various dates between 1999 and 2008. The 1999 Plan authorizes Wright Medical the right to grant various forms of stock-based awards, including stock options, nonvested shares, phantom shares, and restricted stock units ("RSU"). The awards are generally vested in increments of 25% annually on each of the first through fourth anniversaries of the date of grant. The 1999 Plan expired on 7 December 2009.

- The 2009 Equity Incentive Plan (the "2009 Plan" and collectively with the 1999 Plan, the "Plans") – The 2009 Plan was adopted on 13 May 2009, which was subsequently amended and restated on 13 May 2010. The 2009 Plan authorizes Wright Medical to grant various forms of stock-based awards, including stock options, nonvested shares, phantom shares, and RSUs. The 2009 Plan authorizes the right stock to issue awards up to 11,917,051 shares of common stock, of which unvested shares, phantom shares, and RSUs are limited to 2,729,555 shares. Under the 2009 Plan, the awards generally vest in increments of 25% annually on each of the first through fourth anniversaries of the date of grant. All of the options issued under the plan expire after 10 years. As of 30 June 2013, there were 3,390,862 shares available for future issuance under the 2009 Plan, of which nonvested shares, phantom shares, and RSUs are limited to 1,695,431 shares.

The following summarizes the awards granted to the employees of the Business under these Plans:

(i) Stock Options

A summary of the stock option activity under the Plans during the periods presented is as follows (shares in thousands):

	Shares *(000's)*	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Life**
Outstanding at 1 January 2010	2,272	23.79	
Granted	132	18.37	
Exercised	(30)	5.37	
Forfeited or expired	(231)	24.73	
Outstanding at 31 December 2010	2,143	23.62	5.3
Exercisable at 31 December 2010	1,731	24.20	4.6
Outstanding at 31 December 2010	2,143	23.62	
Granted	226	15.52	
Exercised	(11)	10.44	
Forfeited or expired	(777)	22.22	
Outstanding at 31 December 2011	1,581	23.23	4.7
Exercisable at 31 December 2011	1,234	24.79	3.6
Outstanding at 31 December 2011	1,581	23.23	
Granted	460	21.19	
Exercised	(50)	17.57	
Forfeited or expired	(168)	22.70	
Outstanding at 31 December 2012	1,823	22.92	5.3
Exercisable at 31 December 2012	1,178	24.72	3.2

	Shares (000's)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life
Outstanding at 31 December 2012	1,823	22.92	
Granted	704	24.29	
Exercised	(55)	19.50	
Forfeited or expired	(88)	24.17	
Outstanding at 30 June 2013	2,384	23.35	6.3
Exercisable at 30 June 2013	1,250	24.02	3.6
Unaudited:			
Outstanding at 31 December 2011	1,581	23.23	
Granted	440	21.20	
Exercised	(11)	17.71	
Forfeited or expired	(111)	23.58	
Outstanding at 30 June 2012	1,899	22.78	5.7
Exercisable at 30 June 2012	1,204	24.42	3.7

The total intrinsic value of options exercised during the six months ended 30 June 2013 and 2012, and during the years ended 31 December 2012, 2011 and 2010, was $0.3 million, $0.02 million, $0.3 million, $0.1 million and $0.2 million, respectively.

A summary of the stock options outstanding and exercisable is as follows (shares in thousands):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercisable
31 December 2010					
$0.00-$8.00	8	0.4	7.60	8	7.60
$8.51-$16.00	146	7.7	15.43	48	15.35
$16.01-$24.00	931	5.5	20.44	760	20.82
$24.01-$35.87	1,058	4.7	27.67	915	27.60
	2,143	5.3	23.62	1,731	24.20
31 December 2011					
$4.00-$16.00	278	8.5	15.46	48	15.38
$16.01-$24.00	568	4.5	20.79	488	21.18
$24.01-$35.87	735	3.5	28.05	698	27.97
	1,581	4.7	23.23	1,234	24.79

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercisable
31 December 2012					
$4.00-$16.00	242	7.6	15.46	91	15.45
$16.01-$24.00	912	6.5	21.12	418	21.40
$24.01-$35.87	669	2.4	28.06	669	28.06
	1,823	5.3	22.92	1,178	24.72
30 June 2013					
$4.00-$16.00	228	7.3	15.46	142	15.47
$16.01-$24.00	963	6.8	21.44	489	21.43
$24.01-$35.87	1,193	5.8	26.41	619	28.02
	2,384	6.3	23.35	1,250	24.02
Unaudited:					
30 June 2012					
$4.00-$16.00	264	8.1	15.46	107	15.44
$16.01-$24.00	966	6.9	21.07	442	21.26
$24.01-$35.87	669	3.0	28.06	655	28.02
	1,899	5.7	22.78	1,204	24.42

(ii) Restricted Awards

Wright Medical granted unvested shares of common stock, stock-settled phantom stock units, and RSUs to its employees during the periods presented. The weighted-average grant-date fair values were $24.66 per share, $21.28 per share, $21.26 per share, $15.51 per share, and $18.33 per share during the six months ended 30 June 2013 and 2012, and the years ended 31 December 2012, 2011, and 2010, respectively. In addition, unvested shares of common stock were issued to certain independent distributors and other nonemployees at weighted-average grant-date fair values during the years ended 31 December 2011, and 2010 of $15.27 per share, and $18.20 per share, respectively.

A summary of restricted awards offered under the Plans is as follows (shares in thousands):

	Shares *(000's)*	Weighted-Average Grant-Date Fair Value
Unvested at 1 January 2010	656	20.07
Granted	285	18.35
Exercised	(214)	20.78
Forfeited	(60)	20.80
Unvested at 31 December 2010	667	19.03
Granted	289	15.51
Exercised	(237)	20.21
Forfeited	(215)	18.11
Unvested at 31 December 2011	504	17.08
Granted	168	21.26
Exercised	(241)	18.02
Forfeited	(47)	17.21
Unvested at 31 December 2012	384	18.01
Granted	176	24.66
Exercised	(188)	17.81
Forfeited	(21)	17.64
Unvested at 30 June 2013	351	20.92

The total fair value of shares vested during the six months ended 30 June 2013 and 2012, and during the years ended 31 December 2012, 2011 and 2010, was $4.9 million, $4.7 million, $5.1 million, $4.0 million, and $3.6 million, respectively.

(iii) Inducement Stock Options

During the years ended 31 December 2011 and 2012, Wright Medical granted stock options to certain key employees to induce employment. These options vest over a three-year service period with the remaining terms being substantially consistent with the other stock options granted under the 2009 Plan.

A summary of inducement stock option activity is as follows (shares in thousands):

	Shares *(000's)*	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life
Outstanding at 1 January 2010	–	–	
Granted	37	16.43	
Exercised	–	–	
Forfeited or expired	–	–	
Outstanding at 31 December 2010	37	16.43	9.4

	Shares *(000's)*	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life
Exercisable at 31 December 2010	–	–	–
Outstanding at 1 January 2011	37	16.43	
Granted	350	16.15	
Exercised	–	–	
Forfeited or expired	–	–	
Outstanding at 31 December 2011	387	16.15	9.8
Exercisable at 31 December 2011	–	–	–
Outstanding at 31 December 2011	387	16.15	
Granted	134	20.41	
Exercised	–	–	
Forfeited or expired	–	–	
Outstanding at 31 December 2012	521	17.21	8.8
Exercisable at 31 December 2012	130	16.12	8.6
Outstanding at 31 December 2012	521	17.21	
Granted	–	–	
Exercised	–	–	
Forfeited or expired	–	–	
Outstanding at 30 June 2013	521	17.21	8.5
Exercisable at 30 June 2013	138	16.18	8.3
Unaudited:			
Outstanding at 31 December 2011	387	16.15	
Granted	28	17.35	
Exercised	–	–	
Forfeited or expired	–	–	
Outstanding at 30 June 2012	415	16.23	9.3
Exercisable at 30 June 2012	–	–	–

A summary of inducement stock options outstanding and exercisable is as follows (shares in thousands):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercisable
31 December 2010					
$4.00-$16.00	–	–	–	–	–
$16.01-$24.00	37	9.4	16.43	–	–
$24.01-$35.87	–	–	–	–	–
	37	9.4	16.43	–	–
31 December 2011					
$4.00-$16.00	–	–	–	–	–
$16.01-$24.00	387	9.8	16.15	–	–
$24.01-$35.87	–	–	–	–	–
	387	9.8	16.15	–	–
31 December 2012					
$4.00-$16.00	–	–	–	–	–
$16.01-$24.00	521	8.8	17.21	130	16.12
$24.01-$35.87	–	–	–	–	–
	521	8.8	17.21	130	16.12
30 June 2013					
$4.00-$16.00	–	–	–	–	–
$16.01-$24.00	521	8.5	17.21	138	16.18
$24.01-$35.87	–	–	–	–	–
	521	8.5	17.21	138	16.18
Unaudited:					
30 June 2012					
$4.00-$16.00	–	–	–	–	–
$16.01-$24.00	415	9.3	16.23	–	–
$24.01-$35.87	–	–	–	–	–
	415	9.3	16.23	–	–

(b) ESPP

Wright Medical has an ESPP that authorizes the issuance of up to 200,000 shares of common stock to employees who work at least 20 hours per week. Under the terms of the ESPP, employees can choose each plan period to have up to 5% of their annual base earnings, limited to $5,000, withheld to purchase the shares of Wright Medical common stock. The purchase price of the common stock is 85% of the lower of the beginning-of-period or end-of-period market price. The Business recorded nominal amounts of noncash, stock– based compensation expense related to the ESPP during the periods presented.

(c) Fair Value and Assumptions

(i) Stock Options and ESPP

The fair value of stock options and the ESPP is estimated using the Black-Scholes valuation model. The Black-Scholes option-pricing model requires the input of estimates, including the expected life of stock options, expected stock price volatility, the risk-free interest rate, and the expected dividend yield. The expected life of options is estimated based on historical option exercise and employee termination data. The expected stock price volatility assumption was estimated based upon historical volatility of Wright Medical's common stock. The risk-free interest rate was determined using U.S. Treasury rates where the term is consistent with the expected life of the stock options. Expected dividend yield is not considered, as Wright Medical has never paid dividends and has no plans of doing so in the future. The expected forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates. Historical data is used to estimate pre-vesting forfeitures and record stock-based compensation expense only for those awards that are expected to vest. Changes in the subjective input assumptions could materially affect the fair value estimate.

The weighted-average grant-date fair value of stock options granted to employees during the six months ended 30 June 2013 and 2012, and during the years ended 31 December 2012, 2011 and 2010, was $8.52 per share, $7.93 per share, $7.92 per share, $5.97 per share, and $7.11 per share, respectively. The following summarizes the assumptions used in determining the fair value of stock options:

	Six Months Ended 30 June		Year Ended 31 December		
	2013	**2012**	**2012**	**2011**	**2010**
		(Unaudited)			
Risk-free interest rate	0.5% - 1.0%	0.5% - 1.0%	0.5% - 1.0%	1.0% - 2.0%	2.1% - 2.2%
Expected option life	6 years	6 years	6 years	6 years	6 years
Expected price volatility	40%	40%	40%	39%	40%

In applying the Black-Scholes methodology to the purchase rights granted under the ESPP, the group used the following assumptions:

	Six Months Ended 30 June		Year Ended 31 December		
	2013	**2012**	**2012**	**2011**	**2010**
		(Unaudited)			
Risk-free interest rate	0.1% - 0.2%	0.1% - 0.2%	0.1% - 0.2%	0.3% - 0.4%	0.6% - 0.9%
Expected option life	6 months	6 months	6 months	6 months	6 months
Expected price volatility	40%	40%	40%	39%	40%

(ii) Restricted Awards

The grant-date fair value of non vested shares of common stock, stock-settled phantom stock units, and RSUs is determined based on the closing sale prices of Wright Medical's common stock on the trading day immediately prior to the grant date. The expected forfeitures are estimated at the grant date and revised in subsequent periods if actual forfeitures differ from those estimates. Historical data is used to estimate pre-vesting forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Business's business. The Business's exposure to these risks and the financial risk management policies used by the Business to manage these risk are described below.

(a) Credit risk

Credit risk arises because a counterparty may fail to perform its obligations. The Business's credit risk is primarily attributable to trade receivables. The Business manages this risk and attempt to minimize credit risk by reviewing customers' credit history before extending credit and by monitoring credit exposure on a regular basis. An allowance for possible losses on accounts receivable is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. Collateral or other security is generally not required for accounts receivable.

The maximum exposure to credit risk resulting from financial activities, without considering netting agreements and without taking into account any collateral held or other credit enhancements, is equal to the carrying amount of the Business's financial assets.

Further quantitative disclosures in respect of the Business's exposure to credit risk arising from trade and other receivables are set out in Note 10 and 12.

(b) Liquidity risk

Liquidity risk arises when a company encounters difficulties to meet commitments associated with liabilities and other payment obligations. Such risk may result from inadequate market depth or disruption or refinancing problems. The Business's liquidity has historically been managed by Wright Medical and was managed by maintaining adequate cash reserves and banking facilities and by closely monitoring forecasted and actual cash flows and, where possible, matching the maturity profiles of financial assets and liabilities.

The following tables detail the remaining contractual maturities at the reporting date of the Business's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Business can be required to pay:

	Less than one year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying Value
30 June 2013					
Trade and other payables	43,548	–	–	43,548	43,548
Finance lease obligations	326	16	30	372	356
Total	43,874	16	30	43,920	43,904
31 December 2012					
Trade and other payables	36,936	–	–	36,936	36,936
Finance lease obligations	810	17	2	829	804
Total	37,746	17	2	37,765	37,740
31 December 2011					
Trade and other payables	34,122	–	–	34,122	34,122
Finance lease obligations	1,079	849	21	1,949	1,814
Total	35,201	849	21	36,071	35,936

	Less than one year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying Value
31 December 2010					
Trade and other payables	37,350	–	–	37,350	37,350
Finance lease obligations	1,161	1,049	854	3,064	2,797
Total	38,511	1,049	854	40,414	40,147
1 January 2010					
Trade and other payables	33,497	–	–	33,497	33,497
Finance lease obligations	246	277	179	702	662
Total	33,743	277	179	34,199	34,159

(c) Interest rate risk

The Business is not exposed to significant interest rate risk with its only exposure resulting from its finance lease obligations.

(d) Currency risk

The Business operates internationally and a substantial portion of its sales are derived from countries outside of the U.S. (foreign) countries. The percentage of the Business's sales derived from foreign countries is as follows:

	Six Months Ended 30 June		Year Ended 31 December		
	2013	2012	2012	2011	2010
		(Unaudited)			
United States	61.8	55.2	58.7	59.3	62.3
Japan	18.6	21.1	20.9	20.0	16.7
European Union	14.2	18.1	14.9	15.0	15.0
United Kingdom	2.7	3.1	3.0	3.2	3.3
Canada	2.7	2.5	2.5	2.5	2.7
Total	100	100	100	100	100

The Business is exposed to currency risk primarily from these sales, and related product cost of sales, which give rise to monetary assets that are denominated in a foreign currency. The Business had net foreign currency losses of $354 thousand, $384 thousand, $611 thousand, $450 thousand and $95 thousand during the six months ended 30 June 2013 and 2012 and for the years ended 31 December 2012, 2011 and 2010, respectively.

