THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in LifeTech Scientific Corporation, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker 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 LifeTech Scientific Corporation.

LIFETECH SCIENTIFIC CORPORATION
先健科技公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8122)

(1) DISPOSAL OF SHARES BY SUBSTANTIAL SHAREHOLDER, (2) CONNECTED TRANSACTION IN RELATION TO THE ISSUANCE AND SUBSCRIPTION OF CONVERTIBLE NOTES, (3) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE DISTRIBUTION AGREEMENT AND THE SERVICES AGREEMENT AND (4) SPECIFIC MANDATE TO ISSUE THE CONVERSION SHARES

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

OPTIMA CAPITAL

A letter from the Board is set out on pages 7 to 54 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 55 to 56 of this circular. A letter from Optima Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 57 to 108 of this circular.

A notice convening the extraordinary general meeting of the Company will be held at Cybio Electronic Building, Langshan 2nd Street, North Area of High-tech Park, Nanshan District, Shenzhen, China on 21 January 2013 at 10 a.m. is set out on pages 115 to 118 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are advised to complete the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and return it to Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited at 26/F., Tesbury Centre, 28 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 such 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 or any adjourned meeting if you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website at http://www.hkgem.com for 7 days from the date of its posting and on the Company's website at http://www.lifetechmed.com.

6 January 2013

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

CONTENTS

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

"Articles of Association"	the articles of association of the Company, as amended from time to time
"associates"	has the meaning as defined under the GEM Listing Rules
"Board"	the board of Directors of the Company
"Business Day"	a day (excluding Saturday, Sunday, public holiday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 5:00 p.m. and is not lowered at or before 5:00 p.m. or on which a "black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 8:00 p.m. and is not discontinued at or before 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
"CCT Agreements"	the Distribution Agreement and the Services Agreement
"Company"	LifeTech Scientific Corporation, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange
"Controlling Shareholder Group"	the group of controlling shareholders of the Company consisting of Xianjian Advanced Technology Limited, GE Asia Pacific Investments Ltd., Mr. Xie and Mr. Wu
"Controller Guarantee and Indemnity"	the deed of undertaking dated 5 January 2013 entered into by and among the Controlling Shareholder Group in favour of the Company in relation to certain provisions under the Services Agreement
"Controller Public Float Undertaking"	the deed of undertaking dated 5 January 2013 entered into by and among the Controlling Shareholder Group in favour of the Company and Medtronic
"Conversion Shares"	the Shares issuable or issued by the Company to the Investor upon conversion of the relevant Convertible Notes
"Convertible Notes"	the First Tranche Convertible Notes and the Second Tranche Convertible Notes

"Current Market Price"	the closing share price of the Company on the trading day immediately preceding the date on which an event of alteration in the capital structure of the Company is announced or, failing any such announcement, the date on which such event takes place
"Director(s)"	the director(s) of the Company
"Distribution Agreement"	the supply and exclusive distribution agreement dated 14 October 2012 entered into by and among the Company, PerMed and Medtronic, together with the supplemental agreement dated 5 January 2013 and entered into by and among the Company, PerMed and Medtronic
"EGM"	the extraordinary general meeting of the Company to be convened and held at Cybio Electronic Building, Langshan 2nd Street, North Area of High-tech Park, Nanshan District, Shenzhen, China on 21 January 2013 at 10 a.m. or where the context so admits, any adjournment thereof
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of his delegates
"Fees"	the fees payable by the Company to Medtronic under the Services Agreement
"First Tranche Completion Date"	the date falling on the fifth Business Day after fulfillment of the First Tranche Conditions in accordance with the Investment Agreement
"First Tranche Conditions"	the conditions precedent to completion of the First Tranche Convertible Notes
"First Tranche Convertible Notes"	the first tranche convertible notes to be issued by the Company and subscribed by Medtronic under the Investment Agreement
"GEM Listing Rules"	The Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China

"Independent Board Committee"	an independent board committee of the Board, comprising Mr. Liang Hsien Tse Joseph, Mr. Zhang Xingdong, Mr. Zhou Gengshen, being all the independent non-executive Directors, which has been formed to make recommendation to the Independent Shareholders in respect of the Transaction
"Independent Financial Adviser" or "Optima"	Optima Capital Limited, a corporation licensed under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser in respect of the Transaction Agreements
"Independent Shareholders"	the Shareholders who are not required to abstain from voting at the EGM under the GEM Listing Rules
"Investment Agreement"	the investment agreement dated 14 October 2012 entered into between Medtronic and the Company, together with the supplemental agreement dated 5 January 2013 entered into between Medtronic and the Company
"Latest Practicable Date"	31 December 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"License"	the non-exclusive, non-assignable, non-sub-licensable and non-royalty bearing (except the Royalty) limited license granted by Medtronic to the Company, pursuant to the Services Agreement
"Listing Committee"	the Listing Committee of the Stock Exchange
"Material Adverse Effect (or Change)"	means any event, circumstance, occurrence, fact, condition, change or effect that is materially adverse to the business, operations, financial condition, management, prospects, assets or liabilities of any member of the Group, other than any event, circumstance, occurrence, fact, condition, change or effect relating to generally applicable economic conditions in the industry in which the Group operates; or the ability of the Company to perform any of its obligations hereunder or to consummate the transactions contemplated in the Investment Agreement
"Medtronic"	Medtronic, Inc., a company incorporated under the laws of Minnesota on 23 April 1957, the shares of which are listed on the New York Stock Exchange

"Mr. Wu"	Wu Jianhui, a non-executive Director and a Substantial Shareholder of the Company and a member of the Company's Controlling Shareholder Group
"Mr. Xie"	Xie Yuehui, the chairman, an executive Director, a Substantial Shareholder of the Company and a member of the Controlling Shareholder Group
"New Issue"	the issuance and allotment of new ordinary shares of the Company as the Conversion Shares upon the conversion of the First Tranche Convertible Notes and the Second Tranche Convertible Notes under the proposed specific mandate to be approved by the Independent Shareholders of the Company at the EGM
"Noteholder(s)"	the holder(s) of the Convertible Notes
"Orchid Asia"	Orchid Asia Group Management, Limited and its affiliates
"Orchid Asia III"	Orchid Asia III. L.P., an exempted limited partnership registered under the laws of the Cayman Islands on 2 November 2004
"PAVI"	transcatheter pulmonary valve implantation
"PerMed"	Beijing PerMed Biomedical Engineering Co., Ltd., a company established under the laws of the PRC and having its principal place of business in Beijing and a wholly-owned subsidiary of the Company
"PRC" or "China"	People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Products"	the goods and products PerMed will sell to Medtronic and that Medtronic will purchase from PerMed under the Distribution Agreement, which as of the effective date, includes all current and future heart valve products developed by, manufactured by, licensed to, owned by or otherwise available to PerMed, the Company or either of their affiliates, and may include any additional products that the parties agree for Medtronic to distribute upon exercising the right of first negotiation as defined in the Distribution Agreement
"Public Float Requirement"	the minimum public float requirement under the GEM Listing Rules
"RMB"	Renminbi, the lawful currency of the PRC

"Royalties"	the royalty amounts payable by the Company to Medtronic in considering for the licensing arrangement under the Services Agreement
"Second Tranche Completion"	the completion of the issuance of the Second Tranche Convertible Notes
"Second Tranche Completion Date"	the date falling on the fifth Business Day after fulfillment of the Second Tranche Conditions, provided however, that it falls within five years from the First Tranche Completion Date
"Second Tranche Conditions"	the conditions precedent to completion of the Second Tranche Convertible Notes
"Second Tranche Convertible Notes"	the second tranche convertible notes to be issued by the Company under the Investment Agreement
"Services"	the services to be provided by Medtronic to the Company under the Services Agreement
"Services Agreement"	the services agreement dated 14 October 2012 entered into between the Company and Medtronic for the provision of certain services by Medtronic to the Company, together with the supplemental agreement dated 5 January 2013 and entered into by and among the Company and Medtronic
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Share(s)"	ordinary share(s) of US$0.00001 each in the share capital of the Company
"Share Option Scheme"	the share option scheme of the Company adopted by the Company on 22 October 2011
"Share Purchase"	the share purchase of 95,000,000 Shares representing 19.00% of the issued share capital of the Company as at the date of this circular by Medtronic from Orchid Asia III pursuant to the Share Purchase Agreement
"Share Purchase Agreement"	the share purchase agreement entered into between Orchid Asia III and Medtronic dated 14 October 2012 in relation to the Share Purchase
"Shareholder(s)"	holders of ordinary shares in the share capital of the Company with the nominal value of US$0.00001 each

"Start Date"	has the meaning ascribed to it under the Distribution Agreement
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"TAVI"	transcatheter aortic valve implantation
"Transaction"	the strategic transaction between Medtronic and the Group including the Share Purchase, issuance of the First Tranche Convertible Notes and the Second Tranche Convertible Notes and entering into the CCT Agreements
"Transaction Agreements"	includes the Investment Agreement, the CCT Agreements, the Controller Public Float Undertaking and the Controller Guarantee and Indemnity
"US$"	US dollar, the lawful currency of United States
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on the Dispensations from Rule 26 of the Takeovers Code in respect of the obligations of Medtronic to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by Medtronic or parties acting in concert with it which would otherwise arise as a result of the issue and allotment of the Conversion Shares pursuant to the Investment Agreement
"%"	per cent.

Amounts expressed in €, US$ and RMB in this circular have been translated into HK$ at a fixed exchange rate of €1.00 = HK$10.12, US$1.00 = HK$7.78 and RMB1.00 = HK$1.24 respectively. The conversion rates are for indication purposes only and should not be taken as a representation that each of them could actually be converted into HK$ at that rate or at all.

LIFETECH SCIENTIFIC CORPORATION
先健科技公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8122)

Executive Directors:
Mr. XIE Yuehui *(Chairman)*
Mr. ZHAO Yiwei Michael

Non-executive Directors:
Mr. LI Gabriel
Mr. WU Jianhui
Ms. CONG Ning

Independent non-executive Directors:
Mr. LIANG Hsien Tse Joseph
Mr. ZHANG Xingdong
Mr. ZHOU Gengshen

Registered Office in the Cayman Islands:
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Principal place of business and address of headquarters:
Cybio Electronic Building,
Langshan 2nd Street,
North Area of High-tech Park,
Nanshan District,
Shenzhen 518057,
the PRC

Place of business in Hong Kong registered under Part XI of the Hong Kong Companies Ordinance:
12/F, the Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

6 January 2013

To the Shareholders

Dear Sir or Madam,

(1) DISPOSAL OF SHARES BY SUBSTANTIAL SHAREHOLDER, (2) CONNECTED TRANSACTION IN RELATION TO THE ISSUANCE AND SUBSCRIPTION OF CONVERTIBLE NOTES, (3) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE DISTRIBUTION AGREEMENT AND THE SERVICES AGREEMENT AND (4) SPECIFIC MANDATE TO ISSUE THE CONVERSION SHARES

INTRODUCTION

On 14 October 2012, the Company formed a strategic alliance with Medtronic and entered into (i) the Investment Agreement for the issuance of the Convertible Notes to Medtronic, (ii) the Distribution Agreement for the appointment of Medtronic by PerMed as its exclusive distributor of the Products, and (iii) the Services Agreement for the provision of consulting services by Medtronic to the Company. As announced on 5 January 2013, the Company and Medtonic entered into a supplemental agreement to modify certain terms of the Investment Agreement. The purpose of this circular is to provide the Shareholders with information in relation to the Transaction Agreements, the resolutions to be proposed at the EGM in respect of a specific mandate in respect of the Conversion Shares and to seek the Independent Shareholders' approval of the resolutions relating to these matters at the EGM.

THE INVESTMENT AGREEMENT

Date

14 October 2012 (as supplemented on 5 January 2013)

Parties

(1) the Company

(2) Medtronic

Subscription for the Convertible Notes

Pursuant to the Investment Agreement, Medtronic conditionally agreed to subscribe for, and the Company conditionally agreed to issue to Medtronic, the First Tranche Convertible Notes on the First Tranche Completion Date and the Second Tranche Convertible Notes on the Second Tranche Completion Date.

First Tranche Conditions

Completion of the issuance by the Company of, and the subscription by Medtronic for, the First Tranche Convertible Notes is conditional upon the fulfillment of the following:

(a) the current listing of the Shares on the Stock Exchange not having been withdrawn and the Shares continuing to be traded on the Stock Exchange at all times (except for the suspensions of trading required under the GEM Listing Rules and which, in each occasion, does not last more than five consecutive trading days or any suspension of trading in connection with the Investment Agreement and the transactions contemplated thereunder) from the date of the Investment Agreement to the First Tranche Completion Date;

(b) the listing of, and permission to deal in, all the Conversion Shares being granted by the Listing Committee and not having been revoked prior to the First Tranche Completion Date;

(c) the passing by the requisite majority required under the GEM Listing Rules of the Shareholders at a general meeting (excluding any Shareholders who are not entitled to vote by reason of applicable provisions in the GEM Listing Rules) of a resolution for the approval of the Company's entering into of each of the CCT Agreements, issuing of the Convertible Notes and the Conversion Shares, and such other resolutions reasonably considered necessary or desirable in the context of applicable laws and regulations by any of the parties for the implementation of the transactions contemplated thereunder (such satisfaction not to be unreasonably withheld or delayed);

(d) the appointment as non-executive Directors, to take effect from the First Tranche Completion Date, of up to two persons as Medtronic may nominate in writing within ten Business Days from the date of the Investment Agreement by the passing of relevant resolutions by the Board;

(e) the completion of the Share Purchase;

(f) Medtronic having provided written notice of its intention to the Company to subscribe for the First Tranche Convertible Notes;

(g) all consents, registration, filings, confirmations, clearances, rulings and decisions by the authorities or the bankers or creditors of the Company, or any other third party that are necessary or appropriate for or in connection with the transactions contemplated under the Transaction Agreements having been obtained;

(h) no notice, order, judgment, action or proceeding of any person having been served, issued, made or filed which restrains, prohibits or makes unlawful, or which seeks to restrain, prohibit or make unlawful, any transaction contemplated by the Transaction Agreements or which is likely to materially and adversely affect the right of the Investor either to own the legal and beneficial title to the Convertible Notes and the Conversion Shares, free from Encumbrances, or to exercise its rights under the Transaction Agreements;

(i) the warranties, representations and/or undertakings given or made by the Company under the Investment Agreement remaining true and accurate in all material respects and not misleading in any respect;

(j) no Material Adverse Effect (or Change) has occurred on or before the First Tranche Completion Date; and

(k) Medtronic having received a legal opinion, in a form satisfactory to Medtronic, issued by the legal counsel to the Company on Cayman Islands law acceptable to Medtronic and addressed to Medtronic stating, among other things, that the Investment Agreement and any documents contemplated thereunder have been duly executed by, and are binding and enforceable against, the Company.

The Company shall use reasonable endeavours to procure the fulfillment of all the First Tranche Conditions. As at the Latest Practicable Date, item (f) has been satisfied. If any of the First Tranche Conditions has not been fulfilled or (in respect of items (a), (b), (d), (e), (g), (h), (i), (j) and (k) only) waived by Medtronic on or before 31 January 2013 (or such other date as Medtronic may notify in writing but no later than 15 February 2013), the Investment Agreement shall terminate immediately thereafter and be of no further effect and each party to the Investment Agreement shall not have any claim against or liability or obligation to the other party thereunder save for any antecedent breach.

The Directors are of the view that all of the First Tranche Conditions are for the benefit of Medtronic, and giving Medtronic the flexibility to determine which of the First Tranche Conditions could be waived would not create any adverse impact on the Company because the only obligation of the Company with respect thereto is to use reasonable endeavours to procure the fulfillment of the First Tranche Conditions. In the event that certain First Tranche Conditions could not be fulfilled after the Company has used reasonable endeavours to procure them, Medtronic as the investor has the right to determine whether it will be acceptable to Medtronic to waive those conditions and nevertheless proceed with the completion of the First Tranche Convertible Notes. The Directors further believe that (i) such First Tranche Conditions are in line with the market practice given the nature of convertible note transactions; and (ii) given the complexity of the transaction, allowing Medtronic to enjoy such flexibility may increase the chances of completing the subscription and issuance of the First Tranche Convertible Notes on an earlier date in the event that certain First Tranche Conditions are not completely satisfied either due to time constraints or unforeseeable circumstances which are beyond the control of either the Company or Medtronic. As such, the Directors consider that they have exercised their due care and skill, and discharged their fiduciary duties, in assessing the risks and benefits of this arrangement and believe that it will not create any adverse impact to the Company or its shareholders.

Second Tranche Conditions

Completion of the issuance by the Company of, and the subscription by the Investor for, the Second Tranche Convertible Notes is conditional upon the fulfillment of the following:

(a) the completion of the issuance by the Company of, and the subscription by the Investor for, the First Tranche Convertible Notes having taken place;

(b) Medtronic being satisfied (at its sole discretion) with the results of its due diligence investigations with respect to legal, financial/tax, regulatory, quality aspects and business conditions of the Group in connection with the subscription of the Second Tranche Convertible Notes;

(c) certain warranties, representations and undertakings given by the Company under the Investment Agreement remaining true and accurate in all respects and not misleading in all material respects as of the Second Tranche Completion Date;

(d) no Material Adverse Effect (or Change) having occurred on or before the Second Tranche Completion Date; and

(e) Medtronic being satisfied that the Company and other members of the Group are in compliance with its obligations under the Investment Agreement and the other Transaction Agreements to which it is a party.