A uniform 10% strengthening in the value of the U.S. dollar relative to the currencies in which the Business's transactions are denominated would have resulted in a decrease in profit before tax of approximately $0.8 million, $2.2 million, $2.8 million, $3.3 million and $2.4 million for the six months ended 30 June 2013 and 2012 and for the years ended 31 December 2012, 2011 and 2010, respectively. This hypothetical calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar. This sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices, which can be also be affected by the change in exchange rates.

(e) Fair values

The Business does not maintain any financial instruments that are carried at fair value. The Business believes that the carrying amount of all financial assets and liabilities (including trade receivables and trade payables) recognized in the combined statement of financial position approximate fair value due to the short term nature of the instruments.

21 COMMITMENTS AND CONTINGENCIES

(a) Operating Lease Commitments

The total future minimum lease payments under noncancelable operating leases are payable as follows (in thousands of U.S. dollars):

	30 June 2013	31 December 2012	31 December 2011	31 December 2010	1 January 2010
Within one year	3,957	5,989	6,635	7,519	7,519
After one year but within five years	4,036	6,576	7,114	8,306	8,306
	7,993	12,565	13,749	15,825	15,825

The Business is the lessee in respect of certain equipment and office space under noncancelable operating leases. The leases typically run for an initial period of 1 to 5 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals. The total rental expense associated with the hire of plant and machinery was $1.6 million, $1.9 million, $3.8 million, $3.9 million, and $3.8 million and the lease charges associated with other assets were $2.0 million, $1.9 million, $4.7 million, $5.4 million, and $4.6 million for the six months ended 30 June 2013 and 2012 and for the years ended 31 December 2012, 2011 and 2010, respectively.

(b) Contingent Liabilities

Purchase Obligations. The Business relies on a limited number of suppliers for the components used in its products. The Business's reconstructive joint devices are produced from various surgical grades of titanium, cobalt chrome, stainless steel, various grades of high-density polyethylenes, and ceramics. The Business relies on one source to supply it with a number of these items. The Business believes it maintains an adequate stock from its suppliers in order to meet market demand.

The Business has entered into certain supply agreements for its products, which include minimum purchase obligations. During the years ended 31 December 2011 and 2010, the Business paid approximately $7.7 million and $6.1 million, respectively, under those supply agreements. No amounts were paid during the year ended 31 December 2012 or during the six months ended 30 June 2013.

Governmental Inquiries. In December 2007, the Business received a subpoena from the United States Department of Justice (DOJ) requesting documents related to any consulting and professional service agreements with orthopedic surgeons in connection with hip or knee joint replacement procedures or products. This subpoena was served shortly after several of the Business's knee and hip competitors agreed with the DOJ to resolutions of similar investigations.

On 29 September 2010, Wright Medical entered into a 12-month Deferred Prosecution Agreement (DPA), which was subsequently extended an additional 12 months, and a Civil Settlement Agreement (CSA). Under the DPA, a criminal complaint was filed charging Wright Medical with conspiracy to commit violations of the Anti-Kickback Statute during the years 2002 through 2007. The court deferred prosecution of the criminal complaint during the term of the DPA and it was agreed that upon compliance with the provisions of the DPA, the prosecutor would seek dismissal of the criminal complaint. Pursuant to the CSA, Wright Medical settled civil and administrative claims relating to the matter for a payment of $7.9 million without any admission by Wright Medical. The Business's combined income statements reflect this as an administrative expenses in the year ended 31 December 2010.

In conjunction with the CSA, Wright Medical also entered into a five-year Corporate Integrity Agreement (CIA) with the Office of the Inspector General of the United States Department of Health and Human Services. It was agreed that the CIA would begin on 29 September 2012, when the amended DPA monitoring period expired.

On 4 October 2012, the criminal complaint was dismissed. The term of the CIA did not change, and will expire on 29 September 2015.

The CIA continues to impose certain obligations on the Business to maintain compliance with US health care laws, regulations, and other requirements. A failure to do so could expose the Business to significant liability including, but not limited to, exclusion from federal health care program participation, including Medicaid and Medicare, which would have a material adverse effect on the Business's financial condition, results of operations, and cash flows, with potential prosecution, civil and criminal fines or penalties, and additional litigation cost and expense.

On 3 August 2012, the Business received a subpoena requesting records and documentation relating to its PROFEMUR® series of hip replacement devices. The subpoena covers the period from 1 January 2000 to 2 August 2012. The Business is in the process of collecting the responsive documents and responding to the subpoena and is unable to estimate the impact of the ultimate outcome of these matters on its consolidated financial position or results of operations.

Any liabilities arising out of or related to (i) the DPA, (ii) the Business's conduct prior to the closing with respected to the CIA, and (iii) the subpoena received on 3 August 2012 related to PROFEMUR hip devices will not transfer to the Company through the sale of the OrthoRecon business and will be retained by Wright Medical.

After the sale to the Company, both Wright Medical and the Company will continue to be subject to the CIA.

Patent Litigation. In 2011, Howmedica Osteonics Corp. ("Howmedica") and Stryker Ireland, Ltd. ("Stryker"), each a subsidiary of Stryker Corporation, filed a lawsuit against Wright Medical alleging infringement of the Howmedica and Stryker's US patent. The lawsuit seeks an order of infringement, injunctive relief, unspecified damages, and various other costs and relief and could affect a substantial portion of the Business's knee product line. The Business believes it has a strong defense against these claims and plans to vigorously defend this lawsuit. The Business does not believe that the outcome of this lawsuit will have a material adverse effect on its combined statements of financial position or results of operations.

During 2012, Bonutti Skeletal Innovations, LLC ("Bonutti") filed a patent infringement lawsuit in which it alleged that Wright Medical's Link Sled Prosthesis infringes upon their patent. In January 2013, Bonutti amended its complaint, alleging that Wright Medical's ADVANCE® knee system, including ODYSSEY® instrumentation and PROPHECY® guides, infringes upon certain of their patents. All of the claims of the asserted patents are directed to surgical methods for minimally invasive surgery. The Business intends to vigorously defend these allegations. The Business does not believe the initial complaint will have a material adverse effect on its combined statements of financial position or results of operations and is currently assessing the claim received in January 2013.

Subject to the provisions of the asset purchase agreement, Wright Medical will continue to be responsible for defense of existing patent infringement cases and associated legal defense costs, and for resulting liabilities, if any, related to pre-closing periods.

Product Liability. The Business is subject to various product liability claims, which are described below. The product liability associated with items described below will not be transferred to MicroPort for products sold prior to the sale to the Company and will be retained by Wright Medical. Any liability associated with products sold after the sale of OrthoRecon business to the Company will be the responsibility of the Company.

- Modular Neck – The Business has received personal injury claims associated with fractures of its PROFEMUR® long titanium modular neck product ("Modular Neck Claims"). The overall fracture rate for the product is low and the fractures appear, at least in part, to relate to patient demographics. The Business has estimated a total potential liability associated with this product of between $20 million and $32 million at 30 June 2013, which represents the estimated liability associated with both current and expected future claims. Due to the uncertainty within the aggregate range of loss resulting from the estimation of the number of claims and related monetary payments, the Business has recorded a liability at the midpoint of the range. The amount of recorded provision against these claims is $25.8 million, $30.0 million, $29.3 million, $1.2 million and $0.3 million at 30 June 2013, 31 December 2012, 31 December 2011, 31 December 2010, and 1 January 2010, respectively.

  The Business has maintained product liability insurance coverage, which provides for coverage on a claims-made basis. During the first quarter of 2013, the Business received a customary reservation of rights from its primary product liability insurance carrier asserting that Modular Neck Claims would be covered as a single occurrence under the policy year, the first year in which such claim was asserted. The effect of insurance company's position is that all such claims would be placed into a single prior policy year in which applicable claims-made coverage was available, subject to the overall policy limits then in effect. The Business agrees with the assertion that Modular Neck Claims should be treated as a single occurrence, but has notified the carrier that at this time it disputes the carrier's selection of available policy years. Based on our insurer's treatment, the claims as a single occurrence, the Business increased its estimate of the total probable insurance recovery by $15.9 million, and recognized the

additional recovery as a reduction to administrative expenses during the six months ended 30 June 2013. During the six months ended 30 June 2013, the Business received payment from the primary insurance carrier of $5.0 million. The total insurance recovery receivable recorded is $38.3 million, $17.2 million, $8.4 million, at 30 June 2013, 31 December 2012, and 31 December 2011, respectively. There was no insurance recovery receivable recorded in 2010.

- Metal-on-Metal Hip Products – The Business has received claims for personal injury associated with its metal-on-metal hip products. The number of claims associated with these products continues to increase, which the Business believes is due to the increasing negative publicity in the industry regarding metal-on-metal hip products. The Business believes that it has the data to support the efficacy and safety of its metal-on-metal hip products, and intends to vigorously defend itself in these matters. The Business is unable to estimate the ultimate impact of current claims and future potential claims, and as a result, has not recorded a provision against these claims.

  The Business maintained product liability insurance coverage, which provides coverage on a claims-made basis. During the third quarter of 2012, the Business received a customary reservation of rights from its primary product liability insurance carrier asserting that certain present and future claims related to its CONSERVE® metal-on-metal hip products and which allege certain types of injury (CONSERVE® Claims) would be covered as a single occurrence under the policy year, the first year in which such claim was asserted. The effect of this coverage position would be to place CONSERVE® Claims into a single prior policy year in which applicable claims-made coverage was available, subject to the overall policy limits then in effect. Management agrees that there is insurance coverage for the CONSERVE® Claims, but has notified the carrier that at this time it disputes the carrier's selection of available policy years and its characterization of the CONSERVE® Claims as a single occurrence. Management has recorded an insurance receivable for the probable recovery of spending in excess of its single occurrence coverage. As of 30 June 2013, this receivable totaled $5.2 million, and is solely related to defense costs incurred through 30 June 2013. However, the amount the Business ultimately receives may differ depending on the final conclusion of the insurance policy year and the number of occurrences.

Other. The Business has received claims from health care professionals following the termination of certain contractual arrangements and believes additional claims are possible. Management is unable to estimate the cost, if any, of ultimately resolving these claims. Accordingly, no provisions have been recorded in the Business's Financial Information related to these claims.

22 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Business is as follows (in thousands of U.S. dollars):

	Six Months Ended 30 June		Year Ended 31 December		
	2013	2012	2012	2011	2010
		(Unaudited)			
Short-term employee benefits	960	1,149	2,420	1,413	1,292
Stock-based compensation benefits	1,101	931	2,110	3,265	1,789
Other compensation benefits	58	57	145	84	35

As the Business did not operate as a stand-alone company during the historical periods, the amounts presented above represent an allocation of the compensation of the key management of Wright Medical.

(b) Transactions with related parties

The Business has entered into transactions with the following related parties:

Name of Related Party	Relationship
Wright Medical	Parent company

Particulars of the Business's transactions with these parties are as follows:

	Six Months Ended 30 June		Year Ended 31 December		
	2013	2012	2012	2011	2010
		(Unaudited)			
Share-based compensation	3,920	3,998	6,589	6,077	8,309
Corporate allocations	16,440	16,317	31,880	48,575	26,735

(i) Corporate Overhead Allocations from Wright Medical – Wright Medical currently performs certain corporate overhead functions for the Business, and costs associated with these functions have been allocated to the Business and reflected in the Financial Information. These functions include, but are not limited to, executive oversight, legal, finance, human resources, internal audit, financial reporting, and tax planning. The amounts allocated to the Business are intended to represent the costs of providing these services, and management believes the allocation methods are reasonable. However, the actual cost of obtaining these individual services, if the Business were a stand-alone company, could be materially different. The cost of the services provided by Wright Medical was determined by allocating a portion of the overall Wright Medical corporate costs to the Business based upon the most relevant allocation method to the service provided, primarily based on relative percentage of revenue or on headcount. Corporate overhead allocations from Wright Medical are recorded in administrative expenses in the combined income statements.

The corporate overhead allocations include fees associated with auditors remuneration of $0.2 million, $0.2 million, $0.5 million, $0.6 million and $0.5 million during the six months ended 30 June 2013 and 2012 and the years ended 31 December 2012, 2011 and 2010, respectively.

(ii) Share-based Payments – As discussed in Note 19, the Business's employees participate in Wright Medical's stock-based compensation plans, the costs of which have been allocated to the Business and reflected in cost of sales, research and development costs, distribution costs and administrative expenses in the combined income statements.

23 NONADJUSTING EVENTS AFTER THE REPORTING PERIOD

There are no material non adjusting events up to the date of issuance of the Financial Information.

24 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS, AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The IASB has issued one amendment and five new standards which are not yet effective for the year ending 31 December 2013 and have not been adopted in the Financial Information. These include the following which may be relevant to the Business.

	Effect for accounting periods beginning on or after:
Amendments to IAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*	1 January 2014
IFRS 9, *Financial Instruments*	1 January 2015

The Business is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far, the Business has concluded that the adoption of the new amendments and standards is unlikely to have a significant effect on the Financial Information. All other amendments, new standards, or interpretations that have been issued were adopted by the Business.

25 WRIGHT MEDICAL SUBSIDIARIES ENTITIES

The following is a listing of Wright Medical's subsidiaries through which the OrthoRecon business was conducted during the periods presented. As described in Note 1, the Financial Information do not include all the assets and liabilities of these subsidiaries:

- Wright Medical Technology, Inc.
- Wright Medical Capital, Inc.
- Wright International, Inc.
- White Box Orthopedics, LLC
- KHC-WDM, LLC
- Wright Medical Technology Canada Ltd.
- Wright Medical Japan, K.K.
- 2Hip Holdings SAS
- Wright Medical Europe Trading SNC
- Wright Medical Europe Manufacturing SA
- Wright Medical France SAS
- Wright Medical Italy Srl
- Wright Medical UK Limited
- Wright Medical Instruments Limited
- Wright Medical Deutschland GmbH
- Wright Medical Belgium NV
- Wright Medical Netherlands, B.V.
- Wright Medical EMEA, B.V.
- Wright Medical Europe, C.V.
- INBONE Technologies, Inc.
- Wright Medical Australia Pty Ltd.
- Wright Medical Costa Rica S.A.
- Wright Medical Brasil Ltda

The subsidiaries are all 100% owned by Wright Medical

C SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements of the Target Group have been prepared by the Business in respect of any period subsequent to 30 June 2013. No dividend or distribution has been declared or made by the Target Group in respect of any period subsequent to 30 June 2013.

Yours faithfully

KPMG
Certified Public Accountants
Hong Kong

KPMG LLP
Certified Public Accountants
United States of America

OPERATING REVIEW AND PROSPECTS

Overview

The Business offers products that are used primarily to replace or repair knee, hip and bones that have deteriorated or have been damaged through disease or injury. See the paragraph headed "Information on the Business" in the Letter from the Board in this Circular for further details.

Outlook and Prospect of the Business

The U.S. business of the Business has been unfavorably affected by certain distributor transitions in 2011 and challenges associated with implementing enhancements to compliance processes. Further, the U.S. and international businesses of the Business are expected to continue to be unfavorably affected by uncertain global market conditions and conditions affecting European healthcare systems that the hip and knee industry is experiencing generally, including growth rates for volume of surgical procedures below historical levels and pricing declines.