For a period of five years from the First Tranche Completion Date, the Company shall use reasonable endeavours to procure the fulfillment of all the Second Tranche Conditions set out in items (c), (d) and (e) above on the Second Tranche Completion Date. If any of the Second Tranche Conditions has not been fulfilled or waived by Medtronic on or before five years from the First Tranche Completion Date (or such other date as may be agreed by the parties), Medtronic shall be entitled to terminate any subscription of the Second Tranche Convertible Notes immediately thereafter and each party to the Investment Agreement shall not have any claim against or liability or obligation to the other party under the Investment Agreement save for any antecedent breach.

Internal Upgrade Requirements

The obligations of the Company in relation to item (e) above, with respect to the Second Tranche Conditions ("**Second Tranche Condition (e)**"), include internal upgrade requirements in respect of internal systems, anti-corruption compliance and industry standards of the Company as follows:

Internal Systems Upgrades

In the 24 to 30 month period following the First Tranche Completion Date, the Company is expected to complete, among others, the internal system upgrades below:

1. Execute improved Design Failure Mode Effects Analysis and Process Failure Mode Effects Analysis across all product lines in accordance with current regulatory standard ISO 14971:2007;

2. Leverage Medtronic tissue valve manufacturing expertise to develop and implement a robust heart valve assembly training and certification program which incorporates a team sewing model to reduce training time for valve assembly operators, supports the required capacity expansion to meet forecasted demand and adopts best practices for sewing techniques based upon procedures similar to those to be provided by Medtronic;

3. Establish and promote a culture of quality and compliance which permeates all levels of the corporation across both facilities through implementation of quarterly management reviews and conducting annual quality and compliance training;

4. Implement tissue supplier and sourcing and risk mitigation strategy to support manufacturing ramp and improve yields through enhanced tissue specifications, supplier trainings and supplier audits based upon procedures and examples similar to those to be provided by Medtronic; and

5. Conduct CeraFlex braiding process development and procure additional capital equipment as deemed necessary to ensure consistent product availability to meet current and forecasted demand, leveraging Medtronic engineering support.

Anti-corruption Compliance

The Company is expected to adopt and implement, among others, the following anti-corruption compliance activities by 1 March 2015:

1. New hires to compliance and audit functions,

2. Anti-corruption policy adoption and roll-out,

3. Employee training on anti-corruption policies,

4. Distributors' training on anti-corruption policies and procedures,

5. Implementation of a comprehensive compliance monitoring system,

6. Implement enhanced financial controls and recordkeeping,

7. Conduct due diligence review on agents, and

8. Conduct annual compliance audits.

Industry Standards Upgrades

In the 24 to 30 month period following the First Tranche Completion Date, the Company is expected to meet, among others, the industry standards below:

1. Quality System Management (Process)

   (a) 93/42/EEC, Council Directive concerning medical devices (European Union directive)

   (b) ISO 5840 on the requirements for product specifications, testing, analysis, manufacturing processes, etc.

   (c) ISO 13485 on the requirements for a comprehensive management system for the design and manufacture of medical devices (International Organization for Standardization)

(d) ISO 14971 on the requirements for a risk management system for medical devices (International Organization for Standardization)

2. Product Specific ISO Standards (assess and apply to relevant product families)

(a) Sterilization of medical devices (International Organization for Standardization)

(b) Application of risk management, controls on sourcing, collection and handling and validation of the elimination and/or inactivation of viruses and transmissible spongiform encephalopathy (TSE) agents on medical device utilizing animal tissue (International Organization for Standardization)

(c) Packaging of medical device (International Organization for Standardization)

(d) Labeling of medical device (International Organization for Standardization, American National Standards Institute and the Association for the Advancement of Medical Instrumentation)

(e) Package symbols of medical device (European Standards adopted by the United Kingdom)

3. Biological Science Standards (assess and apply to relevant product families)

Includes biological evaluation of medical devices on risk management, animal welfare, genotoxicity, hemocompatibility, cytotoxicity, local effects after implantation, etc. (International Organization for Standardization, American National Standards Institute and the Association for the Advancement of Medical Instrumentation).

The 24-30 month periods described above refers to the time required for the entire Group (including the Company and all of its subsidiaries) to complete the internal system upgrades in their entirety. During the early stage of this period, the Company will prioritize the internal system upgrades for PerMed, which are a condition to the occurrence of the Start Date, and the Company expects that such upgrades will take approximately six months for PerMed to complete. The Start Date of 1 October 2013 is set to allow some buffer time in completing such upgrades.

The reason for setting the First Tranche Completion Date as the effective date of both the Distribution Agreement and the Services Agreement is that Medtronic will, among others, commence providing the Services to PerMed from the First Tranche Completion Date so that PerMed can benefit immediately from Medtronic's expertise in implementing its internal system upgrades even in advance of the formal Start Date under the Distribution Agreement.

Pre-completion undertakings

During the period from the date of the Investment Agreement until the completion of the issuance by the Company of, and the subscription by Medtronic for, the First Tranche Convertible Notes, the Company is subject to various pre-completion undertakings as set out in the Investment Agreement, which are customary in transactions of this nature.

Post-first tranche completion undertakings

From and after the completion of the issuance by the Company of, and the subscription by Medtronic for, the First Tranche Convertible Notes, for so long as Medtronic owns not less than 15% of the total issued share capital of the Company (on a fully diluted and as- converted basis), Medtronic shall have the right but not the obligation to nominate a person to be appointed by the Company as the chief operating officer of the Company and all reasonable costs and expenses in connection with such appointment shall be borne by the Company.

For a period of two years from the First Tranche Completion Date, Medtronic undertakes not to dispose of the First Tranche Convertible Notes, any Conversion Shares issued thereunder and the Shares acquired under the Share Purchase Agreement, provided that this undertaking shall not apply (i) to any disposal made in connection with any general offer made by a third party pursuant to the Takeovers Code, or (ii) from and after such time as any third party makes or announces a general offer in accordance with the Takeovers Code to acquire a controlling interest in the Company.

From and after the First Tranche Completion Date and so long as Medtronic holds Convertible Notes with an aggregate principal amount of not less than HK$121,600,000, being 80% of the principal amount of the First Tranche Convertible Notes, the Company is subject to certain undertakings under the Investment Agreement, namely that it shall not, without the prior written consent of Medtronic:

(a) enter into any borrowing, factoring or other financing or any lending commitments, facility letters, undertakings, guarantees, indemnities, comfort letters or commitments of any kind whatsoever for an amount exceeding RMB5,000,000 or create or permit to subsist any encumbrance upon whole or any substantial part of its undertaking, assets or revenues, present or future to secure any of the foregoing, except in the ordinary course of business;

(b) in respect of any amount not falling within the annual budgeted amount approved by the Board, make a single payment exceeding RMB5,000,000 or its equivalent or a series of payments exceeding RMB10,000,000 or its equivalent in aggregate (including payment of fees to legal or other advisers in relation to the Investment Agreement, or the transactions as contemplated under the Investment Agreement) provided that members of the Group may make payment pursuant to any agreement entered into or obligations assumed before the date of the Investment Agreement in the ordinary course of business;

(c) resolve to alter the provisions of its memorandum or articles of association or constitutive documents or adopt or pass further regulations or resolutions inconsistent therewith;

(d) enter into any transaction or alter any terms of any existing transaction with or for the benefit of or contain a personal benefit to any person who is a connected person (as defined under the Listing Rules) of the Company, except for transactions which are not subject to the shareholders' approval requirement under the Listing Rules;

(e) issue or agree to issue any shares, options (except for options in respect of up to 50,000,000 Shares which may be issued under the Share Option Scheme as at the date of the Investment Agreement and the issue of such Shares thereunder), warrants, debentures or other securities convertible into debentures or loan capital or grant or agree to grant or redeem or amend the terms of any existing option over or right to acquire or convertible into any share or loan capital or enter into any capital raising activities;

(f) purchase or redeem any shares or make any repurchases (except for the repurchase of 50,000,000 Shares as permitted under the Company's existing share repurchase mandate as at the date of the Investment Agreement) or reduction of its capital or provide financial assistance for any such purchase;

(g) adopt any option scheme;

(h) resolve to wind up any member of the Group;

(i) do any act or thing which results in Material Adverse Effect (or Change) or results in a breach of any applicable law;

(j) consolidate with, merge or amalgamate into or transfer its assets substantially as an entirety to any corporation, except where, amongst other things, the Medtronic is notified and the corporation formed by such merger or the person that acquires such properties and assets expressly assume all obligations of the Company under the Convertible Notes;

(k) change (i) the rights attaching to the Shares or the Conversion Shares, (ii) the nature or scope of the core business of any member of the Group in any material way, or (iii) the financial year end of the Company;

(l) directly or indirectly, engage in trading in shares, derivatives, options or other securities (save for in respect of hedging arrangements ordinarily entered into for the purposes of hedging interest rate or currency exposure or cashflow management); or

(m) declare or pay any dividend in cash or by way of Shares to the Shareholders, except for dividends in cash that are declared and paid out of the operating profits of the Company for the immediately preceding fiscal period (year or quarter) in respect of which such dividends are being declared and paid, but not out of the proceeds from the issuance of the Convertible Notes.

Taking into account the potential benefits in the strategic alliance with Medtronic brought about by Medtronic's subscription for the Convertible Notes and the substantial amount that Medtronic is investing in the Convertible Notes, the Company considers it reasonable for Medtronic, as a noteholder providing substantial finance to the Company by subscribing for the Convertible Notes, to be provided with the post-first tranche completion undertakings under the Investment Agreement. The Directors are of the view that such post-first tranche completion undertakings are customary in financing transactions of a similar nature, scale and strategic importance to a company.

Controller Public Float Undertaking

On 5 January 2013, the Controlling Shareholder Group entered into the Controller Public Float Undertaking in favour of the Company and Medtronic for the purpose of assisting the Company in fulfilling the Public Float Requirement at all times. In particular, the Controlling Shareholder Group has, jointly, severally and irrevocably, undertaken to implement the Controller Public Float Undertaking as follows:

(a) from the date of the Controller Public Float Undertaking until the full conversion of the Second Tranche Convertible Notes, unless prior written consent has been obtained from the Company, each member of the Controlling Shareholder Group undertake to the Company and Medtronic that it shall not, and shall procure that the relevant registered shareholders shall not dispose of 21,261,428 Shares in aggregate representing approximately 4.252% of the issued share capital of the Company as at the date of the Controller Public Float Undertaking;

(b) for the purpose of assisting the Company in complying with the Public Float Requirement, Xianjian Advanced shall upon written request from the Company dispose of up to 10,630,714 Shares (representing approximately 2.126% of its total shareholding interest in the Company as at the date of the Controller Public Float Undertaking) (the "**Xianjian Advaned Shares**") to independent third parties of the Company;

(c) for the purpose of assisting the Company in complying with the Public Float Requirement, GE Asia Pacific shall upon written request from the Company dispose of up to 10,630,714 Shares (representing approximately 2.126% of its total shareholding interest in the Company as at the date of the Controller Public Float Undertaking) (the "**GE Asia Pacific Shares**") of to independent third parties of the Company; and

(d) on or before First Tranche Completion Date, Xianjian Advanced and GE Asia Pacific shall enter into escrow arrangements on terms satisfactory to the Company and Medtronic with respect to the Xianjian Advanced Shares and the GE Asia Pacific Shares respectively.

Upon completion of the respective disposal undertaking above, each of Xianjian Advanced and GE Asia Pacific shall notify the Company, which has the sole discretion in determining whether a sufficient number of Shares has been sold to the independent third parties of the Company. Upon written acknowledgement by the Company, the obligation of the Controlling Shareholder Group under the Controller Public Float Undertaking shall terminate.

Termination

Medtronic may terminate the Investment Agreement without further liability to the Company by giving notice in writing to the Company, which notice may be given at any time on or before 6:00 p.m. (Hong Kong time) on the Second Tranche Completion Date, if at any time prior to the completion of

the issuances by the Company of, and the subscription by Medtronic for, the First Tranche Convertible Notes or the Second Tranche Convertible Notes:

(a) the Company commits or has committed any breach of or omits or fails or has omitted or failed to comply with any of its obligations or undertakings expressed to be assumed by it under the Investment Agreement or the transactions contemplated therein in any aspect, which breach, omission or failure is not rectified by the Company within five Business Days from the date of receipt of a request from Medtronic of rectification of such breach, omission or failure;

(b) any of the warranties, representations and/or undertakings given or made by the Company under the Investment Agreement is not true and accurate or is misleading in any material respect;

(c) a Material Adverse Effect (or Change) has occurred;

(d) the Shares cease to be listed and traded (except for suspensions of trading required under the GEM Listing Rules and which, in each occasion, does not last more than five consecutive trading days) on the Stock Exchange;

(e) the Stock Exchange indicates that the listing of the Shares on the Stock Exchange may be withdrawn following completion of the issuance by the Company of, and the subscription by Medtronic for, the First Tranche Convertible Notes or the Second Tranche Convertible Notes;

(f) any of the consents, registration, filings, licenses, confirmations, clearances, rulings or decisions by the authorities or the bankers or creditors of any member of the Group, or any other third-party that are material for or in connection with the transactions contemplated under this Agreement are not obtained, or if obtained, are revoked;

(g) any notice, order, judgment, action or proceeding is served, issued or made which restrains, prohibits or makes unlawful any transaction contemplated in the Investment Agreement or which is likely to materially and adversely affect the right of Medtronic to own the legal and beneficial title to the Convertible Notes, free from encumbrances;

(h) the termination of the Share Purchase in accordance with its terms; or

(i) at the general meetings of the Company held pursuant to item (c) of the First Tranche Conditions as set out above, any of the relevant resolutions referred to therein were not passed by the requisite majority of the Shareholders as prescribed under those relevant provisions.

Principal terms of the First Tranche Convertible Notes

Issuer:	The Company
Subscriber:	Medtronic
Principal amount:	HK$152,000,000
Interest rate:	1.0% per annum, compounded annually
Maturity date:	The date being the fifth anniversary of the date of issue of the First Tranche Convertible Notes.
Conversion rights:	The Noteholder may exercise the right to convert the whole or part of the principal amount of the First Tranche Convertible Notes into the Conversion Shares at any time on or after the date of issue of the First Tranche Convertible Notes up to the close of business on the maturity date above.
Conversion price:	HK$3.80, subject to adjustment for inter alia customary anti-dilution events, including an alteration in the capital structure of the Company, whether by way of capitalisation of profits or reserves, bonus issue, rights issue, issue of shares by way of a scrip dividend, grant of share options or issue of shares pursuant thereto, open offer, sub-division, consolidation, reclassification, subdivision or redenomination of shares, reduction of capital of the Company in accordance with applicable laws and regulatory requirements, issues of shares at less than the Current Market Price, or otherwise. The conversion price of HK$3.80 per Conversion Share under the First Tranche Convertible Notes represents: (a) a discount of approximately 23.69% to the closing price of HK$4.98 per Share as quoted on the Stock Exchange on 11 October 2012, being the last trading day immediately before the entering into of the Investment Agreement; and (b) a discount of approximately 22.95% to the average of the closing prices of approximately HK$4.932 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to 11 October 2012.

The conversion price of HK$3.80 was arrived at and determined after arm's length negotiation between the Company and Medtronic on the following basis:

(i) the five-day average closing price of the Shares from 5 October 2012 to 11 October 2012 of approximately HK$4.932 and a discount thereto; and

(ii) the 180-trading day volume-weighted average closing price of the Shares of approximately HK$3.797 as quoted on the Stock Exchange immediately preceding the date of the Transaction Agreements.

Net price: After deducting the fees and expenses in respect of the First Tranche Convertible Notes, the net price to the Company for each Conversion Share under the First Tranche Convertible Notes is approximately HK$3.52.

Redemption: Unless previously redeemed, converted or purchased and cancelled, the Company shall pay each First Tranche Convertible Note on the maturity date at its principal amount together with accrued and unpaid interest thereon.

Following the occurrence of specific events as defined in the terms and conditions of the First Tranche Convertible Notes, the Noteholder will have the right at such Noteholder's option, to require the Company to redeem all, or only some, of such Noteholder's First Tranche Convertible Notes at a price equal to their principal amount and interest accrued to the date fixed for redemption.

Transferability: The First Tranche Convertible Notes may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number) which directly or indirectly controls, is controlled by, or is under common control with the Investor (i.e. an affiliate of the Investor).

Listing: No application will be made for the listing of, or permission to deal in the First Tranche Convertible Notes on the Stock Exchange or any other exchange. An application will be made to the Listing Committee for the listing of, and permission to deal in the Conversion Shares that may be issued upon the conversion of the Convertible Notes.

Ranking of the Conversion Shares: The Conversion Shares will rank *pari passu* in all respects with the other Shares in issue as at the First Tranche Completion Date, including the right to vote and to participate in all dividends and other distributions declared, made or paid at any time after the First Tranche Completion Date.

Events of default:	If an event of default (as specified under the terms and conditions to the First Tranche Convertible Notes) occurs and is continuing, a Noteholder may give notice to the Company that the First Tranche Convertible Notes are immediately due and repayable at their principal amount together with accrued interest.

Principal terms of the Second Tranche Convertible Notes

Issuer:	The Company
Subscriber:	Medtronic
Principal amount:	HK$2,031,428,574
Interest rate:	1.0% per annum
Maturity date:	The date being the fifth anniversary of the date of issue of the First Tranche Convertible Notes.
Conversion rights:	The Noteholder may exercise the right to convert the whole or part of the principal amount of the Second Tranche Convertible Notes into the Conversion Shares at any time on or after the date of issue of the Second Tranche Convertible Notes up to the close of business on the Second Tranche maturity date. Upon exercise, if the applicable Conversion Price (as described below) is greater than the Initial Conversion Price (as defined below), the number of Shares to be issued on exercise will notwithstanding be calculated based on the Initial Conversion Price, but the Noteholder will, in connection with such exercise, pay to the Company an amount per Share equal to the amount of such difference ("**Difference A**"). Upon exercise, if the applicable Conversion Price is lower than the Initial Conversion Price, the number of Shares to be issued on exercise will notwithstanding be calculated based on the Initial Conversion Price, but the Company will, in connection with such exercise, pay to the Noteholder an amount per Share equal to the amount of such difference ("**Difference B**").

Conversion Price:

HK$6.00 (the "**Initial Conversion Price**"), subject to adjustment for inter alia customary anti-dilution events, including an alteration in the capital structure of the Company, whether by way of capitalisation of profits or reserves, bonus issue, rights issue, issue of shares by way of a scrip dividend, grant of share options or issue of shares pursuant thereto, open offer, sub-division, consolidation, reclassification, subdivision or redenomination of shares, reduction of capital of the Company in accordance with applicable laws and regulatory requirements, issues of shares at less than Current Market Price, or otherwise; the Initial Conversion Price is also subject to adjustment as described below.

The Initial Conversion Price of HK$6.00 per Conversion Share was arrived at after arm's length negotiation between the Company and Medtronic and represents:

(a) premium of approximately 20.48% to the closing price of HK$4.98 per Share as quoted on the Stock Exchange on 11 October 2012, being the last trading day immediately before the entering into of the Investment Agreement; and

(b) a premium of approximately 21.65% to the average of the closing prices of HK$4.932 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to 11 October 2012.

The HK$6.00 is determined based on the mid-point price (rounded down to the nearest whole dollar figure) between the lower reference price of the Floating Conversion Price of HK$4.56 and the upper reference price of the Floating Conversion Price of HK$8.00. Please see below for further details on the basis of determining the lower and the upper reference prices of the Floating Conversion Price.

Adjustment to conversion price:

The Initial Conversion Price shall be adjusted to the following price (the "**Conversion Price**"), as applicable:

(a) Floating Conversion Price: if either of the following has occurred:

(i) the aggregate turnover of the Group for any given consecutive 12-calendar month period is not less than US$75 million, or

(ii) one of the product development milestones as specified in the Investment Agreement having been achieved, the Conversion Price should be the higher of:

(1) the volume-weighted average of the closing price of the Shares as quoted on the Stock Exchange website on all the trading days falling in the six months up to and including the date immediately prior to the date of the notice by the Noteholder to subscribe for the Second Tranche Convertible Notes under the Investment Agreement; or

(2) HK$4.56 per Share; or

(b) in the absence of satisfaction of the conditions under paragraph (a) above, the Conversion Price shall be the higher of (i) HK$8.00 per Share or (ii) the Floating Conversion Price determined under paragraph (a) above.

The price of HK$4.56 represents a 20% premium of the conversion price of HK$3.80 under the First Tranche Convertible Notes and forms the lower reference price of the Floating Conversion Price. The 20% premium was arrived at based on arms' length negotiation between the Company and Medtronic, and was reflective of what the parties believed was market practice at the time.

The price of HK$8.00 was determined based on arm's length negotiations between the Company and Medtronic having regard to:

(i) the Company's assessment of its financial performance at the time at which achievement is expected of one or more of the milestones as disclosed under the conversion price adjustment mechanism above and in particular, the price-to-revenue ratio (the "**PRR**") represented by the conversion price of HK$8.0 and the revenue milestone of US$75.0 million for any consecutive 12-month period during the term of the Second Tranche Convertible Notes; and

(ii) the existing PRRs of comparable companies listed on the Stock Exchange in the medical industry as selected by the Company, including Microport Scientific Corporation (Stock Code: 853), Shandong Weigao Group Medical Polymer Co. Ltd. (Stock Code: 1066), Trauson Holdings Co. Ltd. (Stock Code: 325), Golden Meditech Holdings Limited (Stock Code: 801), and Mingyuan Medicare Development Company Limited (Stock Code: 233).

In the event of an alteration in the capital structure of the Company, whether by way of capitalisation of profits or reserves, bonus issue, rights issue, issue of shares by way of a scrip dividend, grant of share options or issue of shares pursuant thereto (whether under the Share Option Scheme), open offer, sub-division, consolidation, reclassification, subdivision or redenomination of shares, reduction of capital of the Company in accordance with applicable laws and regulatory requirements, issue of shares at less than Current Market Price, or otherwise, such corresponding alterations (if any) shall be made to:

(i) the number of Conversion Shares subject to the outstanding Notes;

(ii) the Conversion Price; and/or

(iii) any combination thereof,

as the independent financial adviser, as approved by the Company and the majority Noteholders, shall at the request of the Company or the majority Noteholders, certify in writing, no later than five (5) days after such request, to be in their opinion fair and reasonable, provided that:

(i) any such alterations shall be made on the basis that the majority Noteholders shall have the right to convert the Notes into the same proportion of the fully diluted equity capital of the Company as that to which it was entitled to subscribe had it exercised all the conversion rights attached to the Second Tranche Convertible Notes held by it immediately before such adjustments, and

(ii) the total Conversion Price calculated by the principal amount of HK$2,031,428,574 as adjusted by Difference A or Difference B (where applicable) on the full exercise of any Conversion Right attached to the Second Tranche Convertible Notes shall remain the same or as nearly as possible the same as (but shall not be greater than) it was before such event, and

(iii) no such alterations shall be made if the effect of such alterations would be to enable a Share to be issued at less than its nominal value.

Net price: After deducting the fees and expenses in respect of the Second Tranche Convertible Notes, the net price to the Company for each Conversion Share under the Second Tranche Convertible Notes is approximately HK$5.99 based on the assumption that the conversion price will be HK$6.00 upon conversion of the Second Tranche Convertible Notes.

Redemption:	Unless previously redeemed, converted or purchased and cancelled, the Company shall pay each Second Tranche Convertible Note on the maturity date at its principal amount together with accrued and unpaid interest thereon. Following the occurrence of specific events as defined in the terms and conditions of the Convertible Notes, the Noteholder will have the right at such his option, to require the Company to redeem all, or only some, of such holder's Second Tranche Convertible Notes at a price equal to their principal amount and interest accrued to the date fixed for redemption.
Transferability:	The Second Tranche Convertible Notes may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number) which directly or indirectly controls, is controlled by, or is under common control with the Investor (i.e. an affiliate of the Investor).
Listing:	No application will be made for the listing of, or permission to deal in the Second Tranche Convertible Notes on the Stock Exchange or any other exchange. An application will be made to the Listing Committee for the listing of, and permission to deal in the Conversion Shares that may be issued upon the conversion of the Second Tranche Convertible Notes.
Ranking of the Conversion Shares:	The Conversion Shares will rank *pari passu* in all respects with the other Shares in issue as at the Second Tranche Completion Date, including the right to vote and to participate in all dividends and other distributions declared, made or paid at any time after the Second Tranche Completion Date.
Events of default:	If an event of default (as specified under the terms and conditions to the Second Tranche Convertible Notes) occurs and is continuing, a Noteholder may give notice to the Company that the Second Tranche Convertible Notes are immediately due and repayable at their principal amount together with accrued interest.

The anti-dilution provisions in the terms of the Convertible Notes are customary for convertible notes and are in line with the market practice of other convertible securities issued by listed issuers in Hong Kong. In the absence of express anti-dilution provisions, the value of the right to convert into or subscribe for the Shares could be severely eroded by action on the part of the Company over which Medtronic, as a noteholder, has no control. The anti-dilution provisions therefore provide for an appropriate adjustment to the conversion price of the Convertible Notes and/or the number of Conversion Shares.

The Supplemental Investment Agreement

On 5 January 2013, Medtronic and the Company entered into a supplemental agreement to the Investment Agreement (the "**Supplemental Investment Agreement**"). Under the Supplemental Investment Agreement, Medtronic and the Company agreed, among other things, that:

(a) the right of conversion of the Noteholder under the Second Tranche Convertible Notes may be exercised only to the extent that it would not result in the Company being in breach of the Public Float Requirement after the issue of the Conversion Shares;

(b) upon the Noteholder issuing a conversion notice to inform the Company of its intention to convert the Convertible Notes pursuant to the terms and conditions thereof, if the conversion will result in non-compliance with the Public Float Requirement, the conversion right under the Convertible Notes will be suspended, and the Company will not issue and allot the Conversion Shares in question to the extent or until it has taken all necessary actions to ensure due compliance with the Public Float Requirement and there would not be any non-compliance with the Public Float Requirement immediately following the conversion;

(c) at the completion of the issuance of the First Tranche Convertible Notes, the Company shall deliver to Medtronic the Controller Public Float Undertaking and evidence satisfactory to Medtronic that not less than 21,261,428 Shares are subject to escrow arrangements with reference to the Controller Public Float Undertaking;

(d) the condition precedent for the completion of the First Tranche Convertible Notes under clause 3.1(F) of the Investment Agreement (as disclosed under clause (f) on page 5 of the announcement of the Company dated 15 October 2012) be removed; and

(e) the various post-first tranche completion undertakings provided by the Company under the Investment Agreement shall only be effective so long as Medtronic holds Convertible Notes with an aggregate principal amount of not less than HK$121,600,000, being 80% of the principal amount of the First Tranche Convertible Notes, from and after the First Tranche Completion Date.

Financial effects of the Convertible Notes

Net assets

According to the 2012 interim report of the Company (the "**2012 Interim Report**"), as at 30 June 2012, the Group's net assets attributable to Shareholders was approximately RMB286,035,000. The issuance of the Convertible Notes by the Company will result in (i) an increase in the non-current liability of the Company; (ii) an increase in convertible bonds equity reserve of the Company; and (iii) an increase in cash, a current asset of the Company. The Directors believe that the issuance of the Convertible Notes will not have any material impact on the net asset value of the Group.

Liquidity

As disclosed in the 2012 Interim Report, as at 30 June 2012, the Group had unaudited current assets and unaudited current liabilities of approximately RMB261,556,000 and RMB35,374,000 respectively, translating into a current ratio of approximately 7.39 times. Given that the issuance of the Convertible Notes will, amongst others, increase the Company's non-current liability and cash, a current asset and have no material effect on current liabilities, the Directors are of the view that such issuance will improve the Group's liquidity.

Gearing

As at the Latest Practicable Date, the Group had no outstanding debts. As such, the gearing ratio of the Group is 0. The Directors are of the view that the issuance of the Convertible Notes will result in an increase in debt by the principal amount of the Convertible Notes. At the same time, the total assets of the Company is expected to increase by the amount of net proceeds of the Convertible Notes, and such amount is smaller than the principal amount of the Convertible Notes. Accordingly, the Directors are of the view that the issuance of the Convertible Notes will slightly increase the gearing ratio of the Company.

Earnings

According to the 2011 annual report of the Company, the Group recorded audited consolidated profit for the year attributable to the Shareholders of approximately RMB11,830,000 for the year ended 31 December 2011. The Directors are of the view that any change in fair value of the Convertible Notes and the relevant interest expense at year-end will be transferred to the consolidated income statement of the Group.

The Company would like to draw the attention of the Shareholders and potential investors to the fact that the financial analysis above are for illustrative purpose only, and does not purport to represent how the financial position of the Group will be upon completion of the transactions contemplated under the Investment Agreement.

The Specific Mandate

As at the Latest Practicable Date, the authorised share capital of the Company is US$50,000 divided into 5,000,000,000 Shares of US$0.00001 each, of which 500,000,000 Shares have been issued and are fully paid or credited as fully paid. At the EGM, a specific mandate will be proposed to approve the New Issue pursuant to Rule 17.39 of the GEM Listing Rules.

For illustration purpose only and assuming full conversion of the Convertible Notes and the conversion prices for the First Tranche Convertible Notes and the Second Tranche Convertible Notes are HK$3.80 and HK$6.00 respectively, the First Tranche Convertible Notes will be convertible into

40,000,000 new Shares and the Second Tranche Convertible Notes will be convertible into 338,571,429 new Shares. The total of 378,571,429 new Shares to be issued and allotted under the New Issue represent:

(1) approximately 75.71% of the issued share capital of the Company as at the date of the Announcement;

(2) approximately 75.71% of the issued share capital of the Company as at the Latest Practicable Date; and

(3) approximately 43.09% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

An ordinary resolution will be proposed at the EGM to seek, among other things, a specific mandate for the allotment and issue of the Conversion Shares. The validity period of the specific mandate will be five years upon completion of the First Tranche Convertible Notes. No application will be made for the listing of the Convertible Notes. An application will be made to the Stock Exchange for the listing of and permission to deal with the Conversion Shares.

The Directors are of the view that the five-year validity period for the specific mandate is appropriate for the following reasons:

(i) The current terms of the Investment Agreement and the terms and conditions of the Convertible Notes are a result of arm's-length negotiations between the parties and reflect the commercial intentions of the parties.

(ii) Medtronic, being a renowned brand and the market leader in the medical device industry, must maintain a very high standard of product quality and safety. This is because medical device products directly affect the life and death for patients, and the precision of the surgical procedures to be performed by the medical professionals when implanting these products into human bodies is extremely important. To improve the quality of the Products manufactured by the Company, the Company has agreed to upgrade its existing internal systems and industry standards to world-class standards with the expertise and assistance of Medtronic to be made available to the Company from and after the First Tranche Completion Date. In order to ensure that the Products meet the new standards, the Company estimates that this will take two to three years to achieve.

(iii) Before Medtronic is satisfied that the Company is likely to meet the new standards, it will not release some of its proprietary intellectual property and know-how and proceed to the next stage. Further, considering that the product development cycle does not end there, and the Company will still need to take additional steps for the next two years or longer before commercial launch, including conducting research, clinical trials and product testing before it can satisfy the criteria for obtaining regulatory approvals for the Products. Taking the Cera occluders, the Company's signature products as an example, it will take a total of nine years for the Company to develop the Cera occluder from the commencement of the project until it can be ready for commercial launch in the PRC market, out of which the first three

years being spent on the design and development and animal testing stage, another three years being spent on the clinical trials, and the Company has spent another two years on applying for obtaining PRC regulatory approval and expects to obtain the PRC regulatory approval by early 2013. In sum, the Company expects that the entire process for completing the internal upgrades to a successful commercial launch of the Products will very likely take more than five years.

(iv) Considering Medtronic will be contributing its proprietary know-how to the Company in this long term strategic transaction spanning over a time period of approximately five years, and Medtronic will not have absolute control over the Company's use of this significant proprietary know-how once it has been released to the Company. Medtronic has a need for outcome certainty that it will have a sufficiently clear pathway to obtain majority control of the Company when the time is ripe.

(v) The Company believes that the Transaction will enable the Company and Medtronic to synergize and become a world-class leading provider of cardiovascular products in China and other locations in the next five years. In view of the potential synergies, the Company considers that the long duration of the specific mandate is in the interests of the Company and its Shareholders.

Despite the long duration of the proposed specific mandate, the following safeguards are in place for protecting the interests of the Company and the Shareholders in the Transaction:

(A) Under the Investment Agreement, a joint steering committee (the "**JSC**") will be established within 30 Business Days of the First Tranche Completion Date pursuant to the Investment Agreement. The JSC will consist of an equal number of senior management personnel from the Company and Medtronic as nominated from time to time by each party and will convene meetings on a periodic basis. The purposes and functions of the JSC includes:

(a) determining direction and scope of work, the setting of performance targets,

(b) allocating resources and measuring performance targets,

(c) reviewing and monitoring progress, including the determination of whether the revenue milestone or the product development milestones under the Float Conversion Price adjustment mechanism under the terms of the Second Tranche Convertible Notes have been reached,

(d) co-coordinating and resolving disputes,

(e) discussing strategic priorities for the relationship between the Company and Medtronic, annual objectives and the operational plan of the Company, and

(f) discussing markets and potential projects for the Company's business. Any decision made by the JSC should be mutually agreed by representatives from both the Company and Medtronic. The JSC may establish sub-committees comprised of management team members to plan for projects, share information and make decisions collectively.

(B) Under the Distribution Agreement, PerMed may terminate the Distribution Agreement if Medtronic has committed a material breach of its obligations there under, including but not limited to failure to meet and purchase the annual sales target or the minimum purchase quantity of the Products and failure to pay its debts under the Distribution Agreement. Similarly, the Company may terminate the Services Agreement if Medtronic has committed a material breach of its obligations thereunder.

Upon establishment, the JSC will be in charge of operational oversight activities while itself being subject at all times to oversight by the Board. All appointments and resignations of the members of the JSC appointed by the Company will be subject to approval by Chief Executive Officer of the Company and the applicable announcement requirement under the Listing Rules. The JSC will carry out its roles and functions by reporting to the Board the progress of the internal system upgrades and the technological advancements of the Company, and will submit its recommendations and proposals to the Board for approval on a periodic basis. In this way, the Directors are of the view that the roles and functions of the JSC are subordinated at all times to the Board, and thus the JSC will not override the functions of the Board in any manner.