PRINCIPAL INCOME STATEMENT COMPONENTS

Turnover

The Business's turnover represents the sales value of goods supplied to customers. The major customers of the Business include hospitals and stocking distributors. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the Business's turnover was US$305.7 million, US$299.5 million, US$266.7 million and US$124.0 million, respectively. The decrease in turnover over these periods was primarily due to customer losses in the U.S. due to distributor transitions in 2011. During the year ended 31 December 2011, the Business had some disputes with certain independent distributors in the U.S. in connection with its efforts to enhance its compliance system, and ultimately its business with these distributors was terminated. Because these distributors employ the sales representatives that have the relationship with the customers, the Business lost a significant portion of the revenue associated with those sales territories. The table below sets out the Business's revenue by product type for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2010		2011		2012		2012 (unaudited)		2013	
	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total	Revenue	% of total
	(US$ in '000, except for percentages)									
Hip	174,446	57.1%	171,940	57.4%	149,234	56.0%	80,975	56.3%	67,848	54.7%
Knees	126,356	41.3%	122,523	40.9%	113,219	42.5%	60,771	42.2%	54,142	43.7%
Other	4,943	1.6%	5,004	1.7%	4,225	1.5%	2,158	1.5%	1,990	1.6%
Total	305,745	100.0%	299,467	100.0%	266,678	100.0%	143,904	100.0%	123,980	100.0%

Cost of Sales

The Business's cost of sales consists principally of costs of raw materials, including cobalt chrome, titanium, and cross-linked polyethylene, as well as labor, and depreciation and rent expense associated with manufacturing machinery and equipment. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the Business's cost of sales was US$99.4 million, US$102.3 million, US$100.3 million and US$48.9 million, respectively. Fluctuations in cost of sales over these periods were primarily due to geographic mix, currency exchange rates, and absorption of manufacturing expenses.

Gross Profit

For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the Business's gross profit was US$206.4 million, US$197.1 million, US$166.4 million and US$75.1 million, respectively. The decline in gross profit over these periods was primarily due to declining U.S. sales.

Research and development costs

The Business's research and development costs consist principally of labor and outside services. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the Business's research and development costs were US$21.8 million, US$17.3 million, US$13.3 million and US$6.4 million, respectively. Decreases of research and development costs over these periods were primarily due to lower levels of investment in product development after the launch of the EVOLUTION™ Medial-Pivot Knee System in July 2010, and savings from a cost restructuring initiative implemented in late 2011.

Distribution costs

The Business's distribution costs consist principally of commissions, labor, depreciation of surgical instrumentation, costs associated with travel, meetings and surgeon consulting, and royalties. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the Business's distribution costs was US$126.3 million, US$124.0 million, US$105.1 million and US$49.5 million, respectively. Decreases of distribution costs over these periods were primarily due to sales declines, which impacted variable expenses such as commissions and royalties.

Administrative expenses

The Business's administrative expenses consist principally of labor, third party professional and legal fees, costs associated with information systems hardware and software, insurance, costs associated with product liabilities, operating taxes, and costs associated with facilities. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the Business's administrative expenses was US$53.1 million, US$83.3 million, US$58.2 million and US$11.3 million, respectively. The administrative expenses for the six months ended 30 June 2013 and 2012 and for the years ended 31 December 2012 and 2011 reflects insurance receivable recoveries of US$21.1 million,

US$2.5 million, US$8.8 million and US$8.4 million, respectively. Out of these, insurance receivable recoveries of US$19.4 million and US$1.1 million recognized during the six months ended 30 June 2013 and the year ended 31 December 2012, respectively, are related to costs of product claims incurred in prior periods. Such estimated insurance recovery, however, will not be transferred to the Company through the sale of the Business and will be retained by the Seller. Fluctuations of administrative expenses over these periods were primarily due to costs and insurance recoveries associated with product liabilities, restructuring charges, and lower corporate expense allocated to the Business by the Selling Group due to declining sales of the Business. The table below sets out the components of the Business's administrative expenses for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Product liability provisions	1,591	29,769	5,302	2,794	(427)
Product liability legal and professional fees	853	1,793	2,397	1,725	690
Product liability insurance estimated recoveries	–	(8,399)	(8,820)	(2,516)	(21,039)
Other administrative expenses	50,654	60,166	59,321	30,805	32,051
Total administrative expenses	**53,098**	**83,329**	**58,200**	**32,808**	**11,275**

REVIEW OF HISTORICAL OPERATING RESULTS

Income Statement of the Business

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Turnover	305,745	299,467	266,678	143,904	123,980
Cost of sales	(99,373)	(102,328)	(100,290)	(52,499)	(48,856)
Gross profit	206,372	197,139	166,388	91,405	75,124
Other net loss	(11)	(478)	(306)	(342)	(323)
Research and development costs	(21,809)	(17,342)	(13,294)	(7,049)	(6,428)
Distribution costs	(126,253)	(123,977)	(105,115)	(54,747)	(49,482)
Administrative expenses[(1)]	(53,098)	(83,329)	(58,200)	(32,808)	(11,275)
Profit (loss) from operations	5,201	(27,987)	(10,527)	(3,541)	7,616
Interest expense	(33)	(148)	(75)	(45)	(17)
Profit (loss) before taxation	5,168	(28,135)	(10,602)	(3,586)	7,599
Income tax (expense) benefit	(3,672)	11,701	4,040	1,238	(3,011)
Profit (loss) for the year/period	1,496	(16,434)	(6,562)	(2,348)	4,588

Note:

(1) The administrative expenses for the six months period ended 30 June 2013 and 2012 and for the years ended 31 December 2012 and 2011 reflect insurance receivable recoveries of US$21.1 million, US$2.5 million, US$8.8 million and US$8.4 million respectively. Out of these, insurance receivable recoveries of US$19.4 million and US$1.1 million recognized during the six months ended 30 June 2013 and the year ended 31 December 2012, respectively, are related to costs of product claims incurred in prior periods. See "Provisions and Contingent Liabilities" below.

Six months ended 30 June 2012 compared to six months ended 30 June 2013

Turnover

The Business's turnover decreased by 13.8% from US$143.9 million for the six months ended 30 June 2012 to US$124.0 million for the six months ended 30 June 2013, primarily due to U.S. customer losses and price declines in the Japanese market, as well as the 2012 stocking order associated with the conversion of the Business's Belgian direct operation to a stocking distributor in the second quarter of 2012.

Turnover by Product Type

The Business' turnover from sales of hip products decreased by 16.3% from US$81.0 million for the six months ended 30 June 2012 to US$67.8 million for the six months ended 30 June 2013. U.S. hip sales declined 10% primarily due to a volume decline as the result of customer losses during 2012. Internationally, the hip sales decline was driven primarily by a 9% price decline in the Japanese market as a result of lower government reimbursement rates. The lower government reimbursement rates became effective in April 2012; therefore, the price decline was annualized in April 2013, and did not have a year-over-year impact to the second quarter of 2013. The hip sales decline was further impacted by the 2012 stocking order associated with the conversion from direct sales in Belgium to a stocking distributor in the second quarter of 2012, as well as the negative impact of US$3.3 million associated with unfavorable currency exchange rates.

The Business's turnover from sales of knee products decreased by 11.0% from US$60.8 million for the six months ended 30 June 2012 to US$54.1 million for the six months ended 30 June 2013. U.S. knee sales decreased 18%, primarily attributable to a decrease in sales volume as the result of customer losses during 2012 and sales dis-synergies related to a U.S. sales force conversion during 2012. The 5% decline in international knee sales was driven by a 10% price decline in the Japanese market, which was annualized in April 2013 as discussed above, and US$0.9 million associated with unfavorable currency exchange rates, partially offset by increased unit sales in Japan.

Cost of sales

The Business's cost of sales decreased by 6.9% from US$52.5 million for the six months ended 30 June 2012 to US$48.9 million for the six months ended 30 June 2013, primarily due to declining sales.

Gross profit and gross margin

As a result of the foregoing, the Business's overall gross profit decreased by 17.8% from US$91.4 million for the six months ended 30 June 2012 to US$75.1 million for the six months ended 30 June 2013.

The Business's overall gross profit margin decreased from 63.5% for the six months ended 30 June 2012 to 60.6% for the six months ended 30 June 2013 primarily due to unfavorable geographic and product sales mix, unfavorable currency exchange rates, and unfavorable pricing in the Japanese market, which was annualized in April 2013, all of which were partially offset by favorable provisions for excess and obsolete inventory and favorable manufacturing expenses.

Research and development costs

The Business's research and development costs decreased by 8.6% from US$7.0 million for the six months ended 30 June 2012 to US$6.4 million for the six months ended 30 June 2013, primarily due to increased spending on regulatory activities.

Distribution costs

The Business's distribution costs decreased by 9.5% from US$54.7 million for the six months ended 30 June 2012 to US$49.5 million for the six months ended 30 June 2013, primarily due to sales declines, which impacted variable expenses such as commissions and royalties.

Distribution costs as a percentage of turnover increased from 38.0% for the six months ended 30 June 2012 to 39.9% for the six months ended 30 June 2013. This increase was primarily driven by the impact of certain fixed expenses, such as personnel costs, on lower turnover. This is partially offset by geographic mix, as the commission rate is higher on turnover in the U.S. than international regions. Therefore, as the U.S. turnover declines, the distribution costs as a percentage of turnover declines.

Administrative expenses

The Business's administrative expenses decreased by 65.5% from US$32.8 million for the six months ended 30 June 2012 to US$11.3 million for the six months ended 30 June 2013, primarily due to the recognition of US$21.1 million of estimated insurance recovery as an expense reduction during the six months ended 30 June 2013. Such estimated insurance recovery, however, will not be transferred to the Company through the sale of the Business and will be retained by the Seller. Administrative expenses not associated with product liability increased from US$30.8 million for the six months ended June 30 2012 to US$32.1 million for the six months ended 30 June 2013, primarily due to spending to develop a sales initiative in the U.S. aimed at providing a lower cost solution to the customer.

Income tax expense

The Business's income tax expense decreased by 350% from an income tax benefit of US$1.2 million for the six months ended 30 June 2012 to an income tax expense of US$3.0 million for the six months ended 30 June 2013. The effective tax benefit rate increased from 34.5% for the six months ended 30 June 2012 to 39.6% for the six months ended 30 June 2013. The increase in the effective tax benefit rate was driven by a mix change to higher tax

jurisdictions. This increase was partially offset by the inclusion of the 2012 U.S. R&D tax credit in 2013. This tax credit was not included in the 2012 income tax benefit, since it was not signed into law until 2013.

Profit for the Period

As a result of the foregoing, the Business's profit for the period increased by 300% a loss of from US$2.3 million for the six months ended 30 June 2012 to a profit of US$4.6 million for the six months ended 30 June 2013.

Year ended 31 December 2011 compared to year ended 31 December 2012

Turnover

The Business's turnover decreased by 11.0% from US$299.5 million for the year ended 31 December 2011 to US$266.7 million for the year ended 31 December 2012, primarily due to customer losses in the U.S. and price declines in the Japanese market.

Turnover by Product Type

The Business's turnover from sales of hip products decreased by 13.3% from US$172.0 million for the year ended 31 December 2011 to US$149.2 million for the year ended 31 December 2012. This decrease is attributable to an 18% decline in U.S. hip sales, driven primarily by a 12% decrease in sales volume as the result of customer losses. Internationally, the hip sales decline was driven by a 9% price decline in Japan as a result of a lower governmental reimbursement rates, and an 8% decrease in Europe driven primarily by lower sales to stocking distributors. In addition, international hip sales were negatively impacted by US$2.7 million associated with unfavorable currency exchange rates.

The Business's turnover from the sales of knee products decreased by 7.6% from US$122.5 million for the year ended 31 December 2011 to US$113.2 million for the year ended 31 December 2012. In the U.S., knee sales decreased 13% from 2011, due primarily to decreased sales volumes attributable to loss of customers and sales dis-synergies related to a U.S. sales force conversion initiative. International knee sales were relatively flat, as an 8% increase in European direct markets and higher sales to international stocking distributors were offset by a 5% price decline in the Japanese market due to lower government reimbursement rates and US$1.3 million associated with unfavorable currency exchange rates.

Cost of sales

The Business's cost of sales decreased by 2.0% from US$102.3 million for the year ended 31 December 2011 to US$100.3 million for the year ended 31 December 2012, primarily due to sales declines in the U.S., partially offset by increased sales volume in lower margin regions.

Gross profit and gross margin

As a result of the foregoing, the Business's overall gross profit decreased by 15.6% from US$197.1 million for the year ended 31 December 2011 to US$166.4 million for the year ended 31 December 2012.

The Business's overall gross profit margin decreased from 65.8% for the year ended 31 December 2011 to 62.4% for the year ended 31 December 2012 primarily due to unfavorable geographic mix, unfavorable currency exchange rates, and higher manufacturing expenses.

Research and development costs

The Business's research and development costs decreased by 23.1% from US$17.3 for the year ended 31 December 2011 to US$13.3 million for the year ended 31 December 2012, primarily due to reduced spending on product development and decreased labor costs as a result of cost savings from a restructuring initiative implemented in late 2011.

Distribution costs

The Business's distribution costs decreased by 15.2% from US$124.0 for the year ended 31 December 2011 to US$105.1 million for the year ended 31 December 2012, primarily due to sales declines, which impacted variable expenses such as commissions and royalties.

Distribution costs as a percentage of turnover decreased from 41.4% for the year ended 31 December 2011 to 39.4% for the year ended 31 December 2012. This decrease was primarily driven by geographic mix, as the commission rate is higher on turnover in the U.S. than international regions, therefore, as the U.S. turnover declines, the distribution costs as a percentage of turnover declines. Further, the Business no longer incurs distribution costs in Belgium following the conversion from direct sales in Belgium to a stocking distributor in the second quarter of 2012.

Administrative expenses

The Business's administrative expenses decreased by 30.1% from US$83.3 for the year ended 31 December 2011 to US$58.2 million for the year ended 31 December 2012, primarily due to the US$19.2 million estimate of products liability associated with PROFEMUR® long titanium modular neck in North America recorded in 2011. Such estimated product liability, however, will not be transferred to the Company through the sale of the Business and will be retained by the Seller. Administrative expenses not associated with product liability decreased from US$60.2 million for the year ended 31 December 2011 to US$59.3 million for the year ended 31 December 2012, primarily due to lower expenses associated with deferred prosecution agreement (legal fees and fees associated with the independent monitor) and lower expenses associated with restructuring charges, partially offset by spending to develop a sales initiative in the U.S. aimed at providing a lower cost solution to the customer. The 2011 restructuring charges were associated with a cost restructuring initiative announced in 2011 to reduce spending including streamlining select

aspects of the Business's international selling and distribution operations, reducing the size of its international product portfolio, adjusting plant operations to align with the Business's volume and product mix expectations and rationalizing its research and development projects.

Income tax benefit

The Business's income tax benefit decreased by 65.8% from US$11.7 million for the year ended 31 December 2011 to US$4.0 million for the year ended 31 December 2012. The effective tax benefit rate decreased from 41.6% for the year ended 31 December 2011 to 38.1% for the year ended 31 December 2012. The effective tax rate for 2012 does not include the impact of the R&D tax credit in the U.S., which was not enacted into law until 2 January 2013, while the favorable impact of such tax credit was included in the 2011 tax benefit. This unfavorable year-over-year impact was partially offset by a favorable year-over-year impact from a provision recorded in 2011 associated with the initial assessments from the examination of the 2008 income tax return by the Internal Revenue Service. Such impact of the provision associated with the initial assessments of the 2008 income tax return and the impact of the R&D tax credit in the U.S., however, will not be assumed by the Company through the sale of the Business.