In view of the above, the Directors believe that the work of the JSC and the termination provisions under the Distribution Agreement and the Services Agreement will serve as sufficient safeguards to protect the rights of the Group and the Shareholders, and it is fair and reasonable and is in the interest of the Company and the Shareholders as a whole to seek a five-year specific mandate for the Transaction. Accordingly, the Directors recommend that the Independent Shareholders vote in favour of the ordinary resolution to be proposed at the EGM to approve the specific mandate for the New Issue.

THE DISTRIBUTION AGREEMENT

Date

14 October 2012 (as supplemented on 5 January 2013)

Parties

(1) the Company

(2) PerMed

(3) Medtronic

Term

The Distribution Agreement shall be effective for five years from the First Tranche Completion Date (the "**Effective Date**"). Thereafter, the Distribution Agreement shall, unless terminated pursuant to the terms of the Distribution Agreement or a six-month advance notice of non-renewal is served by either party, be automatically renewed for additional periods of not more than three years each. The Company will duly comply with all applicable requirements under Chapter 20 of the GEM Listing Rules upon confirmation of renewal of the Distribution Agreement in the future.

Supply and Exclusive Distribution

Pursuant to the Distribution Agreement, PerMed appointed Medtronic as the exclusive distributor of PerMed with the exclusive right to advertise, promote, market, distribute and sell the Products worldwide.

The exclusive distributorship may be changed to non-exclusive upon advance notice of PerMed if, subsequent to the First Tranche Completion Date, Medtronic or its affiliates hold, in aggregate, less than fifteen percent (15%) of the share capital of the Company.

Actual distribution of a specific Product will not commence until the applicable regulatory approval has been obtained by PerMed, and Medtronic consents to the commercial release of the relevant Product.

Conditions to be met by the Group before commencement of Medtronic's obligations

Medtronic's obligations under the Distribution Agreement shall not commence before the date on which all of the following conditions are satisfied (the "**Start Date**"):

(a) The Investment Agreement and all its ancillary agreements have been duly signed by the relevant parties;

(b) The existing distributors and sales agents for the Products which are authorized by PerMed directly or through its affiliate as of the First Tranche Completion Date have been transferred to Medtronic or its affiliates;

(c) PerMed and its affiliates have completed all of the covenants and action items relating to quality systems, process controls, functional testing and verification work regarding tissue and valves to Medtronic's satisfaction, including all of those covenants set forth in the Investment Agreement;

(d) With respect to the covenants set forth in the Investment Agreement, PerMed have diligently made progress with respect to accomplishing such covenants, and have timely completed those portions of such covenants required to be completed by the Start Date; and

(e) The requirements under the Investment Agreement as described under the section headed "THE INVESTMENT AGREEMENT — Internal Upgrade Requirements" in this circular being completed before the Start Date.

In relation to condition (b) above, the Company has 11 distributors for the Products as of the Latest Practicable Date. Among the existing 11 distributors, only one distributor has entered into a distribution agreement (the "**Shenzhen Distribution Agreement**") with Lifetech Scientific (Shenzhen) Co, Ltd., ("**Lifetech Shenzhen**"), the Company's wholly-owned PRC subsidiary which is responsible for distributing the Group's products to the distributors. The Shenzhen Distribution Agreement will be expired on 31 December 2012. As to the other 10 distributors, Lifetech Shenzhen only issues an authorisation letter to authorise to each of them for distributing the Products, and all such authorisation letters ("**Authorisation Letters**") will expire on 31 December 2012.

Since the Company needs to perform all of the covenants and complete all of the action items to Medtronic's satisfaction under the Investment Agreement with reference to condition (e) above, the expected Start Date will be after 31 December 2012. Unless the Company renews the Shenzhen Distribution Agreement or the Authorisation Letters or engages new distributors, save as disclosed above, there will be no existing distributors immediately before the Start Date.

However, in terms of business development, the Company will consider renewing the Shenzhen Distribution Agreement and the Authorisation Letters based on the current distributors' performance or to engage new distributors to generate more revenues. In such case, the Company will structure the new distribution agreement and authorisation letters to provide the flexibility to the Company to transfer the distributors to Medtronic immediately before the Start Date.

Therefore, the Company does not foresee that there will be difficulties in transferring the existing distributors to Medtronic, or there will be any potential issues affecting the current commercial arrangement between the Company and the existing distributors.

In addition to the above, PerMed and its affiliates will, with technical support from Medtronic, use their best efforts to promptly cause the Start Date to occur no later than 1 October 2013. In the event that the internal system upgrade requirements are not met by 1 October 2013, the Company is not obligated to transfer the existing distributors to Medtronic because the Company has only agreed to procure that the Start Date will occur by 1 October 2013 on a best-effort basis. In practice, the Board will closely monitor the progress of the internal system upgrades at PerMed and other subsidiaries of the Group, and the Company will only arrange for the transfer of the existing distributors to Medtronic when the Board has been advised by the JSC that the internal upgrade requirements have been met.

Distribution by PerMed or the Company

From the Start Date and during the term of the Distribution Agreement, PerMed shall not, by itself or through any of its affiliates or through any other distributor or sales agent, advertise, promote, market, distribute or sell the Products directly or indirectly to customers or enter into any agreement or arrangement for the private labeling of any of the Products or any product that is identical or substantially similar in form or function to any of the Products.

However, before the Start Date, PerMed or the Company may continue the sales activities in respect of the Products, whether through its distributors or sales agent, its affiliates or by itself. PerMed, the Company or any of their affiliates shall not enter into any new distribution or sales agency agreement in respect of the Products without the prior written consent of Medtronic. Existing distribution or sales agency agreements expiring on or before 31 December 2012 may be extended as long as PerMed or the Company has the right to terminate such agreements prior to the Start Date.

In the event that Medtronic is at any time unable to sell the Products in any place because of embargoes, restricted transaction or events of a similar nature, PerMed may, with Medtronic's prior consent, sell the Products in such place.

Right of first negotiation

For a minimum period of five years after the First Tranche Completion Date or for so long as the Distribution Agreement is effective, Medtronic shall have the right of first negotiation, for a period of 90 days, to become the exclusive, worldwide distributor of each and every existing and future cardiac or vascular related product other than heart valves that are developed by, manufactured by, licensed to, owned by or otherwise available to PerMed, the Company or their affiliates as such products become approved for commercial sale and available for distribution in any part of the world. In such circumstances, the parties shall enter into good faith negotiation for the exclusive distribution rights of Medtronic and, if agreed, such distribution rights shall be governed by the terms of the Distribution Agreement.

In the event Medtronic and its affiliates need to engage any third party in China in research and development or manufacturing of any cardiac or vascular related product, the Group shall, to the extent the Group has the necessary competence and capabilities as determined by Medtronic, have a similar right of first negotiation.

Product ordering and sale

Medtronic will order the Products by submitting purchase orders to PerMed. Medtronic shall submit to PerMed quarterly rolling twelve-month forecasts covering its anticipated purchases of the Products and submit any revised forecast 90 days in advance. PerMed shall satisfy all Medtronic orders that are submitted in a manner consistent with the terms of this Agreement. Within the first year and the second year of the term of the Distribution Agreement, PerMed shall satisfy 95% and 98%, respectively, of the orders from Medtronic which is consistent with the relevant annual sales target and the most recent rolling forecast. Thereafter, PerMed shall satisfy 100% of the orders from Medtronic. In case PerMed fails to satisfy such percentages of orders from Medtronic specified above, PerMed shall pay to Medtronic a penalty equal to two times of the costs of the Products that PerMed failed to satisfy.

Medtronic may terminate in whole or in part an order or orders by written notice to PerMed (i) for safety or regulatory reasons as determined by Medtronic's internal analysis, (ii) if, as a result of a force majeure event, PerMed is unable to deliver the ordered Product for more than 45 days, or (iii) if PerMed fails to cure a material breach with respect to the order within 30 days upon Medtronic's written notice.

Product discontinuation

Except for events of force majeure, PerMed shall not discontinue the production a Product within five years from the First Tranche Completion Date. Thereafter, if PerMed intends to stop making a Product, PerMed shall give Medtronic written notice at least three years before the date on which PerMed is planning to stop making a product. In such case, Medtronic shall have the right of first negotiation with PerMed to purchase any assets, know-how and intellectual property necessary for manufacturing and selling the relevant Product. If PerMed and Medtronic fail to reach an agreement in respect of the purchase and PerMed starts negotiating such purchase with any third party, Medtronic shall have the right of first refusal for such purchase under the same financial terms and conditions that such third party has offered to PerMed.

Pricing of the Products

The pricing basis of the Products for the first year from the Start Date and the pricing adjustment mechanism for the subsequent years are as follows:

First year from the Start Date

For 30 days prior to the Start Date, Medtronic and the Group shall negotiate and agree upon the annual sales target for the forthcoming year based on, among other things, the number of units of each Product that Medtronic will target to sell in that year and the Minimum Purchase Quantity (as defined below).

For each type of the Products to be purchased by Medtronic during the first year, Medtronic shall pay to PerMed a per-type of Product, per-unit price (the "**Transfer Price**"). In particular, for the bovine tissue heart valve Product, the parties will negotiate the Transfer Price during the period between the Effective Date and the Start Date in good faith, but such Transfer Price will be subject to a maximum price.

Subsequent years

When negotiating the Transfer Prices for the first year, the parties will also establish the following:

(a) a minimum quantity of the bovine tissue heart valve Product that Medtronic will purchase from PerMed for the same year (the "**Minimum Purchase Quantity**"); and

(b) two different Transfer Prices for the first year, one for markets where Medtronic will distribute directly and one for markets where Medtronic will distribute through sub-distributors.

For the second year, Medtronic will report to PerMed within 30 days of the expiry of the first year on the average per-unit on-sale prices it received for each type of Product sold to Medtronic's customers in the course of the first year.

The Transfer Prices payable by Medtronic to PerMed for a given type of Product purchased by Medtronic during the second year shall be established by a formula that is based on the difference between the first year average resale price and the Transfer Price for the first year for a given Product (the "**Difference**"). Such formula also applies to determine the Transfer Price for the subsequent years.

Maximum Prices

Medtronic may sell the Products to its customers at such prices as it shall determine at its sole discretion, subject to (i) per-unit maximum prices (the "**Maximum Prices**") for each type of Product to be negotiated between the parties in good faith during the period from the Effective Date and the Start Date, and (ii) any limits under the applicable laws in the relevant territories affecting the permissible margin between prices paid by hospitals and prices paid to manufacturers such as PerMed. In the presence of such limits, the parties shall negotiate in good faith and adjust the Transfer Prices and the Maximum Prices accordingly for the affected territories.

Product quality

PerMed shall ensure that the Products comply with the applicable laws, the applicable specifications and the quality requirements under the Distribution Agreement. PerMed shall be responsible for compliance with present and future applicable statutes, laws, ordinances and regulations of national, federal, state and local governments now or hereafter in effect relating to the design, manufacture and/or quality of Products.

Non-compete obligations

Unless otherwise agreed by the Company in writing, Medtronic shall not, during the term of the Distribution Agreement, engage directly or indirectly in any business related to the promotion, distribution or sale of any TAVI product and PAVI product manufactured by a third party in the PRC on the condition that the Group provides a commercially released TAVI product and PAVI product for Medtronic's distribution within 36 months of the First Tranche Completion Date.

Unless otherwise agreed by Medtronic in writing, the Company shall not, during the term of the Distribution Agreement, engage directly or indirectly in any business related to the manufacturing, marketing, promotion, distribution or sale of any heart valve products for human use other than the Products.

Medtronic's independent research

Medtronic may conduct research, develop or commercialize concepts, products or technologies similar to or in competition with any of the Products and any product manufactured or distributed, currently or in future, by the Group. Medtronic shall provide the Company and PerMed notice if such research and development may generate products that could potentially be competitive with products being developed or sold by the Group.

Intellectual property rights

PerMed has granted to Medtronic and its sub-distributors a worldwide, exclusive, non-transferable and royalty-free right and license to use all trademarks, trade names, copyrights and logotypes of PerMed or its affiliates that are on the Products or related labels and materials, or otherwise owned by or licensed to PerMed or its affiliates. Such license shall be used solely in connection with the marketing, sale or other distribution, promotion, advertising and/or maintenance of the Products for so long as Medtronic is authorized to distribute and sell the Products under this Agreement.

PerMed has also granted to Medtronic a non-exclusive, non-transferrable, sub-licensable, worldwide and fully paid license to relevant intellectual property of PerMed necessary for the import, export, use or sale of the Products. Such license may be used by Medtronic only in the case PerMed's failure to supply the Products for accumulatively 60 days and demonstrate its ability to resume supply of such Products within the 30 days that follows.

Warranties and representations

PerMed has made to Medtronic certain warranties and representations including, among other things, that:

(a) PerMed owns the entire right, title and interest in the intellectual property used or employed by PerMed to design and manufacture the Products without restriction or encumbrance and all intellectual property licensed to Medtronic under the Distribution Agreement; and

(b) the Products are in compliance with the applicable laws, the applicable specifications and the quality requirements under the Distribution Agreement.

Indemnity

PerMed shall indemnify Medtronic against claims (including product liability claims) arising from PerMed's negligence, violation of applicable laws and breach of the Distribution Agreement (including breach of warranties).

Medtronic shall indemnify PerMed against claims arising from Medtronic's failure in connection with its sales, marketing or distribution of the Products, compliance with the applicable law or Products labeling.

Other obligations of Medtronic

Medtronic shall:

(a) as the global exclusive distributor, Medtronic shall use commercially reasonable efforts to further the promotion, marketing, sale and other distribution of the Products;

(b) provide technical support and training for the Products to its customers and sub-distributors;

(c) use its best efforts to ensure its sub-distributors to maintain records of the Products in reasonable detail to ensure traceability of the Products;

(d) submit to PerMed sales, inventory, implant registration record and market surveillance data on a quarterly basis or anytime upon PerMed's request; and

(e) submit to PerMed quarterly rolling 12-month forecast covering its anticipated purchases of Products based on the annual sales target, and submit a revised forecast 90 days in advance if Medtronic wishes to revise the forecast.

Other obligations of PerMed

PerMed shall:

(a) have the capability of producing the necessary quantities of the Products consistent with the annual sales target and the forecast by Medtronic;

(b) consult with Medtronic of the Products' overall regulatory strategy, provided that PerMed shall have the right to determine the Products' overall regulatory strategy based on its business plan;

(c) prepare at its expense sales and marketing materials for the Products to be approved by Medtronic, provided that Medtronic may also prepare sales and marketing materials;

(d) be responsible for obtaining all necessary export licenses and permits and providing Medtronic with procedure manuals and technical training for Medtronic's proper use of the Product and free samples to Medtronic for its distribution efforts;

(e) comply with Medtronic's business conduct standards and code of conduct; and

(f) as the product manufacturer shall be responsible for reporting and investigating product complaints and adverse events provided that, as the exclusive distributor of the Product, Medtronic shall have the capacity to directly communicate with customers in such events. Medtronic shall provide PerMed an opportunity to review and comment on any customer communications related to product complaints or adverse events prior to their distribution.

Termination

The Distribution Agreement may be terminated in whole or in part, including on a "per-Product" basis pursuant to its term, including (but not limited to) termination by:

(a) Medtronic upon written notice to PerMed if the Product is delivered late or is defective for more than six times in any 12-month period;

(b) Medtronic upon the termination of the Investment Agreement or the Services Agreement, or upon the distribution rights under the Distribution Agreement becoming non-exclusive;

(c) Medtronic upon a change of control of PerMed or the Company;

(d) PerMed upon an unacceptable change of control in Medtronic; or

(e) PerMed if Medtronic has committed a material breach of its obligations under the Distribution Agreement including but not limited to, in case Medtronic fails to meet and purchase the annual sales target or the minimum sales quantity under the Distribution Agreement, Medtronic's failure to make up the shortfall within six months upon written notice from PerMed (in such case, the termination shall be limited to the relevant Product only).

The Company's guarantee and obligations

The Company shall procure that PerMed and its affiliates shall duly observe and perform all of its obligations under the Distribution Agreement. If PerMed or its affiliates are in default of payment of any amount payable under the Distribution Agreement, the Company shall upon receiving notice from Medtronic pay all such amounts then payable by PerMed.

The Supplemental Distribution Agreement

On 5 January 2013, Medtronic, the Company and PerMed entered into a supplemental agreement to the Distribution Agreement (the "**Supplemental Distribution Agreement**"). Under the Supplemental Distribution Agreement, the Company, PerMed and Medtronic agreed, among other things, that:

(a) the Distribution Agreement shall be effective for a fixed term of five years from the First Tranche Completion Date. Thereafter, the Distribution Agreement shall, unless terminated pursuant to the terms of the Distribution Agreement or a six-month advance notice of non-renewal is served by either party and subject to the compliance with the Listing Rules, be automatically renewed for additional periods of not more than three years each; and

(b) the Right of First Negotiation under the Distribution Agreement shall be effective for so long as the Distribution Agreement remains effective (subject to earlier termination as a result of application of the Royalty caps stipulated therein).

Annual caps and basis of calculation

Assuming that the Start Date will commence from 2013, the proposed annual caps for the transactions under the Distribution Agreement for the years ending 31 December 2013, 2014, 2015, 2016 and 2017 are as follows:

2013	2014	2015	2016	2017
RMB813,000	RMB39,690,000	RMB56,270,000	RMB81,510,000	RMB110,093,000

The above annual caps are calculated based on the estimated Transfer Price and the estimated quantities of the Products that may be distributed by Medtronic under the Distribution Agreement in the markets of China, North America, Europe and other markets. When determining the transaction amounts derived from the Company's Products under the Distribution Agreement, the Company has taken into consideration the potential benefits brought by the extensive global sales network of Medtronic, and the enhancement in the quality of the Products as a result of, the consulting services provided by Medtronic pursuant to the Services Agreement. Further, the Company has also taken into account the regulatory approvals for the Products to be obtained in various countries as part of its expansion into the new markets, the Company expects that the sales volumes and revenue of the Products will increase gradually.