Loss for the Period

As a result of the foregoing, the Business's loss for the period decreased by 59.8% from US$16.4 for the year ended 31 December 2011 to US$6.6 million for the year ended 31 December 2012.

Year ended 31 December 2010 compared to year ended 31 December 2011

Turnover

The Business's turnover decreased by 2.0% from US$305.7 million for the year ended 31 December 2010 to US$299.5 million for the year ended 31 December 2011, primarily due to customer losses in the U.S., partially offset by favorable currency exchange rates in 2011 as compared to 2010.

Turnover by Product Type

The Business's turnover from sales of hip products decreased by 1.4% from US$174.4 million for the year ended 31 December 2010 to US$171.9 million for the year ended 31 December 2011, primarily due to a 14% decline in U.S. hip sales, driven by an 11% decline in unit sales, and a decline in average selling prices. International hip sales increased by 6%, attributable to a US$6.4 million favorable currency exchange impact compared to 2010.

The Business's turnover from the sales of knee products decreased by 3.1% from US$126.4 million for the year ended 31 December 2010 to US$122.5 million for the year ended 31 December 2011. In the U.S., knee sales decreased 4% over 2010 due primarily to

decreased average selling prices. Internationally, knee sales decreased 4% in 2011 over 2010, primarily due to lower unit sales, which was partially offset by a favorable currency exchange impact of US$2.0 million.

Cost of sales

The Business's cost of sales increased by 2.9% from US$99.4 million for the year ended 31 December 2010 to US$102.3 million for the year ended 31 December 2011, primarily due to increased provisions for excess and obsolete inventory.

Gross profit and gross margin

As a result of the foregoing, the Business's overall gross profit decreased by 4.5% from US$206.4 million for the year ended 31 December 2010 to US$197.1 million for the year ended 31 December 2011.

The Business's overall gross profit margin decreased from 67.5% for the year ended 31 December 2010 to 65.8% for the year ended 31 December 2011, primarily due to unfavorable geographic sales mix and increased provisions for excess and obsolete inventory.

Research and development costs

The Business's research and development costs decreased by 20.6% from US$21.8 for the year ended 31 December 2010 to US$17.3 million for the year ended 31 December 2011, primarily due to lower levels of spending on clinical studies consulting due to certain compliance inefficiencies.

Distribution costs

The Business's distribution costs decreased by 1.7% from US$126.2 for the year ended 31 December 2010 to US$124.0 million for the year ended 31 December 2011, primarily due to the sales decline, which impacted variable expenses such as commissions and royalties.

Distribution costs as a percentage of turnover were relatively flat at 41.3% for the year ended 31 December 2010 as compared to 41.4% for the year ended 31 December 2011.

Administrative expenses

The Business's administrative expenses increased by 56.9% from US$53.1 for the year ended 31 December 2010 to US$83.3 million for the year ended 31 December 2011, primarily due to the US$19.2 million provision for estimated products liability associated with PROFEMUR® long titanium modular neck in North America recorded in 2011, net of an estimated insurance recovery. Administrative expenses not associated with product liability increased from US$50.7 million for the year ended 31 December 2010 to US$60.2 million for the year ended 31 December 2011, primarily due to a US$9.1 million increase in

restructuring charges, due to a cost restructuring initiative announced in 2011 to reduce spending including streamlining select aspects of the Business's international selling and distribution operations, reducing the size of its international product portfolio, adjusting plant operations to align with the Business's volume and product mix expectations and rationalizing its research and development projects. Further, expenses associated with the deferred prosecution agreement increased from 2010 to 2011, as the favorable year-over-year impact of the settlement charge incurred in 2010 was more than offset by increased legal fees, professional fees and fees associated with the independent review organization in 2011.

Income tax expense/benefit

The Business's income tax expense decreased by 416.2% from an income tax expense of US$3.7 million for the year ended 31 December 2010 to an income tax benefit of US$11.7 million for the year ended 31 December 2011. The effective tax rate decreased from 71.1% for the year ended 31 December 2010 to 41.6% for the year ended 31 December 2011, primarily due to a civil settlement payment in 2010 that was considered not deductible.

Profit/loss for the period

As a result of the foregoing, the Business's income for the period decreased by 1193.3% from an income of US$1.5 million for the year ended 31 December 2010 to a loss of US$16.4 million for the year ended 31 December 2011.

LIQUIDITY AND CAPITAL RESOURCES

The Business has historically met its liquidity requirements from cash generated from operations.

Cash flow data

The following table sets out selected cash flow data from the Business's combined cash flow statements for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Net cash from operating activities	42,648	37,243	30,874	21,332	9,816
Net cash used in investing activities	(45,284)	(22,995)	(11,181)	(3,297)	(5,476)
Net cash used in financing activities before transfer from/to parent's net investment[2]	(355)	(983)	(1,006)	(525)	(499)
Transfer from (to) parent's net investment[1]	2,991	(13,265)	(18,687)	(17,510)	(3,841)
Cash and cash equivalents at the beginning of year[1]	–	–	–	–	–
Cash and cash equivalents at the end of year/ period[1]	–	–	–	–	–

Note:

(1) There was no cash and cash equivalents for the Business over the periods indicated because the Business did not operate as a stand-alone entity and was functioned as part of the larger group of companies controlled by the Seller during such periods. The Business's net cash inflow (outflow) from operating activities, investment activities and financing activities over the periods were entirely retained/financed by the Seller, the effects of which are presented in the line item of "Transfer from (to) parent's net investment" under financing activities in the Business's combined cash flow statements.

(2) "Net cash used in financing activities before transfer from/to parent's net investment" represents the cash used for the payments of finance leases.

The Business's cash requirements are mainly for working capital and capital expenditures for purchases of surgical instrumentation, production machinery and equipment and other routine capital investments.

Cash flow from operating activities

The Business derives its cash inflow from operating activities primarily from its sales of products. The Business's cash outflow for operating activities is primarily used for purchases of raw materials and other costs to manufacture inventory, research and development costs, distribution costs and administrative expenses. Cash flows from operating activities can be significantly affected by factors such as the timing of collections of trade and other receivables from customers, timing of inventory production, particularly when new products are launched, and payments of trade payable to suppliers during the regular course of business.

For the six months ended 30 June 2013, the Business had a net operating cash inflow of US$9.8 million, while the Business's operating cash inflow after adjustment for non-cash items but before changes in operating assets and liabilities was US$8.3 million. The difference of US$1.5 million was primarily attributable to (i) an increase in trade and other payables of US$6.6 million, (ii) a decrease in inventories of US$3.9 million, and (iii) an increase in other liability of US$2.7 million, partially offset by (i) an increase in other assets of US$4.6 million, (ii) payments of provisions of US$4.7 million and (iii) an increase in trade and other receivables of US$2.3 million. The increase of trade and other payables was primarily due to timing of payments. The decrease in inventories was primarily due to timing of inventory production and continued focus on inventory reduction initiatives. The increase in other liability was primarily due to royalty agreement buyouts that will be paid in 2014. The increase in other assets was primarily due to royalty buyouts entered into in 2013. The payments of provision were primarily due to payments of products liability settlements. The increase in trade and other receivables was primarily due to royalty buyouts entered into in 2013.

For the year ended 31 December 2012, the Business had a net operating cash inflow of US$30.9 million, while the Business's cash inflow after adjustment for non-cash items but before changes in operating assets and liabilities was US$28.4 million. The difference of US$2.5 million was primarily attributable to (i) a decrease in inventories of US$12.8 million, (ii) an increase in trade and other payables of US$2.8 million, and (iii) a decrease in trade and other receivables of US$0.9 million; partially offset by (i) an increase in other assets of US$7.4 million and (ii) payments of provision of US$6.4 million. The decrease of inventories was primarily due to the focused inventory reduction initiative. The increase in trade and other payables was primarily due to timing of payments. The increase in other assets was primarily due to royalty buyouts entered into in 2012. The payments of provision were primarily due to settlement payments associated with modular neck products liability claims.

For the year ended 31 December 2011, the Business had a net cash inflow of US$37.2 million, while the Business's operating cash inflow after adjustment for non-cash items but before changes in operating assets and liabilities was US$48.8 million. The difference of US$11.6 million was primarily attributable to (i) an increase in inventories of US$4.9 million; (ii) a decrease in trade and other payables of US$3.2 million; and (iii) payments of provision of US$9.0 million, partially offset by (i) a decrease in trade and other receivables of US$4.4 million and (ii) a decrease in other assets of US$0.9 million. The increase in

inventories was primarily due to timing of inventory production. The decrease in trade and other payables was primarily due to timing of payments. The payments of provision were primarily due to payments associated with the cost restructuring initiative announced in September 2011. The decrease in trade and other receivables was primarily due to lower trade receivables driven by sales declines.

For the year ended 31 December 2010, the Business had a net cash inflow of US$42.6 million, while the Business's cash inflow after adjustment for non-cash items but before changes in operating assets and liabilities was US$51.1 million. The difference of US$8.5 million was primarily attributable to (i) an increase in trade and other receivables of US$2.9 million; (ii) an increase in inventories of US$2.1 million; and (iii) payments of provisions of US$7.6 million, partially offset by an increase in trade and other payables of US$3.9 million. The increase in trade and other receivables was primarily due to higher trade receivables as a result of sales growth. The payments of provision were primarily due to payments associated with the Toulon, France, restructuring announced in 2007. The increase in trade and other payables was primarily due to timing of payments.

Cash flow from investing activities

The Business's cash outflow from investing activities primarily consists of purchases of fixed assets and intangible assets. The Business's cash inflow from investing activities primarily consists of proceeds from the sale of fixed assets.

For the six months ended 30 June 2013, the Business's net cash used in investing activities was US$5.5 million. Cash used in investing activities in this period was primarily attributable to purchases of fixed assets of US$5.5 million in relation to surgical instrumentation and capitalized costs associated with internal development of certain software projects.

For the year ended 31 December 2012, the Business's net cash used in investing activities was US$11.2 million. Cash used in investing activities in this period was primarily attributable to purchases of fixed assets of US$8.9 million in relation to surgical instrumentation and capitalized costs associated with internal development of certain software projects and purchase of intangible assets of US$3.4 million in relation to non-compete agreements with certain U.S. independent distributors whose territories were modified as part of the sales force conversion in 2012.

For the year ended 31 December 2011, the Business's net cash used in investing activities was US$23.0 million. Cash used in investing activities in this period was primarily attributable to purchases of fixed assets of US$28.1 million in relation to surgical instrumentation and capitalized costs associated with the upgrade of the Business's enterprise resource planning (ERP) system, partially offset by proceeds from the sale of fixed assets of US$5.4 million in relation to the sale of surgical instrumentation to international stocking distributors.

For the year ended 31 December 2010, the Business's net cash used in investing activities was US$45.3 million. Cash used in investing activities in this period was primarily attributable to purchases of fixed assets of US$46.9 million in relation to manufacturing equipment and surgical instrumentation primarily associated with the Business's launch of the EVOLUTION™ medial-pivot knee system, as well as spending on the expansion of the Arlington, TN, facilities, partially offset by proceeds from the sale of fixed assets of US$1.9 million in relation to the sale of surgical instrumentation to international stocking distributors.

Cash flow from financing activities

The Business's cash flow from financing activities for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 primarily consisted of transfers from/(to) parent's net investment. As the Business did not operate as a stand-alone entity and was functioned as part of the larger group of companies controlled by the Seller over such periods, all of the Business's net cash inflow (outflow) from operating activities, investment activities and financing activities over the periods were entirely retained/financed by the Seller, the effects of which are presented as transfers from/(to) parent's net investments. Other financing activities consist of payment of finance leases.

CAPITAL EXPENDITURES AND COMMITMENTS

The Business's capital expenditures are principally comprised of purchases of machinery and equipment, furniture and office equipment, surgical instrumentation and land improvements. The Business's capital expenditures were US$46.9 million, US$28.1 million, US$8.9 million and US$5.5 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively.

The Business finances its capital expenditure requirements primarily from cash flow generated from operating activities.

Material acquisition and disposal

The Business did not make any material acquisition or disposal of subsidiary or associate companies in the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013.

Significant investments

The Business did not hold any significant investments as at 31 December 2010, 2011 and 2012 and 30 June 2013.

Future plans for material investments or capital assets

The Business did not have any future commitments for material investments or capital assets as at 31 December 2010, 2011 and 2012 and 30 June 2013.

WORKING CAPITAL

Net current assets

As at 31 December 2010, 2011, 2012 and 30 June 2013, the Business had net current assets of US$147.7 million, US$142.1 million, US$127.4 million and US$129.6 million, respectively.

The table below sets forth the Business's current assets, current liabilities and net current assets as at the date indicated:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	US$'000	*US$'000*	*US$'000*	*US$'000*
Current assets[(1)]				
Inventories	108,504	106,140	86,921	80,915
Trade and other receivables	82,087	81,345	86,582	102,274
Total current assets	190,591	187,485	173,503	183,189
Current liabilities[(1)]				
Trade and other payables	37,350	34,122	36,936	43,548
Provisions	1,908	7,736	5,344	6,042
Income tax payable	2,620	2,513	3,045	3,648
Finance lease obligations	1,033	1,008	784	314
Total current liabilities	42,911	45,379	46,109	53,552
Net current assets[(1)]	147,680	142,106	127,394	129,637

Note:

(1) This table presents the asset and liabilities of the Business as it would function independently yet as a part of the group companies controlled by the Seller. Pursuant to the terms of the Acquisition, the Seller would retain certain assets and liabilities including but not limited to product liability provisions and the corresponding insurance recovery receivable for claims relating to the operations of the Business prior to the date of Acquisition. In addition, the Seller will not transfer certain other assets to the Company such as certain capitalized software and deferred tax positions. For the amount of the Business's assets and liabilities as at 30 June 2013 that will not be transferred to the Company through the Acquisition, please refer to section B.1(b) of Appendix II to this circular.

The increase in net current assets from 31 December 2012 to 30 June 2013 was primarily due to an increase in insurance recovery receivables; mostly offset by lower levels of inventory as a result of a continued focus on the Business's inventory reduction initiative, as well as increased payables due to timing of payments. The decrease in net current assets in 2012 as compared to 2011 was primarily due to lower levels of inventory as a result of

an inventory reduction initiative; partially offset by an increase in the estimated current receivable for insurance recoveries associated with modular neck product liabilities and prepayments of future royalty obligations under certain royalty buyout agreements. The decrease in net current assets in 2011 as compared to 2010 was primarily due to a US$4.6 million increase in the current provision for products liability, primarily due to the estimated modular neck products liability.

Inventories

As at 31 December 2010, 2011 and 2012 and 30 June 2013, the Business's inventories amounted to US$108.5 million, US$106.1 million, US$86.9 million and US$80.9 million, respectively. The Business's inventories decreased by 18.1% from US$106.1 million as at 31 December 2011 to US$86.9 million as at 31 December 2012 primarily due to an inventory reduction initiative launched in 2012, focused on improving inventory production and management processes, disposing of inactive inventory, and redeployment of underutilized inventory. The Business's inventories decreased by 6.9% from US$86.9 million as at 31 December 2012 to US$80.9 million as at 30 June 2013, primarily due to continued focus on the inventory reduction initiative.

The following table sets forth the components of the Business's inventories as of the dates indicated:

	As at 31 December			At at 30 June
	2010	**2011**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Raw materials	8,121	7,937	6,616	5,844
Work in progress	17,394	14,014	10,939	12,908
Finished goods	82,989	84,189	69,366	62,163
Total	108,504	106,140	86,921	80,915

The Business's raw materials are primarily comprised of cobalt chrome, titanium, cross-linked polyethylene, and ceramics. The Business's work in progress comprises components and inventory in the manufacturing process, and the Business's finished goods comprise hip and knee inventory available for sale. Decreases in each of these components of inventory were driven by an inventory reduction initiative.

The Business regularly reviews inventory quantities on hand for excess and obsolete inventory and, when circumstances indicate, records a write-down of inventories to the net realizable value. The review of inventory for excess and obsolete quantities is based primarily on forecasted product demand and production requirements for the next 24 months. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the Business's write-down of inventories were US$4.3 million, US$7.2 million, US$6.4 million and US$2.1 million, respectively.

Trade and Other Receivables

The Business's trade and other receivables mainly represent (i) the credit sales of products to be paid by customers or stocking distributors (ii) estimated insurance recovery receivables in connection with products liability claims and (iii) other deposits and prepayments primarily associated with prepaid insurance premiums paid on an annual basis, prepayments of future royalty obligations, and other miscellaneous prepayments and deposits. Credit sales are generally settled within 120 days. As at 31 December 2010, 2011 and 2012 and 30 June 2013, the Business's trade and other receivables were US$82.1 million, US$81.3 million, US$86.6 million and US$102.3 million, respectively. The following table sets out the Business's trade and other receivables balance as at the dates indicated:

	As at 31 December			At at 30 June
	2010	**2011**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Trade debtors	81,161	72,480	71,148	71,483
Less allowance for doubtful accounts	(6,231)	(3,109)	(4,702)	(4,429)
Trade debtors, net	74,930	69,371	66,446	67,054
Insurance recovery receivables	–	3,664	9,834	23,271
Income tax receivables	42	843	1,136	135
Prepaid royalty	–	–	1,872	2,830
Deposits, prepayments and miscellaneous receivables	7,115	7,467	7,294	8,984
Total	82,087	81,345	86,582	102,274

The Business's total trade and other receivables increased by 6.4% from 2011 to 2012 primarily due to prepayments of future royalty obligations under certain royalty buyout agreements, and by a further 18.1% from 31 December 2012 to 30 June 2013, primarily because of an increase in the estimated current receivable for insurance recoveries associated with modular neck product liabilities.

The Business's trade receivables fluctuated over these periods primarily because of sales declines, partially offset by changes in geographic mix to international customers with longer collection terms.

The Business has established an allowance for doubtful accounts to reduce the trade receivable to the amount the Business believes may be ultimately uncollectible. The Business estimates the allowance based on historical bad debt experience, customer concentrations, customer creditworthiness, and current economic trends. When the Business

is satisfied that recovery of the amount is remote, they are written off against the allowance account. As at 31 December 2010, 2011 and 2012 and 30 June 2013, the Business had allowance of doubtful accounts of approximately US$6.2 million, US$3.1 million, US$4.7 million and US$4.4 million, respectively.

Trade and Other Payables

The Business's trade and other payables mainly comprise payables to the Business's suppliers of raw materials and other payables and accrued charges for such items as professional fees, consulting fees, legal fees, and labor. The Business's trade and other payables are normally settled within one year. As at 31 December 2010, 2011 and 2012 and 30 June 2013, the Business's trade and other payables were US$37.4 million, US$34.1 million, US$36.9 million and US$43.5 million, respectively. The increase in trade and other payables from 31 December 2012 to 30 June 2013 was primarily due to timing of payments.

The following table sets out the Business's trade and other payables balance as at the dates indicated:

	As at 31 December			At at 30 June
	2010	**2011**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Trade payables	9,368	7,384	5,623	9,804
Other payables and accrued charges	27,697	26,010	30,714	33,081
Advances received	285	728	599	663
Total	37,350	34,122	36,936	43,548

INDEBTEDNESS

Borrowings

As at 31 December 2010, 2011 and 2012 and 30 June 2013, the Business had no bank loans or other borrowings other than the finance lease obligations described below. Therefore, there was no gearing ratio for the Business.

Finance Leases

The Business has certain production plant and machinery equipment leases expiring from 3 to 5 years. The net book value of the assets held under finance leases is US$2.0 million, US$2.2 million, US$2.7 million, US$2.9 million at 30 June 2013, 31 December 2012, 2011, and 2010, respectively. The following table sets forth the Business's obligations under finance leases repayable as at the dates indicated:

	As at 31 December			At at 30 June
	2010	2011	2012	2013
	US$'000	*US$'000*	*US$'000*	*US$'000*
Within one year	1,161	1,079	810	326
After one year but within two years	1,049	849	17	16
After two years but within five years	854	21	2	30
After five year	–	–	–	–
Less total future interest expense	(267)	(135)	(25)	(16)
Present value of lease obligations	2,797	1,814	804	356

Provisions and Contingent Liabilities

Provisions are recognized for other liabilities of uncertain timing or amount when the Business has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or nonoccurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

As at 31 December 2010, 2011 and 2012 and 30 June 2013, the Business had provisions of US$1.9 million, US$31.0 million, US$30.6 million and US$26.8 million, respectively, related to various products liability claims involving the use of the Business's products and a cost-restructuring plan implemented by the Seller in 2011. The following tables set out the Business's current and long-term provisions related to product liability claims and restructuring as at the dates indicated:

	Restructuring	Product Liability	Total
	US$'000	*US$'000*	*US$'000*
31 December 2010			
Current provisions	141	1,767	1,908
Long-term provisions	–	–	–
Total	141	1,767	1,908

	Restructuring	Product Liability	Total
	US$'000	*US$'000*	*US$'000*
31 December 2011			
Current provisions	1,359	6,377	7,736
Long-term provisions	–	23,303	23,303
Total	1,359	29,680	31,039

	Restructuring	Product Liability	Total
	US$'000	*US$'000*	*US$'000*
31 December 2012			
Current provisions	69	5,275	5,344
Long-term provisions	–	25,216	25,216
Total	69	30,491	30,560

	Restructuring	Product Liability	Total
	US$'000	*US$'000*	*US$'000*
30 June 2013			
Current provisions	54	5,988	6,042
Long-term provisions	–	20,793	20,793
Total	54	26,781	26,835

As at 31 October 2013, the Business had the following contingent liability:

Purchase Obligations. The Business relies on a limited number of suppliers for the components used in its products. The Business's reconstructive joint devices are produced from various surgical grades of titanium, cobalt chrome, stainless steel, various grades of high-density polyethylenes, and ceramics. The Business relies on one source to supply it with a number of these items. The Business believes it maintains an adequate stock from its suppliers in order to meet market demand. The Business has entered into certain supply agreements for its products, which include minimum purchase obligations. During the years ended 31 December 2011 and 2010, the Business paid approximately US$7.7 million and US$6.1 million, respectively, under those supply agreements. No amounts were paid during the year ended 31 December 2012 or during the six months ended 30 June 2013.

Governmental Inquiries. In December 2007, the Business received a subpoena from the United States Department of Justice ("**DOJ**") requesting documents related to any consulting and professional service agreements with orthopedic surgeons in connection with hip or knee joint replacement procedures or products. This subpoena was served shortly after several of the Business's knee and hip competitors agreed with the DOJ to resolutions of similar investigations. On 29 September 2010, the Seller entered into a 12-month Deferred Prosecution Agreement ("**DPA**"), which was subsequently extended an additional 12 months, and a Civil Settlement Agreement ("**CSA**"). Under the DPA, a criminal complaint was filed charging the Seller with conspiracy to commit violations of the Anti-Kickback Statute during the years 2002 through 2007. The court deferred prosecution of the criminal complaint during the term of the DPA and it was agreed that upon compliance with the provisions of the DPA, the prosecutor would seek dismissal of the criminal complaint. Pursuant to the CSA, the Seller settled civil and administrative claims relating to the matter for a payment of US$7.9 million without any admission by the Seller. The Business's income statement reflect this as an administrative expense in the year ended 31 December 2010. In conjunction with the CSA, the Seller also entered into a five-year CIA with the Office of the Inspector General of the United States Department of Health and Human Services. It was agreed that the CIA would begin on 29 September 2012, when the amended DPA monitoring period expired. On 4 October 2012, the criminal complaint was dismissed. The term of the CIA did not change, and will expire on 29 September 2015. The CIA continues to impose certain obligations on the Business to maintain compliance with US health care laws, regulations, and other requirements. A failure to do so could expose the Business to significant liability including, but not limited to, exclusion from federal health care program participation, including Medicaid and Medicare, which would have a material adverse effect on the Business's financial condition, results of operations, and cash flows, with potential prosecution, civil and criminal fines or penalties, and additional litigation cost and expense. On 3 August 2012, the Business received a subpoena requesting records and documentation relating to its PROFEMUR® series of hip replacement devices. The subpoena covers the period from 1 January 2000 to 2 August 2012. The Business is in the process of collecting the responsive documents and responding to the subpoena and is unable to estimate the impact of the ultimate outcome of these matters on its combined financial position or results of operations. Any liabilities arising out of or related to (i) the DPA, (ii) the Seller's conduct prior to the closing with respect to the CIA, and (iii) the subpoena received on 3 August 2012 related to PROFEMUR hip devices will not transfer to the Company through the sale of the Business and will be retained by the Seller. After the Closing, both the Seller and the Company will be subject to the CIA.

Patent Litigation. In 2011, Howmedica Osteonics Corp. ("**Howmedica**") and Stryker Ireland, Ltd. ("**Stryker**"), each a subsidiary of Stryker Corporation, filed a lawsuit against the Seller alleging infringement of the Howmedica and Stryker's US patent. The lawsuit seeks an order of infringement, injunctive relief, unspecified damages, and various other costs and relief and could affect a substantial portion of the Business's knee product line. The Business believes it has a strong defense against these claims and plans to vigorously defend this lawsuit. The Business does not believe that the outcome of this lawsuit will have a material adverse effect on its combined financial position or results of operations. During 2012, Bonutti Skeletal Innovations, LLC ("**Bonutti**") filed a patent infringement lawsuit in which it alleged that the Seller's Link Sled Prosthesis infringes upon their patent. In January

2013, Bonutti amended its complaint, alleging that the Seller's ADVANCE® knee system, including ODYSSEY® instrumentation and PROPHECY® guides, infringes upon certain of their patents. All of the claims of the asserted patents are directed to surgical methods for minimally invasive surgery. The Business intends to vigorously defend these allegations. The Business does not believe the initial complaint will have a material adverse effect on its combined financial position or results of operations and is currently assessing the claim received in January 2013.

Subject to the provisions of the Asset Purchase Agreement, the Seller will continue to be responsible for the defense of existing patent infringement cases and associated legal defense costs, and for resulting liabilities, if any, related to pre-Closing periods. Therefore, any such obligations, costs and liabilities will not transfer to the Company through the sale of the Business and will be retained by the Seller.

If the Enlarged Group continues to sell any products that are subject to the abovementioned lawsuit, any adverse finding in such lawsuit could result in the discontinuation of sales of such products. However, as part of the due diligence process in connection with the Seller's pending litigations and potential product liabilities with respect to the Business, the Directors have assessed the merits of the existing patent infringement cases, and considered that the associated litigation risk was reasonable in light of the value of Assets and the consideration of US$290 million of the Acquisition.

Product Liability. The Business is subject to various product liability claims, which are described below. The product liability and related insurance receivables associated with items described below will not be transferred to the Company for products sold prior to the sale to the Company and will be retained by the Seller. Any liability associated with products sold after the sale of the Business to the Company will be the responsibility of the Company.

- Modular Neck – The Business has received personal injury claims associated with fractures of its PROFEMUR® long titanium modular neck product ("**Modular Neck Claims**"). The overall fracture rate for the product is low and the fractures appear, at least in part, to relate to patient demographics. The Business has estimated a total potential liability associated with this product of between US$20 million and US$32 million at 30 June 2013, which represents the estimated liability associated with both current and expected future claims. Due to the uncertainty within the aggregate range of loss resulting from the estimation of the number of claims and related monetary payments, the Business has recorded a liability at the midpoint of the range. The amount of recorded provision against these claims is US$25.8 million, US$30.0 million, US$29.3 million, US$1.2 million and US$0.3 million at 30 June 2013, 31 December 2012, 31 December 2011, 31 December 2010, and 1 January 2010, respectively. The Business has maintained products liability insurance coverage, which provides for coverage on a claims-made basis. During the first quarter of 2013, the Business received a customary reservation of rights from its primary product liability insurance carrier asserting that Modular Neck Claims would be covered as a single occurrence under the policy year, the first year in which such claim was asserted. The effect

of insurance company's position is that all such claims would be placed into a single prior policy year in which applicable claims-made coverage was available, subject to the overall policy limits then in effect. The Business agrees with the assertion that Modular Neck Claims should be treated as a single occurrence, but has notified the carrier that at this time it disputes the carrier's selection of available policy years. Based on the insurer's treatment, the claims as a single occurrence, the Business increased its estimate of the total probable insurance recovery by US$15.9 million, and recognized the additional recovery as a reduction to administrative expense during the six months ended 30 June 2013. During the six months ended 30 June 2013, the Business received payment from the primary insurance carrier of US$5.0 million. The total insurance recovery receivable recorded is US$38.3 million, US$17.2 million, US$8.4 million, at 30 June 2013, 31 December 2012, and 31 December 2011, respectively. There was no insurance recovery receivable recorded in 2010.

If the Enlarged Group continues to sell any products that are subject to the Modular Neck Claims, any adverse finding in such claims could affect the sales of such products as sales of such products may be restricted or that the reputation of such products may suffer. However, as part of the due diligence process in connection with the Seller's pending litigations and potential product liabilities with respect to the Business, the Directors have assessed the merits of the existing claims, and considered that the associated litigation risk was reasonable in light of the value of Assets and the consideration of US$290 million of the Acquisition.

- Metal-on-Metal Hip Products – The Business has received claims for personal injury associated with its metal-on-metal hip products. The number of claims associated with these products continues to increase, which the Business believes is due to the increasing negative publicity in the industry regarding metal-on-metal hip products. The Business believes that it has the data to support the efficacy and safety of its metal-on-metal hip products, and intends to vigorously defend itself in these matters. The Business is unable to estimate the ultimate impact of current claims and future potential claims, and as a result, has not recorded a provision against these claims. The Business maintained product liability insurance coverage, which provides coverage on a claims-made basis. During the third quarter of 2012, the Business received a customary reservation of rights from its primary product liability insurance carrier asserting that certain present and future claims related to its CONSERVE® metal-on-metal hip products and which allege certain types of injury ("**CONSERVE® Claims**") would be covered as a single occurrence under the policy year, the first year in which such claim was asserted. The effect of this coverage position would be to place CONSERVE® Claims into a single prior policy year in which applicable claims-made coverage was available, subject to the overall policy limits then in effect. The management of the Business agrees that there is insurance coverage for the CONSERVE® Claims, but has notified the carrier that at this time it disputes the carrier's selection of available policy years and its characterization of the CONSERVE® Claims as a single occurrence. The management of the Business has recorded an insurance receivable for the probable recovery of spending in

excess of its single occurrence coverage. As of 30 June 2013, this receivable totaled US$5.2 million, and is solely related to defense costs incurred through 30 June 2013. However, the amount the Business ultimately receives may differ depending on the final conclusion of the insurance policy year and the number of occurrences. Such receivables, however, will not be assumed by the Company through the sale of the Business and will be retained by the Seller.