THE SERVICES AGREEMENT

Date

14 October 2012 (as supplemented on 5 January 2013)

Parties

(1) the Company

(2) Medtronic

Term

Two years from the First Tranche Completion Date (except for the payment of Royalties).

The Services

Pursuant to the Services Agreement, Medtronic will provide the Company with the Services, which comprise, among other things, consultative services with respect to certain internal operations, quality systems and product development processes of the Company.

Medtronic shall provide such competent personnel available to the Company for the time periods specified in the Services Agreement, subject to Medtronic's discretion as to any specified time period in the event the Services relating to such personnel is complete or such personnel is no longer required by the Company. The Company may request for the replacement of any specific personnel provided by Medtronic for reasons of the incompetence of such personnel.

The Services are intended exclusively for use in connection with the business of the Company. The Company shall not re-sell, assign or subcontract any of the Services to any person whatsoever or permit the use of the Services by any person other than the Company in its ordinary course of business.

License

Medtronic will, in the course of the Services, make certain know-how available to the Company. Medtronic granted to the Company the License, strictly for the Company's internal purposes, to any operational, manufacturing, quality and other know-how, and any related materials and documents that Medtronic makes available to the Company.

Fees, Royalties and Additional Payment

Fees for the Services

The Company shall pay to Medtronic Fees of, in aggregate, US$5,000,000 for the Services, in five installments:

(a) first installment of US$500,000 on the First Tranche Completion Date;

(b) second installment of US$500,000 on 1 March 2013;

(c) third installment of US$500,000 on 1 October 2013;

(d) fourth installment of US$2,500,000 on 1 March 2014; and

(e) final installment of US$1,000,000 on 1 October 2014.

The Fees above are determined based on Medtronic's anticipated direct cost of providing the services, namely (with respect to the employees actually providing the Services) a pro-rata portion of each employee's compensation, benefits and actual expenses. There is no "mark up" to the Fees as would be typical in a third party consulting relationship, nor is there any charge for overhead or administration, nor any charge for the time value of money as most of the expense will be incurred by Medtronic prior to receiving payment of the Fees in full from the Company due to the elongated payment schedule. The total amount of Fees of US$5,000,000 is to recoup the costs of functional expertise to be provided to the Company and does not account for any investment management or project leadership services, as such expenses will be borne by Medtronic at its own expense.

Royalties

The Company shall pay to Medtronic, on a quarterly basis for a maximum period of 20 years, Royalties for the License equal to 4% of the incremental sales revenue achieved by the Group (the "**Incremental Sales Revenue**"), which can be terminated at the earlier of:

(a) the cumulative cap of RMB300,000,000 (the "**Cumulative Cap**") has been reached, and such cumulative cap will be increased to RMB600,000,000 (the "**Additional Royalties**") *if any person other than Medtronic* (i.e. any independent third party of the Company and Medtronic (whether a single person or a group of persons acting in concert) and exclude Mr. Xie or Mr. Wu) holds an interest of 50% or more in the issued share capital of the Company; or

(b) upon Medtronic holding more than 50% in the issued share capital of the Company on a fully-diluted basis.

The Incremental Sales Revenue refers to, starting from the First Tranche Completion Date, any incremental portion of the sales revenues achieved by the Group for all of its products in each quarter of its financial year that is above its average quarterly sales revenues for the financial year ended 31 December 2012 (the "**Base Line**"). For the avoidance of doubt, the Base Line shall be determined according to the 2012 annual report of the Company to be published by the Company pursuant to the applicable GEM Listing Rules.

Additional Payment

From and after the First Tranche Completion Date and for so long as Medtronic holds any Convertible Notes or has any present or future right to subscribe for any Convertible Notes, the Company shall pay to Medtronic the additional payment in a sum of RMB300,000,000 under the Services Agreement (the "**Additional Payment**") in the event that *any persion other than Medtronic* (i.e. any independent third party of the Company and Medtronic (whether a single person or a group of persons acting in concert) and exclude Mr. Xie or Mr. Wu) holds an interest of 50% or more in the issued share capital of the Company.

Notwithstanding the above, if, at the time of the change of control contemplated by the foregoing sentence, Mr. Xie or Mr. Wu is an executive officer, executive director or non-executive director of the Company and any combination of Mr. Xie or Mr. Wu or any persons or entities associated with either of them owns equity interests in the Company that constitute more than 30% of the equity share capital of the Company, and they or any combination of Mr. Xie or Mr. Wu or any persons or entities associated with either of them dispose of any shares to that person resulting in that person acquiring a controlling interest of 50% or more in the Company, then the Company shall be required to make the Additional Payment and similarly the Additional Royalties.

The purpose of the Additional Payment and the Additional Royalties provisions in the Services Agreement is to compensate Medtronic for its know-how and other intellectual property contributions to the Company in the event a third party obtains a controlling interest of 50% or more in the Company before Medtronic exercises its subscription and conversion of the Second Tranche Convertible Notes. The Company will not be required to make the Additional Payment and the Additional Royalties to Medtronic in the event that Medtronic disposes its Shares to a person resulting in that person acquiring a controlling interest of 50% or more in the Company.

Third Party Services and Incremental Hires

The Company shall retain certain third party services and make certain incremental hires for fulfilling its obligations under the Investment Agreement and in connection with the Services. The Company shall contract directly with such third parties and make the necessary incremental hires its own cost. Medtronic shall work and cooperate with such third parties in the performance of the Services. Medtronic may be able to provide services that might otherwise have been provided by a

third party. In such event, the Company may engage Medtronic for the provision of such services on appropriate compensation, in addition to the Fees and Royalty, to be agreed in good faith between the Company and Medtronic.

Service Interruption or Suspension

Upon reasonable written notice to and subject to the agreement of the Company, Medtronic may temporarily suspend or interrupt the provision of the Services. In case of such interruption, Medtronic may continue to provide off-site supports to the Company to the extent feasible.

Ownership of Assets

Any information system, software, computer network, database or file owned, licensed, leased or provided by or for Medtronic which is used by Medtronic or its suppliers on behalf of Medtronic in connection with provision of the Services as modified, maintained or enhanced from time to time by Medtronic or any third party shall remain the sole exclusive property of Medtronic or its suppliers.

Intellectual Property

Any intellectual property newly developed in the course of the Services that are not based on or an enhancement to, any existing intellectual property of either the Company or Medtronic shall,

(a) if developed solely by Medtronic, be owned by Medtronic and included in the License;

(b) if developed solely by the Company, be owned by the Company, and, pursuant to the Services Agreement, the Company grants a non-exclusive, fully paid, perpetual royalty-free license to Medtronic to such intellectual property; or

(c) if developed by both the Company and Medtronic, be co-owned by the Company and Medtronic on an exclusive basis.

Termination

The Services Agreement may be terminated pursuant to its terms in the case of:

(a) breach of obligations under the Services Agreement by either party who failed to cure the relevant breach within 30 days of the other party's notice;

(b) mutual consent of the Company and Medtronic;

(c) the Company's failure in payment of any uncontested Fees, Royalties or other amount due under the Services Agreement within 30 days of the relevant invoice;

(d) Medtronic's interest in the Shares in the Company, on a fully-diluted basis, (i) falling below 15%, or (ii) rising above 50%;

(e) the termination of the Distribution Agreement;

(f) either the Company or Medtronic is declared insolvent or bankrupt, or makes an assignment for the benefit of creditors, or a receiver is appointed or any proceeding is demanded by, for or against the such party; or

(g) any or all of the transactions contemplated by the Services Agreement being made illegal or other prohibited, or any judgment, decree, injunction or order of any governmental entity prohibiting such transactions being entered and becoming final and non-appealable.

Medtronic may also modify, suspend or terminate any or all of the Services with prior written notice to the Company, to the extent that Medtronic determines in good faith that the provision or use of any of the Services according to the Services Agreement would violate any law or regulation applicable to Medtronic.

Termination shall not affect any right to payment for the Services provided prior to termination and Medtronic's right to the Royalty and the Additional Payment. Certain provisions of the Services Agreement, such as in relation to the ownership of assets, will also survive its termination.

Limitation of liability

The maximum aggregate liability of Medtronic to the Company under the Services Agreement shall not exceed the Fees and the Royalty.

The Supplemental Services Agreement

On 5 January 2013, Medtronic and the Company entered into a supplemental agreement to the Services Agreement (the "**Supplemental Services Agreement**"). Under the Supplemental Services Agreement, the Company and Medtronic agreed, among other things, that:

(a) the Services Agreement shall be effective for a term of two (2) years commencing from the First Tranche Completion Date, while the Royalty payments under the Services Agreement shall be payable for a fixed term of twenty (20) years commencing from the First Tranche Completion Date; and

(b) the Services Agreement shall terminate automatically upon Medtronic's interest in the Company falling below 15% or rising above 50% on a fully-diluted basis (for this purpose, not assuming any conversion of the convertible notes issued to Medtronic under the Investment Agreement).

The Controller Guarantee and Indemnity

On 5 January 2013, the Controlling Shareholder Group executed a deed of guarantee and indemnity (the "**Controller Guarantee and Indemnity**") in favour of the Company undertaking not to dispose of their Shares in the prescribed manner in view of the Company's obligation relating to the Additional Payment under the Services Agreement. Under the Services Agreement, the Company

shall make the Additional Payment of RMB300,000,000 to Medtronic in the event that any person other than Medtronic holds an interest of 50% or more in the share capital of the Company. Pursuant to the Controlling Shareholder Guarantee and Indemnity, each member of the Controlling Shareholder Group jointly and severally guaranteed, irrevocably and unconditionally, to the Company that it would not dispose of any Shares to a person resulting in that person acquiring an interest of 50% or more in the Company to the effect that the Company shall be required to make the Additional Payment as mentioned above.

Annual caps and basis of calculation

The annual caps for the transactions under the Services Agreement, which include the Fees and the Royalties but exclude the Additional Royalties and the Additional Payment are as follows:

(i) for the year ending 31 December 2013, the annual cap will comprise of the Fees at the amount of RMB9,450,000 plus the Royalties calculated with reference to the quarterly Incremental Sales Revenue,

(ii) for the year ending 31 December 2014, the annual cap will comprise of the Fees at the amount of RMB22,050,000 plus the Royalties calculated with reference to the quarterly Incremental Sales Revenue,

(iii) for the each of the 18 remaining years ending 31 December 2032, the annual cap will comprise of the Royalties calculated with reference to the quarterly Incremental Sales Revenue only.

The Royalties portion of the above annual caps are subject to the Cumulative Cap of RMB300,000,000 (with the Cumulative Cap being increased to RMB600,000,000 under the Services Agreement if the Additional Royalties payment conditions are triggered). The annual caps under the Services Agreement, the Cumulative Cap and the Additional Royalties are applicable to the Company throughout the entire term of the Services Agreement.

The Royalties are intended to be Medtronic's compensation for the proprietary know-how and related materials that will be licensed to and made available to the Company in the course of providing Services, and which the Company will retain for use into perpetuity long after the expiry of the Services Agreement. At 4%, the Royalties are lower than the Company typically would see for a substantive license of know-how in the medical device industry. Further, the 4% figure is based on the incremental, new revenue the Company experiences subsequent to the First Tranche Completion Date.

As part of the Services Agreement, Medtronic will provide personnel and consultancy services to help the Company to address the action items with respect to internal systems upgrades as described under the section headed "THE INVESTMENT AGREEMENT — Internal Upgrade Requirements" in this circular. In doing so, Medtronic will provide significant know-how and related materials to the Company. Such know-how is highly confidential and proprietary Medtronic information developed and acquired over the course of Medtronic's 65-year history. This know-how is permanent once provided and cannot be revoked or discontinued, and the Company will retain for use into perpetuity long after the Services Agreement expires.

Compared to other medical devices companies with patent license, the licensee shall pay a certain percent of the total revenue that generated from the products that can be covered by the licensed patent to the licensor for so long as the licensed patent remains effective. Strictly speaking, the intellectual property protection period for know-how is permanent, while the protection period for patents is usually subject to 20 years.

In addition, the Royalties to be paid to Medtronic will be equal to 4% of the incremental sales revenue (i.e. the increase portion of the revenue as compared to the Company's revenues in year 2012) instead of total revenue, and the royalty rate of 4% is much lower than the royalty rates quoted in other similar licensing transactions involving intellectual property rights and know-how related to medical device products from the latest edition of the royalty rate resource book published by the Intellectual Property Research Associates, Inc., an independent intellectual property consultancy.

The Additional Royalties are intended to provide adequate compensation to Medtronic should there be any change of ownership or control of the Company, and consequently all of the value and know-how that Medtronic has contributed to the Company will unintentionally fall into the hands of a third party. This potential Additional Royalties are conditional, and will only be made in such a circumstance.

Inasmuch as the services and know-how transfer are for the direct benefit and improvement of the Company's internal systems and processes, the Directors believe that the terms of the Services Agreement are fair and reasonable, and they are more favourable than normal commercial terms and in the best interest of the Company and its shareholders as a whole.

SHAREHOLDING STRUCTURE AND EFFECT OF FULL CONVERSION OF THE CONVERTIBLE NOTES

For illustration purpose, set out below are changes to the shareholding structures of the Company (i) upon completion of the Share Purchase; (ii) immediately after full conversion of the First Tranche Convertible Notes and (iii) immediately after full conversion of the Second Tranche Convertible Notes (assuming that there is no change in the issued share capital of the Company other than the issue of the Conversion Shares since the date of the Investment Agreement up to the date of the full conversion of the First Tranche Convertible Notes and the Second Tranche Convertible Notes):

		As at the Latest Practicable Date		**Upon completion of the Share Purchase**		**Upon full conversion of the First Tranche Convertible Notes**		**Upon full conversion of the Second Tranche Convertible Notes[6]**	
Name of Shareholder	*Notes*	**No. of Shares held**	**Approx. %**	**No. of Shares held**	**Approx. %**	**No. of Shares held**	**Approx. %**	**No. of Shares held**	**Approx. %**
Medtronic		Nil	Nil	95,000,000	19.00%	135,000,000	25.00%	473,571,429	53.90%
Xianjian Advanced Technology Limited	1, 3	101,540,962	20.31%	101,540,962	20.31%	101,540,962	18.80%	90,910,248	10.35%
GE Asia Pacific Investments Ltd	2, 3	87,883,332	17.58%	87,883,332	17.58%	87,883,332	16.27%	77,252,618	8.79%
St. Christopher Investment Ltd	4	13,583,333	2.72%	13,583,333	2.72%	13,583,333	2.52%	13,583,333	1.55%
Orchid Asia III	5	98,650,618	19.73%	3,650,618	0.73%	3,650,618	0.68%	3,650,618	0.42%
Public shareholders		198,341,755	39.67%	198,341,755	39.67%	198,341,755	36.73%	219,603,183	25.00%
Total		**500,000,000**	**100%**	**500,000,000**	**100%**	**540,000,000**	**100.00%**	**878,571,429**	**100.00%**
						Conversion Shares	**40,000,000**	**Conversion Shares**	**338,571,429**

Notes:

1. Xianjian Advanced Technology Limited is a company wholly owned by Mr. Xie, the chairman and an executive Director.

2. GE Asia Pacific Investment Ltd is a company wholly owned by Mr. Wu, a non-executive Director.

3. Xianjian Advanced Technology Limited and GE Asia Pacific Investments Ltd are parties acting in concert.

4. St. Christopher Investment Ltd is a company wholly owned by Mr. Zhao Yiwei Michael, the chief executive officer of the Company and an executive Director.

5. Orchid Asia III is controlled by OAIII Holdings, L.P., which is in turn controlled by Orchid Asia and is ultimately controlled by The Li 2007 Family Trust. The Li 2007 Family Trust is a BVI discretionary trust established by Ms. Lam Lai Ming, spouse of Mr. Li Gabriel as settlor and Managecorp Limited as trustee. The beneficiaries of The Li 2007 Family Trust include family members of Ms. Lam Lai Ming and Mr. Gabriel Li. Mr. Gabriel Li is a non-executive Director as at the Latest Practicable Date.

6. The relevant percentages are calculated on the assumptions that (i) the Company has received notice of conversion from Medtronic on the exercise of its conversion rights under the Second Tranche Convertible Notes; (ii) Medtronic fully converts the Second Tranche Convertible Notes, (iii) for illustrative purpose only, the Controlling Shareholders will place down in aggregate 21,261,428 Shares in assisting the Company to fulfill the Public Float Requirement pursuant to the Controller Public Float Undertaking, and (iv) it is assumed that no other Shares will be issued by the Company to any person from the Latest Practicable Date to the date on which the First Tranche Convertible Notes and the Second Tranche Convertible Notes are fully exercised, and none of the share options has been granted and exercised under the Share Option Scheme.