As part of the due diligence process in connection with the Seller's pending litigations and potential product liabilities with respect to the Business, the Directors have assessed the merits of the existing claims and the litigation risk in different countries, and decided to discontinue the sales of all metal-on-metal hip products in the US after the Acquisition. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the revenue from such sales of all metal-on-metal hip products in the US was US$12.5 million, US$4.9 million, US$1.7 million and US$0.4 million, respectively.

Other. The Business has received claims from health care professionals following the termination of certain contractual arrangements and believes additional claims are possible. The management of the Business is unable to estimate the cost, if any, of ultimately resolving these claims. Accordingly, no provisions have been recorded in the Business's Financial Information related to these claims. Any such claims or related costs, however, will not be assumed by the Company through the sale of the Business and will be retained by the Seller.

As at 31 October 2013, the Business did not have any other outstanding contingent liabilities.

Commitments

Operating Leases

The Business leases certain of its equipment and office space under non-cancelable operating leases. These leases typically have an initial term of one to five years, with an option to renew the lease when the terms are renegotiated. The following table sets out the total minimum leases payment payables under these operating leases for the periods indicated:

	As at 31 December			At at 30 June
	2010	**2011**	**2012**	**2013**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Within one year	7,519	6,635	5,989	3,957
After one year but within five years	8,306	7,114	6,576	4,036
Total	15,825	13,749	12,565	7,993

Capital Commitments

As at 31 December 2010, 2011 and 2012 and 30 June 2013, the Business had no capital commitments.

There has been no material change to the Business's indebtedness and commitments since 31 October 2013.

Charges on the Business's assets

As at 31 October 2013, there is no charge on the assets of the Business.

Off-Balance Sheet Transactions

As at 31 October 2013, the Business had not entered into any off-balance sheet transactions.

Treasury Policies

The activities of the Business expose it to various financial risks, including the foreign exchange rate risks. It is the Business's treasury policy to carry out financial risks management by the Business's treasury which identifies, evaluates and hedges certain financial risks to which the Business is exposed.

MARKET RISKS

The Business is exposed to various types of market risks, including credit risk, liquidity risk and currency risk. During the year ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the Business did not have a formal hedging policy and no financial instrument was used for hedging purpose because the amounts involved were immaterial to the Business.

Credit Risk

Credit risk arises because a counter-party may fail to perform its obligations. The Business's credit risk is primarily attributable to trade receivables. The Business manages this risk and attempt to minimize credit risk by reviewing customers' credit history before extending credit and by monitoring credit exposure on a regular basis. An allowance for possible losses on accounts receivable is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. Collateral or other security is generally not required for accounts receivable. The maximum exposure to credit risk resulting from financial activities, without considering netting agreements and without taking into account any collateral held or other credit enhancements, is equal to the carrying amount of the Business's financial assets.

Liquidity Risk

Liquidity risk arises when a company encounters difficulties to meet commitments associated with liabilities and other payment obligations. Such risk may result from inadequate market depth or disruption or refinancing problems. The Business's liquidity has historically been managed by the Seller and was managed by maintaining adequate cash reserves and banking facilities and by closely monitoring forecasted and actual cash flows and, where possible, matching the maturity profiles of financial assets and liabilities.

Currency Risk

The Business operates internationally and a substantial portion of its sales are derived from countries outside the United States. The Business is exposed to currency risk primarily from these sales, which give rise to monetary assets that are denominated in a foreign currency. However, operating costs related to these sales are largely denominated in the same respective currencies, thereby partially limiting the Business's transaction risk exposure. The Business had net foreign currency losses of US$354 thousand, US$611 thousand, US$450 thousand and US$95 thousand during the six months ended 30 June 2013 and for the years ended 31 December 2012, 2011 and 2010, respectively. A uniform 10% strengthening in the value of the U. S. dollar relative to the currencies in which the Business's transactions are denominated would have resulted in a decrease in profit before tax of approximately US$0.8 million, US$2.8 million, US$3.3 million and US$2.4 million for the six months ended 30 June 2013 and for the years ended 31 December 2012, 2011 and 2010, respectively. This hypothetical calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar. This sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices, which can be also be affected by the change in exchange rates.

EMPLOYEES

As of 31 December 2010, 2011 and 2012 and 30 June 2013, the Business had approximately 875, 823, 799 and 815 employees, respectively. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the employee remuneration of the Business amounted to US$133.9 million, US$128.1 million, US$117.8 million and US$56.7 million, respectively. Remuneration packages and benefits were determined in accordance with market terms, industry practice as well as their nature of duties, performance, qualifications and experience of the employees. The Business entered into individual employment contracts with its employees in some countries or, in some countries, had policies which cover matters such as wages, employee benefits, safety and sanitary conditions at the workplace, confidentiality obligations for commercial secrets, and grounds for termination. The Business rewarded its employees for innovations and improvements by giving them incentive bonuses. The Business also provided employees with annual bonuses, paid annual leave, share option schemes and contributions to defined contribution retirement plans. The Business had arranged for internal and external vocational training courses to develop its employees' skills and knowledge.

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF MICROPORT SCIENTIFIC CORPORATION

We have completed our assurance engagement to report on the compilation of pro forma financial information of MicroPort Scientific Corporation (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2013 and the unaudited pro forma consolidated income statement and pro forma consolidated cash flow statement for the year ended 31 December 2012 and related notes as set out on pages 4 to 14 of Appendix IV to the circular dated 15 December 2013 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on pages 4 to 14 of Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of OrthoRecon Business of Wright Medical Group, Inc. (the "Proposed Acquisition") and of the contemplated loan financing from Otsuka Medical Devices Co., Ltd. in connection with the Proposed Acquisition (the "Financing") on the Group's financial position as at 30 June 2013 and the Group's financial performance and cash flows for the year ended 31 December 2012 as if the Proposed Acquisition and the Financing had taken place at 30 June 2013 and 1 January 2012, respectively. As part of this process, information about the Group's financial position as at 30 June 2013 has been extracted by the Directors from the interim financial report of the Group for the six months ended 30 June 2013, on which a review report has been published. Information about the Group's financial performance and cash flows for the year ended 31 December 2012 has been extracted by the Directors from the consolidated financial statements of the Group for the year then ended, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2013 or 1 January 2012 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

15 December 2013

(1) Introduction to the unaudited pro forma financial information

The following is the unaudited pro forma financial information of the Enlarged Group, being the Company and its subsidiaries (collectively, the "Group") together with OrthoRecon Business (the "Business") of Wright Medical Group, Inc., ("Wright Medical"), as if the proposed acquisition of the Business (the "Proposed Acquisition") and the contemplated loan financing from Otsuka Medical Devices Co., Ltd. ("Otsuka") in connection with the Proposed Acquisition (the "Financing") had been completed on 30 June 2013 for the unaudited pro forma consolidated statement of financial position or on 1 January 2012 for the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement for the year ended 31 December 2012. Details of the Proposed Acquisition and the Financing are set out in the section headed "Letter from the Board" contained in this Circular.

The unaudited pro forma financial information of the Enlarged Group has been prepared in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), for the purpose of illustrating the effect of the Proposed Acquisition pursuant to the terms of the purchase agreement by and among the Company, MicroPort Medical B.V. and Wright Medical (the "Purchase Agreement") and of the Financing pursuant to the terms of the credit agreement between the Company and Otsuka (the "Credit Agreement"). Because of its hypothetical nature, the unaudited pro forma financial information may not give a true picture of the financial position or results of the Enlarged Group had the Proposed Acquisition and the Financing been completed as of the specified dates or any future date.

The unaudited pro forma financial information of the Enlarged Group is based upon the audited consolidated financial information of the Group for the year ended 31 December 2012, which has been extracted from the Company's annual report for the year then ended as referred to in Appendix I to this Circular; the unaudited consolidated interim financial information of the Group as of 30 June 2013, which has been extracted from the Company's interim financial report for the six months then ended as referred to in Appendix I to this Circular; the combined financial statements of the Business for the year ended 31 December 2012 and as of 30 June 2013 as extracted from the accountants' report thereon set out in Appendix II to this Circular, and adjusted on a pro forma basis to reflect the effect of the Proposed Acquisition and the Financing. These pro forma adjustments are (i) directly attributable to the Proposed Acquisition and the Financing and not relating to other future events and decisions and (ii) factually supportable based on the terms of the Purchase Agreement and the Credit Agreement.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the historical financial information of the Group set out in the annual report of the Company for the year ended 31 December 2012, interim financial report of the Company for the six months ended 30 June 2013 and other financial information included elsewhere in this Circular.

(2) Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group as at 30 June 2013

	The Group	Pro forma adjustments							The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5(i), 5(ii) and 5(iii))*	*(Note 6)*	*(Note 7)*	
Non-current assets									
Fixed assets	749,023	566,713	(28,326)			36,579			1,323,989
Intangible assets	167,568	10,396				124,100			302,064
Prepayments for fixed assets	75,742								75,742
Goodwill	154,955	45,612				253,092			453,659
Investment in subsidiaries	–				1,780,745	(1,780,745)			–
Other non-current financial assets	–	176,760	(92,015)						84,745
Deferred tax assets	15,477	233,566	(10,150)	(211,080)					27,813
	1,162,765								2,268,012
Current assets									
Inventories	109,522	496,859	(706)			3,365			609,040
Trade and other receivables	390,343	628,013	(145,063)						873,293
Deposits with banks	451,528								451,528
Cash and cash equivalents	662,227				(1,780,745)		(74,563)	1,225,030	31,949
	1,613,620								1,965,810
Current liabilities									
Trade and other payables	267,392	267,406	(14,553)				(18,299)		501,946
Derivatives	–							54,738	54,738
Interest-bearing borrowings	498							979,590	980,088
Income tax payable	14,908	22,401							37,309
Provisions	–	37,101	(36,769)						332
Obligations under finance leases	–	1,928	(418)						1,510
Deferred income	215								215
	283,013								1,576,138
Net current assets	1,330,607								389,672
Total assets less current liabilities	2,493,372								2,657,684

	The Group	Pro forma adjustments							The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5(i), 5(ii) and 5(iii))*	*(Note 6)*	*(Note 7)*	
Non-current liabilities									
Interest-bearing borrowings	2,745							190,840	193,585
Deferred income	104,072								104,072
Other non-current liabilities	41,691	29,745							71,436
Provisions	–	127,679	(127,679)						–
Obligations under finance leases	–	258	(129)						129
Deferred tax liabilities	27,355								27,355
	175,863								396,577
NET ASSETS	2,317,509								2,261,107
Capital and reserves									
Share capital	108								108
Reserves	2,317,401	1,671,401	(96,712)	(211,080)	–	(1,363,609)	(56,264)	(138)	2,260,999
TOTAL EQUITY	2,317,509								2,261,107

(3) Unaudited Pro Forma Consolidated Income Statement of the Enlarged Group for the Year Ended 31 December 2012

	The Group	Pro forma adjustments				The Enlarged Group
	RMB'000	*RMB'000 (Note 1)*	*RMB'000 (Note 5 (iv))*	*RMB'000 (Note 6)*	*RMB'000 (Note 7)*	*RMB'000*
Turnover	930,962	1,682,205				2,613,167
Cost of sales	(153,129)	(632,629)	(883)			(786,641)
Gross profit	777,833					1,826,526
Other revenue	54,744					54,744
Other net income/(loss)	13,154	(1,930)				11,224
Research and development costs	(145,849)	(83,859)	(100)			(229,808)
Distribution costs	(172,999)	(663,065)	(2,413)			(838,477)
Administrative expenses	(104,600)	(367,126)	(14,120)			(485,846)
Other operating costs	(5,250)			(74,563)		(79,813)
Profit from operations	417,033					258,550
Finance costs	(1,675)	(473)			(36,810)	(38,958)
Profit before taxation	415,358					219,592
Income tax (expense)/benefit	(61,378)	25,484	7,619			(28,275)
Profit for the year	353,980					191,317

(4) Unaudited Pro Forma Consolidated Cash Flow Statement of the Enlarged Group for the Year Ended 31 December 2012

	The Group	Pro forma adjustments					The Enlarged Group
	RMB'000	*RMB'000 (Note 1)*	*RMB'000 (Note 4)*	*RMB'000 (Note 5 (iv))*	*RMB'000 (Note 6)*	*RMB'000 (Note 7)*	*RMB'000*
Cash flows from operating activities							
Profit before taxation	415,358	(66,877)		(17,516)	(74,563)	(36,810)	219,592
Adjustments for:							
Amortisation of land use rights	1,278						1,278
Amortisation of intangible assets	4,429	8,547		13,757			26,733
Depreciation	36,348	178,573		3,759			218,680
Impairment loss on property, plant and equipment	883						883
Transaction costs for the Proposed Acquisition	–				74,563		74,563
Finance costs	1,143					36,810	37,953
Interest income	(30,674)						(30,674)
Loss/(gain) on sale of property, plant and equipment	402	(2,353)					(1,951)
Equity-settled share-based payment expenses	16,873	38,447					55,320

	The Group	Pro forma adjustments					The Enlarged Group
	RMB'000	*RMB'000 (Note 1)*	*RMB'000 (Note 4)*	*RMB'000 (Note 5 (iv))*	*RMB'000 (Note 6)*	*RMB'000 (Note 7)*	*RMB'000*
Operating cash flows before movements in working capital	446,040						602,377
(Increase)/decrease in inventories	(3,124)	118,496					115,372
Increase in trade and other receivables	(90,773)	(96,159)					(186,932)
(Decrease)/ increase in trade and other payables	(4,896)	19,057					14,161
Increase in deferred income	5,003						5,003
Decrease in provisions	–	(2,977)					(2,977)
Cash generated from operations	352,250						547,004
Tax paid:							
– PRC income tax paid	(66,609)						(66,609)
– Non-PRC income tax paid	(55)						(55)
Net cash generated from operating activities	285,586						480,340
Investing activities							
Payment for the purchase of fixed assets	(294,485)	(55,826)					(350,311)
Proceeds from sale of fixed assets	219	6,964					7,183
Payment for intangible assets	(47,827)	(21,668)					(69,495)
Placement of deposits with banks with original maturities over three months	(1,416,336)						(1,416,336)
Uplift of deposits with banks with original maturities over three months	1,068,855						1,068,855
Increase in pledged deposits	(1)						(1)
Interest received	21,499						21,499
Payments for acquisition of subsidiaries	(139,787)						(139,787)
Payment for the consideration of the Proposed Acquisition	–		(1,829,320)				(1,829,320)
Payment for the transaction costs of the Proposed Acquisition	–				(74,563)		(74,563)
Net cash used in investing activities	(807,863)						(2,782,276)
Financing activities							
Proceeds from interest-bearing borrowings	–					1,261,600	1,261,600
Payments of loan transaction costs	–					(3,154)	(3,154)
Repayments of interest-bearing borrowings	(2,590)						(2,590)
Proceeds from shares issued under the share option plans	3,626						3,626
Interest paid	(603)					(16,466)	(17,069)
Dividends paid to ordinary shareholders	(81,285)						(81,285)

	The Group	Pro forma adjustments					The Enlarged Group
	RMB'000	*RMB'000 (Note 1)*	*RMB'000 (Note 4)*	*RMB'000 (Note 5 (iv))*	*RMB'000 (Note 6)*	*RMB'000 (Note 7)*	*RMB'000*
Payment for repurchase of shares	(61,394)						(61,394)
Payment for repurchase of shares under share award scheme	(18,160)						(18,160)
Payments of finance leases	–	(6,346)					(6,346)
Decrease of Wright Medical's net investment	–	(117,878)					(117,878)
Net cash (used in)/generated from financing activities	(160,406)						957,350
Net decrease in cash and cash equivalents	(682,683)						(1,344,586)
Cash and cash equivalents at 1 January	1,095,209						1,095,209
Effect of foreign exchange rate changes	623						623
Cash and cash equivalents at 31 December	413,149						(248,754)

(5) Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The adjustment represents the acquisition of the Business as if the Proposed Acquisition had been completed at 30 June 2013 for the unaudited pro forma consolidated statement of financial position and at 1 January 2012 for the unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement. The adjustment amounts are derived from translating the financial information of the Business as set out in Appendix II to this Circular from US$ to RMB at the rate of US$100=RMB614.05 for the unaudited pro forma consolidated statement of financial position as at 30 June 2013 and the rate of US$100=RMB630.80 for the unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement for the year ended 31 December 2012. No representation is made that US denominated amounts have been, could have been or could be converted to RMB, or vice versa, at the rates applied or at any other rates or at all.

2. The adjustment represents the exclusion of certain assets and liabilities to be retained by Wright Medical pursuant to the Purchase Agreement, including but not limited to product liability provisions and the corresponding insurance recovery receivable for claims relating to the operations of the Business, together with the related deferred tax amounts, and translated from US$ to RMB at the rate of US$100=RMB614.05.

3. The adjustment represents the elimination of the deferred tax assets of the Business as at 30 June 2013, relating to the temporary differences between the book value and the tax basis of the assets and liabilities of the Business and the culmulative tax losses as at 30 June 2013, totalling US$34.38 million (equivalent to RMB211.1 million at translation rate of US$100=RMB614.05). Upon the completion of the Proposed Transaction, these deferred tax assets will no longer be available to the Company, as a result of the change in control over the Business and the change in legal entities owning those relevant assets and liabilities and based on the Directors' assumption that there will be no material book and tax basis differences of the identifiable assets and liabilities acquired in relation to the Business.

4. The adjustment represents the consideration for the Proposed Acquisition of the Business of US$290 million (equivalent to approximately RMB1.78 billion at translation rate of US$100=RMB614.05), assuming no working capital adjustment to the consideration as detailed in the section headed "the Asset Purchase Agreement" in the Circular, to be satisfied by cash as if the Proposed Acquisition had been completed on 30 June 2013 for the unaudited pro forma consolidated statement of financial position and on 1 January 2012 for the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement for the year ended 31 December 2012.

5. The identifiable assets and liabilities of the Business acquired by the Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under acquisition accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised), "Business Combinations" ("HKFRS 3 (Revised)") issued by the HKICPA.

   For the purpose of the unaudited pro forma financial information, the allocation of the purchase price is determined based on the Directors' estimates of the fair value of the identifiable assets and liabilities of the Business as at 30 June 2013.

   The amounts of goodwill and fair values of the identifiable assets and liabilities of the Business are subject to change upon the completion of the valuation of the fair values of the identifiable assets and liabilities of the Business on the date of completion of the Proposed Acquisition. Consequently, the resulting goodwill, the actual allocation of the purchase price at the date of completion, and depreciation and amortisation for subsequent periods, will likely result in different amounts than those stated in this unaudited pro forma financial information.

   Pro forma adjustments made represent:

   (i) The consolidation entry to eliminate the parent's net investment of the Business and pre-acquisition reserves on consolidation.

(ii) The derecognition of pre-existing goodwill of the Business of US$7.4 million (equivalent to RMB45.6 million at translation rate of US$100=RMB614.05) which is not regarded as net identificable assets acquired and not recorded as a seperate asset in accordance with HKFRS 3 (Revised).

(iii) The recognition of:

- Fair value adjustments of RMB36.6 million on property, plant and equipment, RMB3.4 million on inventories and RMB124.1 million on intangible assets of the Business.

- Goodwill of RMB298.7 million, being the excess of the purchase consideration over the fair value of the net identifiable assets of the Business acquired.

	RMB'000	*RMB'000*
Fair value of consideration		1,780,745
Net assets value of the Business as at 30 June 2013 as reported in Appendix II	1,671,401	
Less: Excluded assets and liabilities of the Business as described in note 2 above	(96,712)	
Deferred tax assets as described in note 3 above	(211,080)	
Pre-existing goodwill of the Business as described in note 5(ii) above	(45,612)	
Carrying value of net identifiable assets acquired:	1,317,997	
Add: Fair value adjustments on property, plant and equipment	36,579	
Fair value adjustments on inventories	3,365	
Fair value adjustments on intangible assets – customer relationship	22,916	
Fair value adjustments on intangible assets – technology	101,184	
Fair value of identified net assets acquired	1,482,041	(1,482,041)
Goodwill arising on acquisition		298,704
Less: Pre-existing goodwill of the Business as at 30 June 2013		(45,612)
Goodwill adjustment, net		253,092

(iv) The annual additional depreciation and amortisation charges are approximately RMB17.5 million arising from the fair value adjustments to property, plant and equipment and intangible assets on a straight-line basis over the estimated useful lives of 7 to 10 years. The adjustments are expected to have a continuing effect on the Enlarged Group.

When preparing the pro forma financial information, the Directors made preliminary assessment, with reference to Hong Kong Accounting Standard 36, "Impairment of Assets", issued by the HKICPA, as to whether or not there is any indicator of impairment on goodwill and intangible assets arising from the Proposed Acquisition. Based on such assessment, the Directors of the Company did not identify any impairment indicator in respect of the goodwill and intangible assets arising from the acquisition of the Business.

Consistent with the accounting policies adopted by the Group in preparing the consolidated financial statements, the amount of goodwill and intangible assets arising from the Proposed Acquisition that will be initially recognised in the Company's consolidated financial statements will be determined with reference to HKFRS 3 based on the fair value of the acquired assets and liabilities at the date of completion of the Proposed Acquisition. The Directors will follow the Group's accounting policy in respect of assets impairment assessment, including the assessment of the impairment of goodwill and intangible assets arising from the Proposed Acquisition when preparing the Company's historical consolidated financial statements covering the period in which the Proposed Acquisition is completed. The Company's annual consolidated financial statements will be subject to the audit, by the Company's auditors in accordance with Hong Kong Standards of Auditing.

6. The adjustment represents payment for estimated acquisition-related costs (including fees to legal advisers, financial adviser, reporting accountants, valuer, printer, taxes and other expenses) of approximately RMB74,563,000 in cash, of which RMB18,299,000 had been incurred as of 30 June 2013 and recognised as expenses in the unaudited consolidated income statement of the Company for the six months ended 30 June 2013 and the remaining RMB56,264,000 will be expensed as incurred in the consolidated income statement in accordance with HKFRS 3 (Revised) issued by the HKICPA. The adjustments for the estimated acquisition-related costs are not expected to have a continuing effect.

7. Pursuant to the Credit Agreement, Otsuka has agreed to provide the Company with certain credit facility of up to US$200 million (equivalent to RMB1.23 billion at translation rate of US$100=RMB614.05), consisting of three tranches of loans, namely, the Term A Loan, Term B Loan and Term C Loan (collectively, the "Otsuka Loans"). The Otsuka Loans bear interests on the outstanding principal

amount thereof for the respective interest periods at a rate equal to LIBOR plus 1% per annum. The grant of the above credit facility by Otsuka is conditional on MicroPort Coop, the Company and Otsuka entering into the purchase option agreement, pursuant to which Otsuka shall have the option to purchase the entire equity interest in Wright Japan exercisable at Otsuka's sole discretion at any time during the two-month-period commencing 90 days before the maturity of the Term A Loan (the "Purchase Option").

The Term A Loan is of a principal amount of US$60 million (equivalent to approximately RMB368.43 million at translation rate of US$100=RMB614.05) and has a maturity date falling one year after drawdown. The Purchase Option granted in connection with the Term A Loan is considered as a derivative, which is measured at fair value of US$0.07 million (equivalent to approximately RMB0.44 million at a translation rate of US$100=RMB614.05). The difference of US$59.93 million (equivalent to approximately RMB367.99 million at translation rate of US$100=RMB614.05) between the proceeds and the fair value of the derivative is recognised as loan liability.

The Term B Loan is of a principal amount of US$40 million (equivalent to approximately RMB245.62 million at translation rate of US$100=RMB614.05) and has a maturity date falling three years after drawdown. Term B Loan contains a conversion option ("Conversion Option") which enables the holder to convert the outstanding amount of the Term B Loan into certain number of the Company's ordinary shares at any time prior to its maturity. The Conversion Option is considered as an embedded derivative component of the Term B Loan which is separated from the host contract and measured at fair value of US$8.84 million (equivalent to approximately RMB54.30 million of translation rate of US$100=RMB614.05). The difference of US$31.16 million (equivalent to approximately RMB191.32 million at translation rate of US$100=RMB614.05) between the proceeds and the fair value of the derivative component is recognised as loan liability, which is classified as non-current liability.

The estimated transaction costs (including the estimated costs reimbursement to Otsuka for the Financing, as detailed in section headed "The Otsuka Expense Arrangement" in this circular) of US$250,000 that relate to the issue of the Term A Loan and Term B Loan are allocated to their respective loan liabilities and derivatives in proportion to the allocation of proceeds. The portion relating to the derivatives of US$22,000 (equivalent to RMB138,000 at translation rate of US$100 = RMB614.05) is recognised immediately in profit or loss. The portion relating to the Term A loan liability and Term B loan liability of US$150,000 (equivalent to RMB920,000 at translation rate of US$100 = RMB614.05) and US$78,000 (equivalent to RMB478,000 at translation rate of US$100 = RMB614.05) is recognised initially as part of the respective loan liabilities. Subsequent to initial recognition, the loan liabilities are stated at amortised cost using the effective interest method and the derivatives are remeasured at the end of each reporting period and the gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

The Term C Loan is of a principal amount of US$100 million (equivalent to approximately RMB614.05 million at translation rate of US$100=RMB614.05) and has a maturity date falling one year after drawdown. The Term C Loan is recognised initially at fair value less estimated transaction costs (including the estimated costs reimbursement to Otsuka for the Financing, as detailed in section headed "The Otsuka Expense Arrangement" in this circular) of US$250,000 (equivalent to RMB1,534,000 at translation rate of US$100 = RMB614.05). Subsequent to initial recognition, the borrowing is stated at amortised cost using the effective interest method.

The adjustments represent the effects of the Otsuka Loans and the Purchase Option as if the Otsuka Loans had been withdrawn on 30 June 2013 for the unaudited pro forma consolidated statement of financial position and on 1 January 2012 for the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement for the relevant period. Based on the LIBOR rate of 0.31% prevailing as of 30 June 2013, the annual additional interest expenses are estimated to be approximately RMB6.3 million, RMB20.7 million and RMB9.8 million for the Term A Loan, Term B Loan and Term C Loan, respectively, using the effective interest rate method and assuming no exercise of the Purchase Option and Conversion Option. The adjustment to record the additional finance costs associated with the Otsuka Loans is expected to have a continuing effect on the Enlarged Group.

For the purpose of the unaudited pro forma consolidated income statement, the Directors have assumed that there would be no change in the fair values of the derivatives in respect of the Purchase Option and the Conversion Option.

8. The unaudited pro forma financial information does not give effect to the potential impact that may arise from the disposal of Wright Japan following the exercise of the Purchase Option due to the uncertainty associated with the future exercise of the Purchase Option by Otsuka.

9. No adjustment has been made to the pro forma financial information to reflect any trading results or other transactions of the Enlarged Group subsequent to 30 June 2013, including but not limited to any scheduled repayments of the Otsuka Loans.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm to the best of their knowledge and belief that the information contained in this circular is accurate and complete in all material respects and not misleading and deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

The authorized and issued share capital of the Company (i) as at the Latest Practicable Date were, and (ii) immediately following completion of the Acquisition will be, as follows:

As at the Latest Practicable Date

	US$
Authorized:	
5,000,000,000 Shares of a nominal value of US$0.00001 each	50,000
Issued and fully paid:	
1,408,893,190 Shares of a nominal value of US$0.00001 each	14,088.93

Immediately following completion of the Acquisition and upon allotment and issuance of the Conversion Shares

	US$
Authorized:	
5,000,000,000 Shares of a nominal value of US$0.00001 each	50,000
Issued and fully paid:	
1,456,620,462 Shares of a nominal value of US$0.00001 each	14,566.20

3. DISCLOSURE OF INTERESTS

(a) Directors' interests in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors or the chief executives of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered on the register maintained by the Company referred to therein, or which were required, pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Interests and Short Positions in the Underlying Shares of the Company

Name of Director / Chief Executive	Capacity	Nature of Interest	Number of Shares	Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date (%)
Chang Zhaohua	Beneficial owner(1)	Long position	10,000,000	0.71%

Notes:

(1) Chang Zhaohua is interested in the underlying Shares of the Company by virtue of the options granted to him under the share option scheme of the Company. For further details, please refer to the below section headed "Share Option Scheme".

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Material interests in contracts and assets of the Enlarged Group

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2012 (being the date to which the latest published audited financial statements of the Group were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Enlarged Group.

(c) Directors' service contracts

None of the executive Directors and non-executive Directors has entered into a service contract regarding their office of directorship with the Company. Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three year commencing from 24 September 2010 and such appointment will continue thereafter unless and until terminated by either party in accordance with the letter of appointment.

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Enlarged Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

(d) Competing interests

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors nor their respective associates had any interest in any business which had competes or is likely to compete, or is in conflict or is likely to be in conflict, either directly or indirectly, with the businesses of the Enlarged Group.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Substantial Shareholder	Capacity	Nature of Interest	Number of Shares	Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date (%)
Otsuka Holdings Co., Ltd.	Interest of controlled corporation(1)	Long position	468,994,120	33.29
Otsuka Medical Devices Co., Ltd.	Beneficial owner	Long position	468,994,120	33.29
Shanghai Zhangjiang Science and Technology Investment Co.	Interest of controlled corporation(2)	Long position	285,748,050	20.28
Shanghai Zhangjiang (Group) Co., Ltd.	Interest of controlled corporation(2)	Long position	285,748,050	20.28
Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd.	Interest of controlled corporation(2)	Long position	285,748,050	20.28
Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd.	Interest of controlled corporation(2)	Long position	285,748,050	20.28

Name of Substantial Shareholder	Capacity	Nature of Interest	Number of Shares	Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date (%)
Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Co., Ltd.	Interest of controlled corporation(2)	Long position	285,748,050	20.28
Shanghai ZJ Hi-Tech Investment Corporation	Interest of controlled corporation and Beneficial owner(2)	Long position	285,748,050	20.28
Shanghai ZJ Holdings Ltd.	Interest of controlled corporation(2)	Long position	285,748,050	20.28
Shanghai Zhangjiang Health Solution Holdings Limited	Beneficial owner(2)	Long position	215,883,620	15.32
Shanghai We'Tron Capital Corp.	Interest of controlled corporation(3)	Long position	217,110,000	15.41
We'Tron Capital Ltd.	Beneficial owner(3)	Long position	217,110,000	15.41
Maxwell Maxcare Science Foundation Limited	Interest of controlled corporation(3)	Long position	217,110,000	15.41
Gao Yang Investment Corp.	Interest of controlled corporation and Beneficial owner(4)	Long position	75,233,720	5.34
Shen Yao Fang	Interest of controlled corporation(4)	Long position	75,233,720	5.34

Notes:

(1) Otsuka Holdings Co., Ltd. holds the entire issued share capital of Otsuka Medical Devices Co., Ltd. and therefore, is deemed to be interested in the same number of Shares held by Otsuka Medical Devices Co., Ltd.