TAKEOVERS CODE IMPLICATIONS IN RELATION TO THE SECOND TRANCHE CONVERTIBLE NOTES

In addition, the Board wishes to elaborate on the potential Takeovers Code implications of Medtronic exercising its right to convert the Second Tranche Convertible Notes. Upon the conversion of the Second Tranche Convertible Notes, the interests held by Medtronic will increase from approximately 25% to 51% of the issued share capital of the Company as enlarged by the Conversion Shares, and Medtronic will be obliged to make a mandatory general offer for all the Shares (not already owned or agreed to be acquired by Medtronic or parties acting in concert with it) pursuant to Rule 26 of the Takeovers Code. To the best knowledge, information and belief of the Directors, Medtronic will, after the conversion conditions for the Second Tranche Convertible Notes have been fulfilled but before exercising its right to convert the Second Tranche Convertible Notes, comply with the requirements of the Takeovers Code and will either conduct a mandatory general offer or apply for a Whitewash Waiver pursuant to the requirements under the Takeovers Code.

As the subscription and conversion of the Second Tranche Convertible Notes may or may not proceed, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

REASONS AND BENEFITS OF THE TRANSACTION

The Company believes that the Transaction will enable the Company and Medtronic to synergize and become a world-class leading provider of cardiovascular products in China and other locations. Medtronic, being a globally recognized and well-regarded market player in the medical devices industry, will bring in technical, operational and management expertise to the Company and further enhance its ability to serve end-users in the China medical devices market upon completion of the Transaction. The Company, being an emerging player in the China medical devices industry, will benefit from the extensive international sales network and cutting edge industry expertise of Medtronic for product development and brand-building. In view of the potential synergies, the Company considers that the Transaction is in the interests of the Company and its Shareholders as a whole.

USE OF PROCEEDS AND FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

The net proceeds from the Company's issue of new shares at the time of its listing in November 2011, after deduction of related expenses, amounted to approximately HK$156.6 million. As at 30 June 2012, the Company has utilized approximately HK$2.6 million for enhancing market position of core cardiovascular and peripheral vascular devices in key emerging markets; HK$10.2 million for continuing to develop and commercialize pipeline products; HK$2.6 million for expansion into key international markets with current and pipeline products and HK$9.5 million for expansion into complementary product offers and pursue acquisitions, partnerships, alliances and licensing opportunities. As at the Latest Practicable Date, the unused proceeds amounting to approximately HK$53.3 million have been placed in an interest bearing deposit account maintained with a bank in Hong Kong and approximately HK$61.3 million have been injected to the subsidiary Lifetech Scientific (Shenzhen) Co., Ltd. for acquiring land in the Nanshan District upon receiving government approval. Save for the above, there has been no other fund raising activities engaged by the Company during the past 12 months preceding the Latest Practicable Date.

The total amount of gross proceeds and estimated net proceeds from the issue of the Convertible Notes amount to HK$2,183,428,574 and HK$2,170,263,574 respectively, assuming that the conversion price under the First Tranche Convertible Notes is HK$3.8 and the conversion price under the Second Tranche Convertible Notes is HK$6.0. The proposed uses of net proceeds from the Convertible Notes are as follows:

Table 1: Uses of net proceeds from the completion of the First Tranche Convertible Notes

Note: In the table below, Y1 means within the first year from the First Tranche Completion Date and Y2 means within the second year from the First Tranche Completion Date. All figures are denoted in HKD millions.

Uses of proceeds	Details of Specific Plans	Y1	Y2	Total Amount	%	Conditions/ obligations under the Second Tranche Condition (e)?
1. Internal system upgrade	Establish and promote a culture of quality which permeates to all levels of the Company; improve the quality management system of the Company and purchase appropriate equipment for system upgrade	18.0	22.0	68.0	48.0%	Yes
	Establish and promote a culture of compliance which permeates to all levels of the Company and recruit compliance and internal audit talents	5.0	10.0			
	Establish a sound management system, including an enterprise resource planning system	5.0	8.0			

Uses of proceeds	Details of Specific Plans	Y1	Y2	Total Amount	%	Conditions/ obligations under the Second Tranche Condition (e)?
2. Expansion of the production capability of PerMed and improvement of the operation level of PerMed	Recruit more workers at the production facilities and conduct training	3.0	4.0	38.0	27.0%	Yes
	Improve the quality management system of PerMed	3.0	4.0			
	Purchase equipment for conducting manufacturing and operational activities and upgrade production facilities	9.0	11.0			
	Recruit management talents	2.0	2.0			
3. Expansion into key international markets with current and pipeline products	Expand the business of the Company in the existing markets, including China, India, Europe, including the recruitment of more sales talents, attending exhibitions, conducting training in respect of the Company's products, etc.	15.0	20.0	35.0	25.0%	No
Total		**60.0**	**81.0**	**141.0**	**100.0%**	

Table 2: Uses of net proceeds from the completion of the Second Tranche Convertible Notes

Notes:

1. Assuming that the conversion price is HK$6.0 for each Conversion Share.

2. In the table below, Y1 means within the first year from the Second Tranche Completion Date and applies similarly to Y2 to Y6. All figures are denoted in HKD millions.

3. The following uses of net proceeds are planned on the basis that no adjustment to the Initial Conversion Price of HK$6.0 will be made. In the event that the Initial Conversion Price will be adjusted upwards, the additional amount of proceeds to be received will be used to fund additional research or clinical project. In the event that the Initial Conversion Price will be adjusted downwards, the amount of proceeds to be allocated to the various uses below will be decreased proportionately.

Uses of proceeds	Details of Specific Plans	Y1	Y2	Y3	Y4	Y5	Y6	Total Amount	%	Conditions/obligations under the Second Tranche Condition (e)?
1. Pursue opportunistic, acquisitions, partnerships, alliances and licensing opportunities	The Company will invest in the medical device industry. In particular, the Company will selectively invest in medical device businesses which either focus on or are complementary to cardiovascular and peripheral vascular diseases treatment. As at the Latest Practicable Date, the Company has been working on seven incubation projects, and the nature of the Company's investments in the respective target companies may take the form of either (i) equity or asset acquisitions or (ii) acquisitions of manufacturing rights and/or distribution rights. In terms of geographical coverage, the Company will focus on such businesses in North America, Europe and Asia, and the seven target companies above are based in the United States and in Asia. The Company will also be open to other suitable global acquisition and investment opportunities.	100.0	200.0	200.0	200.0	100.0	—	800.0	39.0%	No
2. Develop and commercialize various pipeline products (as shown in the next column)	FuStar Steerable Introducer - the proceeds are intended to be spent on conducting clinical trials and marketing activities leading to the commercial launch of this product in the PRC.	10.0	—	—	—	—	—	400.0	20.0%	No
	Ankura II Stent Graft System - the proceeds are intended to be spent on conducting clinical trials and marketing activities leading to the commercial launch of this product in the PRC.	—	25.0	—	—	—	—			
	Enhanced Vena Cava Filter - the proceeds are intended to be spent on conducting research and development and marketing activities leading to the commercial launch of this product in the PRC.	20.0	—	—	—	—	—			
	Drug-Eluting Balloon - the proceeds are intended to be spent on conducting research and development and marketing activities leading to the commercial launch of this product in the PRC.	5.0	30.0	—	—	—	—			

Uses of proceeds	Details of Specific Plans	Y1	Y2	Y3	Y4	Y5	Y6	Total Amount	%	Conditions/obligations under the Second Tranche Condition (e)?
	Surgical Stent Graft - the proceeds are intended to be spent on conducting clinical trials and marketing activities leading to the commercial launch of this product in the PRC, and the Company expects this to take place in 2016.	10.0	40.0	—	—	—	—			
	Left Atrial Appendage Occluder - the proceeds are intended to be spent on conducting clinical trials and marketing activities leading to the commercial launch of this product in Europe.	10.0	50.0	—	—	—	—			
	Bioabsorbable Stent - the proceeds are intended to be spent on conducting research and development and marketing activities leading to the commercial launch of this product in the PRC.	20.0	20.0	20.0	60.0	80.0	—			
3. Expansion into complementary product offerings	To conduct market research on medical devices and develop new products, and the Company intends to retain internal research talents as well as engage external research professional to conduct market research in the following manner: (a) The internal research talents to conduct necessary research and market analysis, which includes communicating with medical professionals, sales agents, distributors and patients to understand the market demand; (b) The external research professionals to conduct overall market research, including the size of the overall market and each potential market, the then-current market share held by different companies, the pricing of the products as well as the potential competitive advantage and gains to the Company.	5.0	10.0	50.0	70.0	70.0	90.0	295.0	15.0%	No
4. Expansion of production capabilities of the Group	To purchase production facilities and testing equipment to increase production capabilities	—	20.0	40.0	44.0	50.0	—	154.0	8.0%	Yes

Uses of proceeds	Details of Specific Plans	Y1	Y2	Y3	Y4	Y5	Y6	Total Amount	%	Conditions/obligations under the Second Tranche Condition (e)?
5. Expansion to key emerging markets	Expand the business in North America, including the recruitment of sales talents, attending exhibitions, conducting training in respect of the Company's products, etc.	5.0	5.0	20.0	33.0	40.0	—	150.0	7.0%	No
	Expand the business in North Africa, including the recruitment of sales talents, attending exhibitions, conducting training in respect of the Company's products, etc.	2.0	3.0	5.0	6.0	6.0	—			
	Expand the business in South Africa, including the recruitment of sales talents, attending exhibitions, conducting training in respect of the Company's products, etc.	2.0	2.0	3.0	3.0	2.0	—			
	Expand the business in Asia, including the recruitment of sales talents, attending exhibitions, conducting training in respect of the Company's products, etc.	2.0	2.0	3.0	3.0	3.0	—			
6. Internal system upgrades	Construction of enterprise information systems, including: (a) Enterprise Resource Planning System (b) Budget and Management Analysis System (c) The Group's intranet (d) The Group's Financial Management System (e) Electronic Bank Payment System (f) The upgraded mail server To construct these systems, the Company intends to utilize the allocated proceeds to (i) engage the external professional parties; (ii) retain information technology talents; and (iii) purchase necessary equipment and materials.	—	—	20.0	20.0	5.0	—	105.0	5.0%	Yes
	Recruitment of management talents	5.0	5.0	5.0	5.0	5.0	—			
	Upgrade of quality management system	5.0	5.0	5.0	10.0	10.0	—			
7. Expansion into key current international markets with current and pipeline products	Expand the business in the existing markets (include China, India and Europe), including the recruitment of more sales talents, attending exhibitions, conducting training in respect of the Company's products, etc.	10.0	10.0	15.0	20.0	20.0	—	75.0	4.0%	No
8. Upgrade of production facilities	Includes the upgrading of the production facility, clean room facility and other renovation works	—	—	50.0	—	—	—	50.0	2.0%	No
Total		**211.0**	**427.0**	**436.0**	**474.0**	**391.0**	**90.0**	**2,029.0**	**100.0%**	

IMPLICATIONS UNDER THE GEM LISTING RULES

The transactions contemplated under the Transaction Agreements are inter-conditional. The Company has been informed by Orchid Asia, a Substantial Shareholder of the Company, that it has, on 14 October 2012, entered into the Share Purchase Agreement with Medtronic pursuant to which Orchid Asia agreed to sell and Medtronic agreed to purchase 95,000,000 Shares, representing approximately 19% of the issued share capital of the Company as at the Latest Practicable Date, to Medtronic for a consideration of HK$361,000,000 at HK$3.80 per Share. While the Company is not privy to the exact terms of the Share Purchase, the Company has been informed by the parties to the Share Purchase Agreement that the conditions to completion of the Share Purchase are such that completion under the Share Purchase is conditional upon completion of the First Tranche Convertible Notes under the Investment Agreement. Upon completion of the Share Purchase, assuming there is no change in the issued share capital of the Company from the date of the Share Purchase Agreement until completion of the Share Purchase, Medtronic will hold 95,000,000 Shares representing 19% of the issued share capital of the Company and shall therefore become a Substantial Shareholder of the Company and a connected person of the Company for the purposes of the GEM Listing Rules. Accordingly, the transactions under the Investment Agreement and the CCT Agreements will constitute connected transactions under Chapter 20 of the GEM Listing Rules.

As the relevant percentage ratios in respect of the Investment Agreement exceed 5%, the Investment Agreement is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The relevant percentage ratios of the highest annual cap under the CCT Agreements exceeds 5%. The CCT Agreements therefore constitute continuing connected transactions of the Company under the GEM Listing Rules and are subject to reporting, announcement, independent shareholders' approval requirements and the annual review requirements under Chapter 20 of the GEM Listing Rules.

Given that the Share Purchase is conditional upon completion of the First Tranche Convertible Notes, Mr. Gabriel Li, being a non-executive Director and a beneficial owner of Orchid Asia as at the Latest Practicable Date, has abstained from voting in respect of the resolutions of the Board for approving the Transaction Agreements and the transactions contemplated thereunder. Save for the above, the Directors have confirmed that so far as they are aware, no other Director has a material interest in the Transaction Agreements who is required to abstain from voting on the resolutions of the Board for approving the Transaction Agreements and the transactions contemplated thereunder.

INFORMATION ON MEDTRONIC

To the best understanding, knowledge and belief of the Directors, Medtronic is one of the largest medical technology companies based in the United States composed of six main business units which develop and manufacture medical devices and therapies. Medtronic was incorporated under the laws of Minnesota on 23 April, 1957, and its shares are listed on the New York Stock Exchange. To the best knowledge of the Company and as at the Latest Practicable Date, Medtronic is a third party independent of the Company and its connected persons.

INFORMATION ON THE COMPANY AND PERMED

The Company is a developer, manufacturer and marketer of advanced minimally invasive interventional medical devices for cardiovascular and peripheral vascular diseases and disorders. The Group is dedicated to researching, developing, manufacturing and marketing advanced minimally invasive interventional medical devices for cardiovascular and peripheral vascular diseases and disorders, with a global reach and has subsidiaries in China, Netherlands, India, Russia and France. As a leading medical device company in China with 13 years of history, the Company has built up a strong worldwide sales network, offering a broad range of products to over 30 countries across Asia, Europe, South America, North America and Africa. PerMed is a wholly-owned operating subsidiary of the Group based in Beijing, the PRC and engages in the manufacturing of medical devices.

EGM

Set out on pages 115 to 118 of this circular is the notice convening the EGM to be held at Cybio Electronic Building, Langshan 2nd Street, North Area of High-tech Park, Nanshan District, Shenzhen, China on 21 January 2013, at which ordinary resolutions will be proposed to approve the Transaction and the annual caps under the CCT Agreements, details of which are set out in the notice of the EGM.

Pursuant to Rule 17.47(4) of the GEM Listing Rules, any vote of the Shareholders at a general meeting of the Company must be taken by way of poll. Accordingly, the resolutions to be considered and, if thought fit, approved at the EGM will be voted by way of poll by the Shareholders.

Given that the Share Purchase is conditional upon completion of the First Tranche Convertible Notes, Orchid Asia III (being the seller under the Share Purchase Agreement and a connected person with a material interest in the Transaction) shall abstain from voting in respect of the resolutions approving the Transaction Agreements and the transactions contemplated thereunder. Save for the above, no other Shareholders are required to abstain from voting in respect of the resolution to be proposed at the EGM.

The Independent Board Committee has been formed to consider and advise the Independent Shareholders on the Transaction, and the Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

RECOMMENDATIONS

Your attention is drawn to:

(a) the letter from the Independent Board Committee set out on pages 55 to 56 of this circular which contains its recommendation to the Independent Shareholders; and

(b) the letter from the Independent Financial Adviser set out pages 57 to 108 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

Based on the relevant information disclosed herein, the Directors are of the view that:

(i) it would be in the interests of the Group and the Shareholders to enter into the Transaction Agreements; and

(ii) the annual caps under the CCT Agreements and the terms of the Transaction Agreements are fair and reasonable.

As mentioned above, the Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Transaction.

Having considered the Transaction Agreements, and having considered the advice given by the Independent Financial Adviser in relation thereto and the principal factors and reasons taken into consideration by them in arriving at their advice, the Independent Board Committee considers that the annual caps under the CCT Agreements and the terms of the Transaction Agreements 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. Accordingly, the Independent Board Committee recommends the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Transaction and the Transaction Agreements.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee with its recommendation to the Independent Shareholders; (ii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders; and (iii) the additional information set out in the Appendix to this circular.

Yours faithfully
For and on behalf of the Board
XIE Yuehui
Chairman

LIFETECH SCIENTIFIC CORPORATION
先健科技公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8122)

6 January 2013

To the Independent Shareholders

Dear Sir or Madam,

(1) DISPOSAL OF SHARES BY SUBSTANTIAL SHAREHOLDER, (2) CONNECTED TRANSACTION IN RELATION TO THE ISSUANCE AND SUBSCRIPTION OF CONVERTIBLE NOTES, (3) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE DISTRIBUTION AGREEMENT AND THE SERVICES AGREEMENT AND (4) SPECIFIC MANDATE TO ISSUE THE CONVERSION SHARES

We refer to the circular of the Company dated 6 January 2013 (the "**Circular**") to its Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires. We have been appointed by the Board as the Independent Board Committee to advise you as to whether the terms of the Transaction Agreements and the annual caps under the CCT Agreements are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Having considered the advice from Optima Capital Limited, we are of the view that the terms of the Transaction Agreements and the respective transactions contemplated thereunder (including but not limited to the Transaction Agreements, the proposed grant of the specific mandate in respect of the Conversion Shares, the issue of the Convertible Notes, and the issue of the Conversion Shares by the Company pursuant to the exercise of the conversion rights attached to the Convertible Notes) were negotiated on an arm's length basis between the parties, and are on normal commercial terms and fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the Transaction and the respective transactions contemplated thereunder to be presented at the EGM.

Yours faithfully,
Independent Board Committee
Liang Hsien Tse Joseph Zhang Xingdong Zhou Gengsheng
Independent Non-Executive Directors

The following is the letter of advice from Optima to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

OPTIMA CAPITAL LIMITED

Suite 1501, 15th Floor
Jardine House
1 Connaught Road
Central
Hong Kong

6 January 2013

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Investment Agreement and the transactions contemplated thereunder (the "**Connected Transaction**"); (ii) the Distribution Agreement and the transactions contemplated thereunder (the "**Distribution Transaction**"), including the related annual caps for the five years ending 31 December 2017 (the "**Proposed Distribution Caps**"); and (iii) the Services Agreement and the transactions contemplated thereunder (the "**Services Transaction**", together with the Distribution Transaction, the "**Continuing Connected Transactions**"), including the related annual caps for the 20 years ending 31 December 2032 (the "**Proposed Services Caps**", together with Proposed Distribution Caps, the "**Annual Caps**"), to be entered into between the Company and Medtronic. As advised by the Directors, the Investment Agreement and the Share Purchase Agreement are inter-conditional, while the CCT Agreements shall be effective upon completion of the issue of the First Tranche Convertible Notes. Details of the Continuing Connected Transactions and the Connected Transaction (collectively, the "**Transactions**") are set out in the letter from the Board (the "**Board Letter**") contained in the circular of the Company to the Shareholders dated 6 January 2013 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined.

The Independent Board Committee, comprising all of the three independent non-executive Directors, namely Mr. Liang Hsien Tse Joseph, Mr. Zhang Xingdong, Mr. Zhou Gengshen, has been formed to consider the fairness and reasonableness of the terms of the Transactions, and to make a recommendation to the Independent Shareholders in respect thereof. We, Optima Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

2. BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Group and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM. We have also sought and received confirmation from the executive Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to form our advice and recommendation as set out in this letter and to justify our reliance on such information. However, we have not conducted any independent investigation into the business and affairs of the Group and Medtronic, nor have we carried out any independent verification of the information supplied. We have assumed that all representations contained or referred to in the Circular are true at the date of the Circular and will continue to be true up to the date of the EGM.

3. SUMMARY OF THE TRANSACTIONS AND OUR OPINION

Orchid Asia III, one of the substantial shareholders of the Company, entered into the Share Purchase Agreement with Medtronic pursuant to which Orchid Asia III agreed to sell and Medtronic agreed to buy 95,000,000 Shares (representing 19% of the issued share capital of the Company) to Medtronic on 14 October 2012. Upon completion of the Share Purchase (the "**Share Purchase Completion**"), assuming there is no change in the issued share capital of the Company from the Latest Practicable Date to the Share Purchase Completion, Medtronic will become a substantial Shareholder holding 19% of the issued share capital of the Company and thus will become a connected person of the Company under the GEM Listing Rules. At the same time on 14 October 2012, the Company also entered into (i) the Investment Agreement; (ii) the Distribution Agreement; and (iii) the Services Agreement with Medtronic and (in the case of the Distribution Agreement) PerMed, so as to establish a mutually-beneficial strategic alliance between the Company and Medtronic. Medtronic is a large medical device company listed on the U.S. New York Stock Exchange with a global sales network spreading over more than 120 countries and has a strong presence in the surgical tissue valves market in the PRC, details of which are set out in section 4.3 headed "Information on Medtronic" of this letter.

As Medtronic will become a connected person of the Company under GEM Listing Rules upon the Share Purchase Completion, the entering into of the Investment Agreement constitutes a connected transaction whilst the entering into of the Distribution Agreement and the Services Agreement constitutes continuing connected transactions. Having considered the applicable percentage ratios in respect of each of the Investment Agreement and the Proposed Distribution Caps and the Proposed Services Caps, the Transactions are subject to the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules, and thus the Company proposes to seek approval by the Independent Shareholders at the EGM.

In assessing the terms of the Transactions, we have, among other things, (i) discussed with the Company the bases for determining the terms of the Investment Agreement (including the terms of the Convertible Notes) and the CCT Agreements (including the Annual Caps) (collectively, the "**Terms**"); (ii) obtained information from the Company or through publicly accessible channels such as the website of the Stock Exchange, the U.S. Securities and Exchange Commission and Medtronic, and the search engines such as Google; (iii) reviewed all the information and documents provided by the Company for justifying the basis for determining the Terms, including but not limited to sales forecasts as prepared by the Company, details of comparable transactions, relevant agreements entered into between the Company and the independent third parties; (iv) reviewed the research reports relating to the heart valve market in different regions, such as European Union countries ("**EU**"), Brazil, Russia, India and China ("**BRIC**") as prepared by independent professional market intelligence research companies; (v) understood the rationale of the Transactions and the justifications for the Terms; and (vi) reviewed the listing prospectus (the "**Prospectus**") of the Company dated 31 October 2011 and the results announcements and reports published by the Company.

Having carried out the due diligence process set out above, we noted that

(i) the Company has been striving to enter into the international medical device market since the listing of the Shares in November 2011;

(ii) Medtronic is a leading international medical device company of the type that the Company has been looking for in terms of its scale of business operation, research and development expertise, global sales network, etc;

(iii) the Directors consider that prospects of the medical device market in EU and BRIC are optimistic and a steady growth rate in the coming years is expected;

(iv) the Company and Medtronic share the same vision to become the recognised leaders in both the local and multinational segments of the medical device market;

(v) the Services Agreement will allow the Company to develop its relatively novice surgical heart valve business through fundamental improvement in its internal systems, business operations, research and development, production and sales operation by means of Medtronic's expertise to be provided to the Company from around the world;

(vi) the Distribution Agreement allows the Company to leverage the extensive global sales network of Medtronic for its heart valve products to enter into the overseas markets and it is expected to improve the product quality by Medtronic's expertise to be provided under the Services Agreement;

(vii) the Investment Agreement provides essential funding to the Company for its pursuit of the ultimate goal to establish itself in the international medical market;

(viii) the entering into of the Investment Agreement, the Distribution Agreement and the Services Agreement forms a strong strategic alliance between the Company and Medtronic, which is expected to create significant long-term value for both companies, facilitate the Company's business development and accomplish the Company's long-term goal to become an international medical device player; and

(ix) the Terms are determined based on the commerciality of the proposed structure of the strategic alliance and the prospects and synergies expected to benefit both the Company and Medtronic.

In view of the above and the detailed analysis on each of the Terms as set out below, we consider that the terms of the Investment Agreement and CCT Agreements (including the Proposed Distribution Caps and the Proposed Services Caps) are fair and reasonable and in the interest of the Company and the Shareholders as a whole. In addition, we consider that the Transactions are on normal commercial terms and the Investment Agreement and the CCT Agreements are entered into by the Company for the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM.

4. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Transactions, we have taken into account the following principal factors and reasons:

4.1 Background information of the Group

General information

The Shares were listed on the Growth Enterprise Market of the Hong Kong Stock Exchange on 10 November 2011. As at the Latest Practicable Date, the key substantial Shareholders include Xianjian Advanced Technology Limited which was beneficially interested in 101,540,962 Shares, representing approximately 20.31% of the existing issued share capital of the Company, Orchid Asia III which was beneficially interested in 98,650,618 Shares, representing approximately 19.73% of the existing issued share capital of the Company, and GE Asia Pacific Investment Ltd which was beneficially interested in 87,883,332 Shares, representing approximately 17.58% of the existing issued share capital of the Company.

Business operations

The Group is a developer, manufacturer and marketer of advanced minimally invasive interventional medical devices for cardiovascular and peripheral vascular diseases and disorders. As set out in the Prospectus, the Group has been offering a wide range of congenital heart defect occluders through three generations of occluder series, namely HeartR, which is the first generation nitinol wire frame occluder series launched in 2001, Cera, which is the second generation occluder series with enhanced biocompatibility through proprietarily developed ceramic coating of the nitinol wire frame launched in 2009, and CeraFlex, which is the third generation occluder series launched in

2011 that offers reduced tension upon delivery through the replacement of stainless steel with nitinol in the tip and loop connections in lieu of screw connections in addition of the ceramic coating feature in Cera. In addition, the Group offers six other types of minimally invasive implants and devices, including Aegisy vena cava filters, Ankura stent grafts, Green Arrow/Blue Arrow/ Red Arrow balloon catheters, Cera and CeraFlex vascular plugs, Supporter coronary stents and the PerMed bovine heart valve and other types of associated delivery and supporting devices, including FuStar Steerable introducer. Up to Latest Practicable Date, the Group has developed and brought to market 14 products with approval from the State Food and Drug Administration of the PRC ("**SFDA**"), 19 products with CE marking and 2 products that have passed the review from the U.S. Food and Drug Administration. The Group currently has a total of 47 registered patents, including 43 in the PRC, 1 in the United States of America and 3 in Europe.

As set out in the annual report (the "**2011 Annual Report**") of the Company for the year ended 31 December 2011, the HeartR occluders realized 10.4% growth in sales for the year ended 31 December 2011 compared to the corresponding period in 2010 and the Cera occluders realized an approximate 76.8% growth of sales compared to the corresponding period in 2010. The products offered by the Group in the peripheral vascular diseases business include vena cava filter, thoracic aortic aneurysms and abdominal aortic aneurysms stent graft vascular plug and steerable introducer. The turnover contributed by the peripheral vascular diseases business experienced a growth of approximately 60.3% compared to the corresponding period in 2010. The PerMed bovine heart valve is the main product of the Group in the surgical heart valve replacement business. The Group has obtained the approval from SFDA for the sales of bovine tissue heart valves in the PRC in 2011 and commenced its sales since the first quarter of 2012.

Due to the enormous demand of medical devices in the PRC, the Group generated approximately 72.2% of its total revenue from the Chinese market and recorded an approximate 38.3% growth of the domestic sales for the nine months ended 30 September 2012 as compared to the last corresponding period. As set out in the third quarterly report of the Company for the three months ended 30 September 2012 (the "**2012 Third Quarterly Report**"), the Group accomplished the following new achievements in the third quarter of 2012: (i) the Cera PFO occluders of the Group made their debut in the international market in September 2012; (ii) the Group obtained approval from Department of Health of Hong Kong for its Ceraflex product in the third quarter of 2012; and (iii) animal testing for peripheral bare stent was completed, and the Group implanted four cases in the second phase of animal testing for peripheral cover stent by September 2012.

The Group has also established its subsidiaries in the Netherlands, Russia and France in 2012, which has formed an initial framework for them to tap into the European market. The Group believes that this will gradually help shape the international image of its products and accelerate its growth in this strategic market. The Group will continue to rely on its two core businesses, namely congenital heart disease business and peripheral vascular disease business as growth driver in 2012, actively expand its product offering and strengthen its established market position, and continue focus on broadening its product portfolio as well as designing innovative products to capitalise on its growing sales network and infrastructure. As at the Latest Practicable Date, there were a total of 20 products of the Group under development and it normally takes more than 5 years to turn the products at research and development stage to commercial production to the market.

Financial performance

As set out in the Prospectus, the success of the Group was dependent and would continue to depend on a large extent on the ability to develop new proprietary products. The Group has been focusing research and development efforts on nitinol based technologies and absorbable material based technologies with respect to cardiovascular and peripheral vascular products. As evidenced that research and development is an integral part of the Group, the research and development expenses accounted for approximately 11.8%, 14.7% and 16.2% of the revenue of the Group in 2009, 2010 and 2011, respectively.

According to the 2011 Annual Report, the revenue of the Group increased by 34.0% to approximately RMB140.3 million for the year end 31 December 2011, from approximately RMB104.7 million for the year ended 31 December 2010, of which revenue from the sales of congenital heart diseases business and peripheral vascular diseases business increased by 25.9% to approximately RMB95.0 million for the year end 31 December 2011, from approximately RMB75.5 million for the year ended 31 December 2010 and 60.5% to approximately RMB45.2 million for the year end 31 December 2011, from approximately RMB28.2 million for the year ended 31 December 2010, respectively. The increase in revenue was mainly attributable to the rapid growth of sales volume along with the expansion of the sales network of distributors of the Group. It is noted that the Group had a network of 161 distributors in 33 countries over 1,450 hospitals as at 31 December 2011 and further increased the network to 170 distributors as at 30 June 2012. During the year of 2011, the Group expanded into new international markets including Mexico, Malaysia, Pakistan, Indonesia, El Salvador, Italy and Nigeria. On 28 December 2011, the Group opened a new office in the Netherlands to serve as a new marketing base to create and reinforce the Lifetech Europe brand and help accelerate growth in Europe. The additional promotion and marketing efforts and expansion of sales force during the year attributed to the increase in selling and distribution expenses by approximately 72.3% to approximately RMB34.6 million for the year end 31 December 2011, from approximately RMB20.1 million for the year ended 31 December 2010.

As set out in the 2012 Third Quarterly Report, the Group recorded a turnover of approximately RMB133.0 million, representing approximately a 31.6% increase as compared to the corresponding period in 2011. The increase was primarily attributable to an increase of approximately RMB25.0 million in revenue from peripheral vascular disease business. Net profit attributable to owners of the Company amounted to approximately RMB30.9 million, representing approximately 151.2% increase as compared to the corresponding period in 2011. The research and development expenses for the third quarter of 2012 amount to approximately HK$10,001,888, representing 26.46% increase as compared to the corresponding period in 2011.

4.2 Industry overview on the heart valve market

As stated in the research report published in April 2011 as prepared by iData Research Inc. (the "**iData Report**"), which is an international market research and consulting group dedicated to the provision of business intelligence for the medical device, dental and pharmaceutical industries around the world with offices in Canada and the U.K, non-percutaneous artificial heart valves are divided into two types, namely tissue and mechanical. Tissue heart valves are generally preferred over mechanical valves due to their higher level of biocompatibility. The vast majority of commercially available tissue

valves are xenograft valves derived from animals. For example, the heart valve manufactured by the Company are derived from bovine. In terms of design, tissue valves may be classified into stented and stentless types. A stented valve includes a frame on which the valve is mounted to provide support for the leaftlets. The bovine tissue heart valve produced by the Company is classified as stented valves. As the Company mainly targets to enter into the heart valve market in the EU and the PRC, we set out below an industry overview on these heart valve markets.

Heart valve market in the EU (the "EU Market")

Total Tissue Heart Valve by Country, Europe, 2007 – 2017
(Euro dollar in million)

Year	Germany	France	U.K.	Italy	Spain	Benelux	Scandi-navia	Portugal	Austria	Switzer-land	Europe	Growth (%)
2007	€25.2	€23.1	€12.3	€19.5	€10.1	€9.6	€7.1	€1.9	€2.7	€2.7	€114.2	
2008	€27.2	€24.9	€13.3	€21.0	€10.9	€10.2	€7.6	€2.1	€2.9	€2.9	€123.0	7.7%
2009	€29.1	€26.8	€14.2	€22.5	€11.7	€10.8	€8.0	€2.2	€3.1	€3.1	€131.5	6.9%
2010	€30.9	€28.5	€15.1	€24.0	€12.4	€11.3	€8.4	€2.3	€3.3	€3.3	€139.7	6.3%
2011	€32.7	€30.3	€15.9	€25.4	€13.1	€11.9	€8.8	€2.5	€3.5	€3.5	€147.5	5.6%
2012	€34.2	€31.9	€16.7	€26.6	€13.8	€12.4	€9.1	€2.6	€3.7	€3.7	€154.7	4.9%
2013	€35.8	€33.5	€17.3	€27.9	€14.4	€12.8	€9.5	€2.7	€3.9	€3.8	€161.6	4.4%
2014	€37.2	€35.1	€17.9	€29.0	€15.0	€13.3	€9.8	€2.7	€4.1	€4.0	€168.1	4.0%
2015	€38.6	€36.5	€18.4	€30.1	€15.6	€13.7	€10.1	€2.8	€4.2	€4.2	€174.2	3.6%
2016	€39.9	€37.9	€18.9	€31.1	€16.1	€14.0	€10.3	€2.9	€4.4	€4.4	€179.9	3.3%
2017	€41.2	€39.2	€19.4	€32.0	€16.6	€14.4	€10.6	€3.0	€4.5	€4.5	€185.3	3.0%
CAGR	4.2%	4.6%	3.6%	4.2%	4.2%	3.4%	3.3%	3.4%	4.4%	4.6%		4.1%

Source: iData Report

As set out in the table above, the EU Market including Austria, Benelux, France, Germany, Italy, Portugal, Scandinavia, Spain, Switzerland and the U.K. for tissue heart valves was valued at approximately €139.7 million in 2010. A total of approximately 87,624 tissue valves were sold in the EU market, of which approximately 87.7% were stented valves. Both segments are expected to experience unit sale growth and the stented valves are expected to grow at a compound annual growth rate ("**CAGR**") of approximately 3.1% to reach approximately €150.6 million (equivalent to approximately HK$1,524.1 million) by 2017. The tissue heart valve market in EU in 2017 is expected to reach approximately €185.3 million (equivalent to approximately HK$1,875.2 million) with a CAGR of approximately 4.1% and a sales volume of approximately 116,830 pieces by 2017, taking into account the primary market drivers as set out as follows:

(i) *Preference for tissue valves*

There is a preference for tissue heart valves rather than mechanical heart valves due to its biocompatibility. Patients who were implanted with a tissue heart valve do not require lifelong anticoagulation therapy like patients who received a mechanical heart valve do.