(2) Shanghai Zhangjiang (Group) Co., Ltd. is wholly-owned by the State-owned Assets Supervision and Administration Commission of the Shanghai Pudong New Area People's Government. Shanghai Zhangjiang (Group) Co., Ltd. holds 100% interest in Shanghai Zhangjiang Science and Technology Investment Co., which in turn holds 100% interest in Shanghai Zhangjiang Science and Technology Investment (Hong Kong) Company Limited, which in turn holds 50% interest in Shanghai ZJ Hi-Tech Investment Corporation. Shanghai Zhangjiang (Group) Co., Ltd. also holds 53.58% interest in Shanghai Zhangjiang Hi-Tech Park Development Co. Ltd., which in turn holds 100% interest in Shanghai Zhangjiang Haocheng Venture Capital Co., Ltd., which in turn holds 100% interest in Shanghai ZJ Holdings Limited, which in turn holds 50% in Shanghai ZJ Hi-Tech Investment Corporation. Shanghai ZJ Hi-Tech Investment Corporation holds 100% interest in each of Shanghai Zhangjiang Health Solution Holdings Limited, Shanghai Zhangjiang Health Solution Investment Limited and Shanghai Zhangjiang Health Solution Industry Limited. The interest in 285,748,050 Shares by these companies relates to the same block of Shares by virtue of the long position in the Shares held by the following companies:

Name of Controlled Corporation	**Number of Shares**	**Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date (%)**
Shanghai ZJ Hi-Tech Investment Corporation	7,042,580	0.50%
Shanghai Zhangjiang Health Solution Holdings Limited	215,883,620	15.32%
Shanghai Zhangjiang Health Solution Investment Limited	53,398,570	3.79%
Shanghai Zhangjiang Health Solution Industry Limited	9,423,280	0.67%
Total	285,748,050	20.28%

(3) Maxwell Maxcare Science Foundation Limited holds 79% of Shanghai We'Tron Capital Corp. who in turn is interested in 94.19% of We'Tron Capital Limited. Therefore, Maxwell Maxcare Science Foundation Limited, Shanghai We'Tron Capital Corp. and We'Tron Capital Limited are interested in the same 217,110,000 Shares held by We'Tron Capital Limited.

(4) Shen Yao Fang holds the entire issued share capital of Gao Yang Investment Corp., which in turns holds 52,750,000 Shares. Gao Yang Investment Corp. is also interested in the entire issued share capital of Q1 Capital Corporation, which in turns holds 22,483,720 Shares. Shen Yao Fang and Gao Yang Investment Corp. are therefore deemed to be interests in the same 75,233,720 Shares held by Gao Yang Investment Corp. and Q1 Capital Corporation.

Save as disclosed above, and as at the Latest Practicable Date, the Directors of the Company were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

5. SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

In order to attract and retain eligible persons, and to provide an additional incentive for them to promote the success of the Group, the Company had adopted a share option scheme in 2004 (the "**2004 Option Plan**") and 2006 (the "**2006 Incentive Plan**") (collectively the "Pre-IPO Share Option Scheme"). The 2004 Option Plan, authorized to grant up to 10,261,030 share options, was modified when the Company agreed to assume the obligation of all outstanding and unvested share options of MicroPort Medical (Cayman) Corporation, while the 2006 Incentive Plan was modified prior to IPO by increasing the maximum aggregate number of shares which may be issued to 6,509,157.

As part of the restructuring of the Company due to the IPO, the Company approved a 10-for-1 share split, which as a result adjusted all share options issued prior to the share split by a 10-for-1 ratio accordingly. As such, total number of securities available for issue under the Pre-IPO Share Option Scheme is 102,610,300 and 65,091,570 for the 2004 Option Plan and the 2006 Incentive Plan, respectively. As at the Latest Practicable Date, the total aggregate share options that may be granted under the Pre-IPO Share Option Scheme is 167,701,870, which represent 11.9% of the issued share capital of the Company. However, no additional options have been issued under the Pre-IPO Share Option Scheme since the listing of the Company on the Stock Exchange, and the total outstanding options that has been issued under the Pre-IPO Share Option Scheme is 47,821,390.

The administrator of the Pre-IPO Share Option Scheme may at its discretion select the employees, directors and consultants to whom awards may be granted from time to time. The Pre-IPO Share Option Scheme shall be no more than ten (10) years from the date of grant, and five (5) years if the grantee who owns shares representing more than ten percent (10%) of the voting power of all classes of shares in the Company. The exercise price of the Pre-IPO Share Option Scheme shall be based on one hundred percent (100%) of the fair market value per share on the date of grant, and one hundred ten percent (110%) if the grantee who owns shares representing more than ten percent (10%) of the voting power of all classes of shares in the Company. The administrator shall determine the provisions, terms, and conditions of each award including, but not limited to, the award vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, shares, or other consideration) upon settlement of the award, payment contingencies, and satisfaction of any performance criteria.

(b) Share Option Scheme

A share option scheme (the "**Share Option Scheme**") was approved and adopted pursuant to a written resolution of all the Shareholders on 3 September 2010 (the "**Adoption Date**").

The purpose of the Share Option Scheme is to provide the Company with a means of incentivizing Directors, employees of business associates and retaining employees, and to encourage employees to work towards enhancing the value of our Company and promote the

long-term growth of the Company. The Share Option Scheme will link the value of the Company with the interests of participants, enabling participants and the Company to develop together and promoting the Company's corporate culture.

The Directors may, at their discretion, invite any directors (including executive Directors, non-executive Directors and independent non-executive Directors), employees and officers of any member of the Group and any advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners and service providers of any member of our Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group to participate in the Share Option Scheme.

The Company shall be entitled to issue options, provided that the total number of Shares which may be allotted and issued upon exercise of all outstanding options to be granted under the Share Option Scheme of the Company shall not exceed 10% of the aggregate Shares in issue at the date when the Shares were first listed on the Stock Exchange, which is 140,411,234 Shares. The Company may at any time refresh this 10% limit, subject to compliance with the Listing Rules, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Company does not exceed 30% of the Shares in issue from time to time. As at the Latest Practicable Date, 29,400,000 Shares, which represents 2.09% of the Company's issued share capital, are available to be issued upon exercise of the outstanding options granted under the Share Option Scheme.

Unless approved by Shareholders of the Company, the total number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-months period shall not exceed 1% of the issued share capital of the Company for the time being.

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option. The amount payable by each grantee of option to the Company on acceptance of the offer for the grant of option is US$1.00.

At the time of the grant of the options, the Company will specify the minimum period for which an option must be held before it can be exercised. The Share Option Scheme does not contain any such minimum period. The period within which the option must be exercised will be specified by the Company at the time of grant. Such period must expire no later than ten (10) years from the relevant date of grant (being the date of which the Board resolves to make an offer of options to the relevant grantee).

The Board will determine the price per Share upon the exercise of an option according to the terms of the Share Option Scheme, provided that it shall be at the highest of: (i) the closing price of the Shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of the offer of a grant; (ii) the average closing price of the Shares as

stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of the offer of a grant; and (iii) the nominal value of a share on the date of grant.

The Share Option Scheme will remain in force for a period of ten (10) years after the Adoption Date.

During the year ended 31 December 2012 and up to the Latest Practicable Date, 1,150,000 share options were granted.

6. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years immediately preceding the issue of this circular:

(a) the Asset Purchase Agreement;

(b) the Credit Agreement;

(c) the Purchase Option Agreement (including the License Agreement);

(d) the Expense Arrangement Side Letter; and

(e) the equity transfer agreement dated 25 June 2012 entered into between MP Shanghai and Wang Anqin pursuant to which Wang Anqin agreed to sell to MP Shanghai 100% equity interest in Dongguan Kewei for a total consideration of RMB108 million.

Save as disclosed above, no member of the Enlarged Group had entered into any material contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the issue of this circular.

7. LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group were engaged in any litigation or claims of material importance and no litigation or claims of material importance were known to the Directors to be pending or threatened against any members of the Enlarged Group.

8. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given an opinion or advice to the contents of this circular:

KPMG	Certified public accountants in relation to the accountants' report of the Business and the unaudited pro forma financial information of the Enlarged Group
KPMG LLP	Certified public accountants in relation to the accountants' report of the Business
Platinum Securities Company Limited	A licensed corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the experts has any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

As at the Latest Practicable Date, none of the experts has any direct or indirect interests in any assets which have been, since 31 December 2012 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

9. GENERAL

(a) The company secretary of the Company is Ms. Yee Har Susan Lo. She is a director of Corporate Services at Tricor Services Limited and is a fellow member of both The Institute of Chartered Secretaries and Administrators in United Kingdom and The Hong Kong Institute of Chartered Secretaries.

(b) The registered office of the Company is located at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(c) The principal place of business of the Company in Hong Kong is Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The Hong Kong branch share registrar of the Company is Computershare Hong Kong Investors Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours (i.e., from 9:30 a.m. to 5:00 p.m. on Monday to Friday) on any business day in Hong Kong at the principal place of business in Hong Kong of the Company at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the material contracts referred to in paragraph headed "Material Contracts" in this appendix;

(c) the Japan OrthoRecon Distribution Agreement;

(d) the written consents of the experts referred to in the paragraph headed "Experts and Consents" in this appendix;

(e) the annual reports of the Company for the two years ended 31 December 2012 and the interim report of the Company for the six months ended 30 June 2013;

(f) the letter of recommendation from the Independent Board Committee dated 15 December 2013, the text of which is set out on pages 80 to 81 of this circular;

(g) the letter of advice issued by Platinum Securities Company Limited to the Independent Board Committee and the Independent Shareholders dated 15 December 2013, the text of which is set out on pages 82 to 119 of this circular;

(h) the accountants' report on the Business received from KPMG and KPMG LLP, the text of which is set out in Appendix II to this circular;

(i) the report from KPMG on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular; and

(j) this circular.

MicroPort Scientific Corporation
微創醫療科學有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 853)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("**EGM**") of MicroPort Scientific Corporation (the "**Company**") will be held at Lounge, M Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Friday, 3 January 2014 at 9:30 a.m. for the purposes of considering and, if thought fit, passing with or without amendments the following resolutions as ordinary resolutions. Expressions that are not expressly defined in this notice of EGM shall bear the same meaning as that defined in the circular dated 15 December 2013 (the "**Circular**").

ORDINARY RESOLUTIONS

1. "**THAT** conditional upon the passing of ordinary resolutions No. 2 to No. 5 set out in the notice convening the EGM:

   (a) the Asset Purchase Agreement (a copy of which is produced to the EGM marked "A" and initialed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder and the documentation thereof be and are hereby confirmed and approved; and

   (b) any one Director be and is hereby authorized for and on behalf of the Company to execute each other documents, instructions and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to, or in connection with the matters contemplated under this resolution and to agree to any amendment to any of the terms of the Asset Purchase Agreement which in the opinion of the Directors is not of a material nature and is in the interests of the Company."

2. "**THAT** conditional upon the passing of ordinary resolutions No. 1, and No. 3 to No. 5 set out in the notice convening the EGM:

   (a) the Credit Agreement, including the right of the Lender to convert the Term B Loan into 47,727,272 Shares (based on the initial Conversion Price of US$0.8800 per Share and assuming the whole of the Term B Loan of US$40 million and the accrued and unpaid interest to the maximum of US$2 million will be converted), (a copy of which is produced to the EGM marked "B" and initialed by the chairman of the EGM for identification purpose),

* *for identification purpose only*

incorporating, amongst other things, the events of default and undertakings provisions which have been summarised and disclosed on pages 49 to 54 of the Circular, and the transactions contemplated thereunder and the documentation thereof be and are hereby confirmed and approved;

(b) the allotment and issuance of the Shares (as mentioned in paragraph 2(a) above) to Otsuka subject to the terms and conditions of the Credit Agreement be and are hereby approved; and

(c) any one Director be and is hereby authorized for and on behalf of the Company to execute each other documents, instructions and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to, or in connection with the matters contemplated under this resolution and to agree to any amendment to any of the terms of the Credit Agreement which in the opinion of the Directors is not of a material nature and is in the interests of the Company."

3. "**THAT** conditional upon the passing of ordinary resolutions No. 1 to No. 2 and No. 4 to No. 5 set out in the notice convening the EGM:

(a) the Purchase Option Agreement including the License Agreement (a copy of which is produced to the EGM marked "C" and initialed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder and the documentation thereof be and are hereby confirmed and approved; and

(b) any one Director be and is hereby authorized for and on behalf of the Company to execute each other documents, instructions and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to, or in connection with the matters contemplated under this resolution and to agree to any amendment to any of the terms of the Purchase Option Agreement or the License Agreement which in the opinion of the Directors is not of a material nature and is in the interests of the Company."

4. "**THAT** conditional upon the passing of ordinary resolutions No. 1 to No. 3 and No. 5 set out in the notice convening the EGM:

(a) the Japan OrthoRecon Distribution Agreement including the Buy-back Arrangement (a copy of which is produced to the EGM marked "D" and initialed by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder be and are hereby confirmed and approved;

(b) the proposed annual caps in respect of the continuing connected transactions contemplated under the Japan OrthoRecon Distribution Agreement for each of the three years including and following the JODA Effective Date as set out in the Circular be and are hereby confirmed and approved; and

(c) any one Director be and is hereby authorized for and on behalf of the Company to execute each other documents, instructions and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to, or in connection with the matters contemplated under this resolution and to agree to any amendment to any of the terms of the Japan OrthoRecon Distribution Agreement (including the Buy-back Arrangement) which in the opinion of the Directors is not of a material nature and is in the interests of the Company."

5. "**THAT**:

conditional upon the passing of ordinary resolutions No. 1 to No. 4 set out in the notice convening the EGM, the grant of the Specific Mandate to the Directors for the allotment and issuance of the Shares (as mentioned in paragraph 2(a) above) upon exercise of the conversion rights attached to the Term B Loan pursuant to the terms and conditions of the Credit Agreement be and is hereby approved."

By Order of the Board
MICROPORT SCIENTIFIC CORPORATION
Dr. Zhaohua Chang
Chairman

Hong Kong, 15 December 2013

Notes:

1. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint a proxy to attend and on a poll, vote instead of him/her/it. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her/it to attend and vote on his/her/its behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. Where there are joint holders of any share of the Company, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he/she/it was solely entitled thereto, but if more than one of such joint holders be present at the EGM personally or by proxy, then the one of such holders 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.

3. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

4. For determining the entitlement to attend and vote at the above meeting, the register of members of the Company will be closed from Tuesday, 31 December 2013 to Friday, 3 January 2014, both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 30 December 2013.

5. At the EGM (or at any adjournment thereof), the chairman of the meeting put each of the above resolutions to the vote by way of poll pursuant to the Listing Rules. The poll results will be published on the website of the Company and the website of the Stock Exchange in accordance with the Listing Rules.

As at the date of this notice, the executive Director is Dr. Zhaohua Chang; the non-executive Directors are Mr. Norihiro Ashida, Mr. Hiroshi Shirafuji and Mr. Ganjin Chen; and the independent non-executive Directors are Mr. Zezhao Hua, Mr. Jonathan H. Chou and Dr. Guoen Liu.