(ii) *Improved durability*

The duration of the tissue valves normally lasts for an average of 10 to 15 years and many tissue valves have been shown to remain functional for 20 years. Given that most of the patients adopting heart valve implantation are aged 65 or above, 10 to 15 years of duration is considered partially sufficient. With further improvements in the durability of tissue heart valves, the Company believed that the demand for tissue heart valve from younger patients will grow.

As advised by the management of the Company, the Company will first target to enter into the EU Market through the U.K. and France according to its expansion plans for its heart valve products. As shown in the above table extracted from the iData Report, in 2010, the tissue heart valve market in the U.K and France were valued at approximately €15.1 million (equivalent to approximately HK$152.8 million) and approximately €28.5 million (equivalent to approximately HK$288.4 million) respectively, and it is expected to grow to approximately €19.4 million (equivalent to approximately HK$196.3 million) and approximately €39.2 million (equivalent to approximately HK$396.7 million) by 2017, with a CAGR of approximately 3.6% and 4.6%, respectively.

Stented Tissue Heart Valve Market by Country, Europe, 2007 – 2017
(Euro dollar in million)

Year	Germany	France	U.K.	Italy	Spain	Benelux	Scandi-navia	Portugal	Austria	Switzer-land	Europe	Growth (%)
2007	€22.3	€20.3	€11.3	€17.5	€9.1	€8.3	€6.4	€1.8	€2.4	€2.4	€101.8	
2008	€23.8	€21.7	€12.2	€18.8	€9.8	€8.7	€6.7	€2.0	€2.6	€2.6	€108.8	6.9%
2009	€25.3	€23.1	€13.0	€20.0	€10.5	€9.1	€7.0	€2.1	€2.7	€2.7	€115.5	6.1%
2010	€26.6	€24.3	€13.7	€21.1	€11.1	€9.5	€7.3	€2.2	€2.9	€2.9	€121.7	5.4%
2011	€27.9	€25.5	€14.4	€22.2	€11.7	€9.8	€7.6	€2.3	€3.0	€3.0	€127.4	4.7%
2012	€29.0	€26.6	€15.0	€23.1	€12.2	€10.1	€7.8	€2.4	€3.2	€3.1	€132.4	3.9%
2013	€30.0	€27.6	€15.4	€24.0	€12.7	€10.3	€8.0	€2.5	€3.3	€3.2	€137.0	3.5%
2014	€30.9	€28.5	€15.8	€24.8	€13.1	€10.5	€8.2	€2.6	€3.4	€3.4	€141.1	3.0%
2015	€31.7	€29.2	€16.2	€25.5	€13.5	€10.7	€8.3	€2.6	€3.5	€3.5	€144.8	2.6%
2016	€32.4	€29.9	€16.5	€26.1	€13.9	€10.8	€8.4	€2.7	€3.5	€3.5	€147.9	2.2%
2017	€33.1	€30.5	€16.8	€26.7	€14.3	€10.9	€8.5	€2.7	€3.6	€3.6	€150.6	1.8%
CAGR	3.1%	3.3%	2.9%	3.4%	3.6%	2.0%	2.2%	3.0%	3.1%	3.4%		3.1%

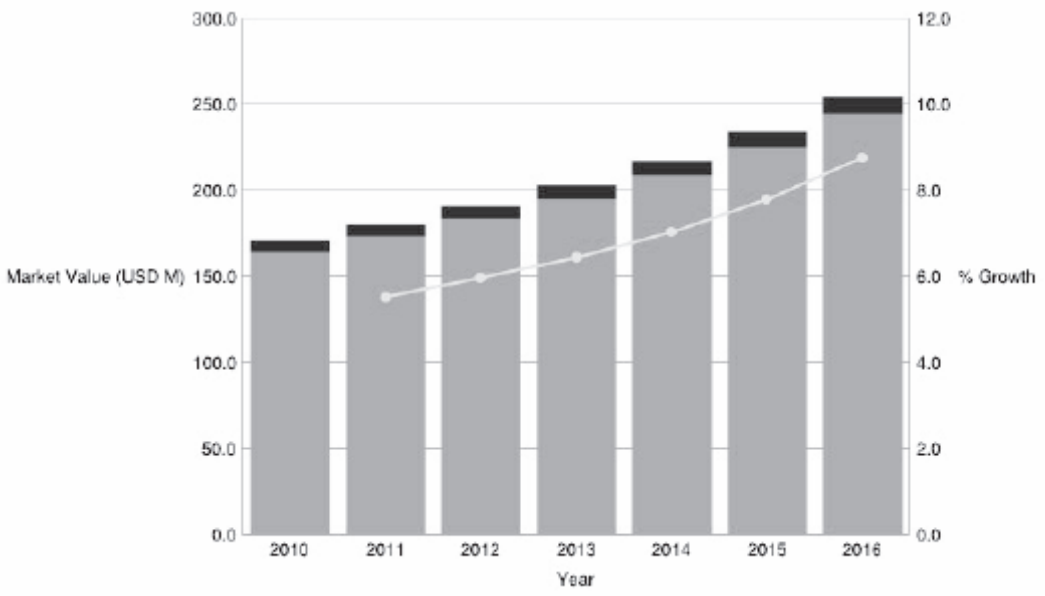
Source: iData Report

In addition to the steady growth of the EU Market, the stented tissue valve market in EU, in which the Company targets to enter into, is also expected to record a steady growth in the coming years. As per the table set out above, in 2010, the stented tissue heart valve market in the U.K and France was valued at approximately €13.7 million (equivalent to approximately HK$138.6 million) and approximately €24.3 million (equivalent to approximately HK$245.9 million) respectively, and it is expected to reach approximately €16.8 million (equivalent to approximately HK$170.0 million) and approximately €36.5 million (equivalent to approximately HK$369.4 million) by 2017, with a CAGR of approximately 2.9% and 3.3%, respectively.

Heart valve market in BRIC

According to the research report published in March 2012 (the "**MN Report**") as prepared by Millennium Research Group, Inc., which is the largest provider of medical device market research in the world based in Canada, the rapid economic growth and aging population in the BRIC constitute the key drivers of growth in the BRIC heart valve device market. Notwithstanding that mechanical valves are the most commonly used heart valve device in the BRIC geographies due to the prevalence of rheumatic fever, which can lead to earlier heart valve deterioration in younger patients, aging demographics will also drive the increasing use of tissue heart valves as older patients accept a less durable but more biocompatible tissue heart valves, which can avoid associated anticoagulant therapy.

Heart Valve Device Market, by Product Type, BRIC, 2010 – 2016
(US$ million)



Source: MN Report

As shown in the above table extracted from the MN Report, in 2010, the market values of the BRIC heart valve market reached approximately US$170.1 million, and it is expected to expand at a CAGR of approximately 7% to reach a value of approximately US$254.0 million (equivalent to approximately HK$1,976.1 million) by 2016. Among four countries of BRIC, India recorded highest CAGR of approximately 8.4% to a market value of US$23.6 million (equivalent to approximately HK$183.6 million) by 2016 whilst another country the Company may enter into in the later stage of the strategic alliance (i.e. Russia) is expected to reach US$35.9 million (equivalent to approximately HK$279.3 million) with a CAGR of approximately 4.5% by 2016.

The PRC heart valve market

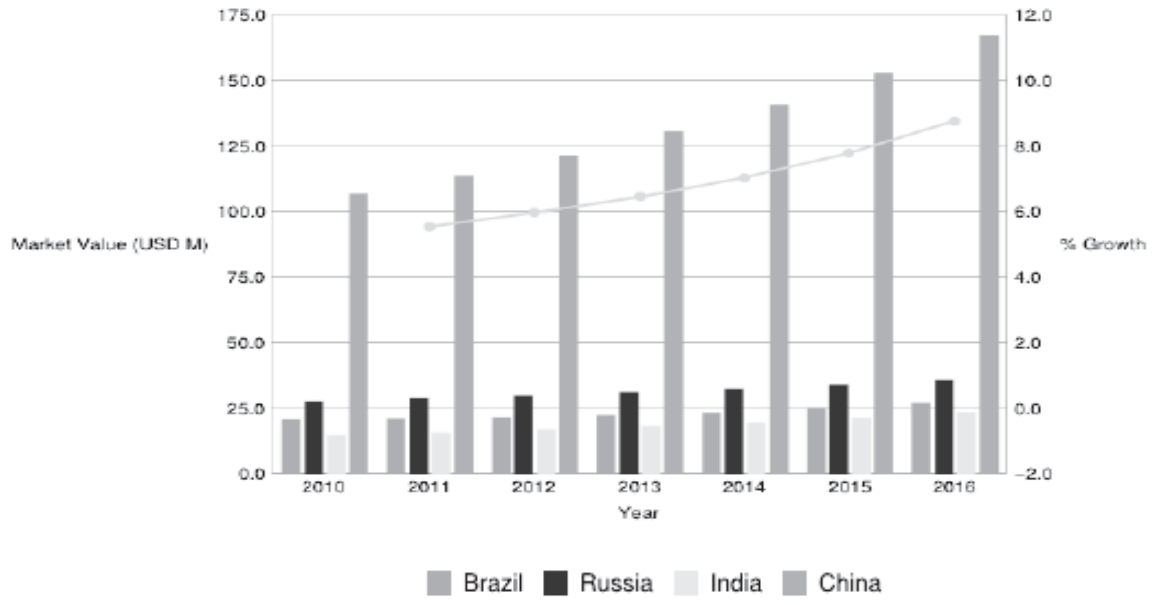
China is one of the world's fastest-growing economies with a strong GDP growth rate over 9% from the previous year according to the statistics published by the National Bureau of Statistics of

China (the "**Statistics Bureau**"). According to the 12th Five-Year Plan for National Economic and Social Development for 2011 to 2015, the Chinese government set a target for an annual GDP growth of 7%. In view of the over-reliance on its export, the Chinese government started to emphasize consumption and to focus on seven "strategic emerging industries": health care, energy, biotechnology, high-end equipment manufacturing, energy conservation and environmental protection, clean-energy vehicles, novel materials, and advanced IT.

According to the Statistics Bureau, China has a population of over 1.3 billion, with approximately 9% of aging population over 65 years old in 2011, which is expected to double by 2020 according to the Statistics Bureau. It is believed that this aging population is going to impose pressure on the provision of healthcare resources by the government and create an enormous demand for medical device in the coming years.

As stated in the MN Report, the Chinese government has inaugurated a new medical reform plan with an aim to providing affordable health care to the entire population by 2020. Between 2009 and 2010, the Chinese government has dedicated more than US$10.0 billion (equivalent to approximately HK$77.8 billion) to expand the basic medical coverage. According to the Statistics Bureau, there are currently approximately 21,000 general hospitals as well as 2.5 million practicing and assistant doctors in the PRC. The Chinese government has announced plans for the construction of new township and county-level hospitals as well as new clinics, with the goal of eventually serving over 600,000 villages.

Heart Valve Device Market, by Country, BRIC, 2010 – 2016
(US$ in million)



Source: MN Report

As shown in the table above extracted from the MN Report, the heart valve market in the PRC has the largest market value among the BRIC region, reaching approximately US$106.9 million (equivalent to approximately HK$831.7 million) in 2010 and is expected to reach US$167.4 million by (equivalent to approximately HK$1,302.4 million) 2016, with a CAGR of approximately 8.0% through 2016. The PRC heart valve market contributes approximately 62.8% of the total revenues generated from the BRIC heart valve market in 2010 and it is expected to further grow to approximately 65.9% by 2016.

4.3 Information on Medtronic

Background information

Medtronic is a U.S. based medical devices company, which researches, develops and manufactures a wide range of products and therapies to diagnose, prevent, monitor and treat various chronic diseases and conditions. Founded in 1949 as a medical equipment repair shop, Medtronic began in a garage with the aim of alleviating pain, restoring health and extending life for people. The group initially developed products that revolved around the cardiac rhythm disease area but now additionally operates in cardiac and vascular diabetes, neuromodulation, surgical technologies and spinal segments. As a U.S. Fortune 100 company, Medtronic has a workforce of more than 45,000 employees, including more than 9,000 research and development scientists and engineers around the world, a total of 23,000 patents for its products, of which around 2,060 patents were awarded last year, and a global medical device distribution network covering more than 120 countries and 300 locations as at the Latest Practicable Date.

Business operations

According to the period reports of Medtronic as published on the website of the U.S. Securities and Exchange Commission, Medtronic operates under two reportable and operating segments, namely cardiac and vascular products and restorative therapies products. In the fiscal year 2012 (ended April 2012), Medtronic's cardiac and vascular products generated approximately US$8.48 billion (equivalent to approximately HK$66.0 billion) in sales, which amounted to approximately 52% of Medtronic's total sales whilst the restorative therapies products generated approximately US$7.70 billion (equivalent to approximately HK$59.9 billion) in sales; the four subdivisions produced 48% of Medtronic's revenue. Geographically, 55% of the revenue was generated from the U.S., 25% from Western Europe and Canada and 10% from Asia Pacific.

Medtronic has a broad portfolio of cardiac and vascular products mainly divided into two categories namely cardiac rhythm disease management and cardio vascular products. Cardiac rhythm disease management products include defibrillation systems (which generated US$2.82 billion (equivalent to approximately HK$21.9 billion) for the fiscal year 2012), pacing systems (which generated US$2.0 billion (equivalent to approximately HK$15.6 billion) for the fiscal year 2012), and atrial fibrillation and other (which generated US$207 million (equivalent to approximately HK$1.6 billion) for the fiscal year 2012). The Cardio vascular products include coronary products, structural heart products and endovascular and peripheral products, which generated US$1.6 billion (equivalent to approximately HK$12.4 billion) , US$1.1 billion (equivalent to approximately HK$8.6 billion) and US$783 million (equivalent to approximately HK$6.1 billion) for the fiscal year 2012, respectively.

Strength

As mentioned above, Medtronic, as a global leader in medical devices, employs more than 9,000 scientists and engineers around the world, obtained more than 23,000 patents for its products and more important, in the context of the Transactions, has established an extensive global medical device distribution network covering more than 120 countries in U.S, Latin America, Western Europe, Canada, Middle East, Africa, India, the PRC, Eastern Europe and Asia with more than 300 sales locations. It is also the world's largest maker of implantable medical devices. According to MN Report, Medtronic is the leader of the Chinese heart valve device market and is also the top 3 players in the Brazilian and Indian heart valve device market in 2011.

Medtronic's sales and distribution is one of its many competitive advantages. In the U.S. and Europe, most of Medtronic's products are sold through direct sales representatives. Outside these geographies, Medtronic sells through a combination of both direct sales representatives and independent distributors. Medtronic utilizes a rapid, cost-effective and consistent marketing and sales strategy to approach a mixed group of customers worldwide, including physicians, hospitals, group purchasing organizations and other medical institutions. Medtronic executes this marketing and sales strategy by organizing and placing various marketing and sales teams around physician specialties. This has resulted in dedicated and knowledgeable sales representatives, with long and strong relationships with specific physicians and other customers. The implementation of this strategy has also allowed Medtronic to gain detailed understanding of therapeutic and diagnostic developments, healthcare trends, new opportunities and the constant changing needs of physicians and patients.

Financially, Medtronic's operational performance and balance sheet have both been growing consistently. According to the 2012 annual report of Medtronic, in the last five years, Medtronic's revenue grew at a compound annual rate of 5%. This is primarily driven by Medtronic's expansion in its product lines through acquisitions of subsidiaries. Medtronic's net income for the year was approximately US$3.6 billion (equivalent to approximately HK$28.0 billion), an increase of 16.8%. This was largely due to gain on sale from a divestiture of the Physio-Control business. Disregarding the divestiture, Medtronic still experienced an 11.8% increase in earnings, profiting approximately US$3.4 billion (equivalent to approximately HK$26.5 billion). Medtronic's profit margin (not including the divestiture) also showed an improvement, from 19.7% to 21.1%. For the number of acquisitions that Medtronic engages in, its balance sheet is quite healthy. Medtronic's capital structure is split evenly with approximately half debt (48.3%) and half equity (51.7%). Lastly, Medtronic has been aggressive with its research and development efforts in the last three years, investing approximately US$1.5 billion (equivalent to approximately HK$11.7 billion) each year, which is approximately 10% of its net sales.

Acquisitions and investments are another significant driver of Medtronic's growing business and brand name recognitions, increase in market share, as well as the ability to consistently produce well-received products in the ever changing competitive landscape of the medical devices market. In the past decade, Medtronic has publicly announced an average of two to three acquisitions of medical devices companies a year, including their trademarks, intellectual properties and other assets. The integration of Medtronic's subsidiaries into Medtronic's own business segments allows the company to capitalize on its existing distribution channels by connecting a wider range of products with a larger group of clientele, ultimately helping more patients in need and growing the group's revenue. These

integrations also create synergies during the research and development process, improving research and development productivity and quality; they also help promote and strengthen Medtronic's brand name globally, establishing an image as an industry powerhouse. Medtronic currently holds minority stakes in about 70 different companies.

Another competitive edge that Medtronic possesses is the exceptional quality and career experience of the executive management team. Almost all executive officers have held positions related to their current roles for over two decades, all of which were at large corporations or renowned biomedical research institutes. The executive management team of Medtronic is well experienced in both healthcare and corporate management to strategically lead a multinational company such as Medtronic in the competitive industry of medical devices.

5 REASONS FOR AND SYNERGY OF THE TRANSACTIONS

Based on the above financial performance of the Company and our analysis on the strength of Medtronic, we consider that the Company is well positioned to work with Medtronic by entering into the Investment Agreement, the Distribution Agreement and the Services Agreement, in terms of its healthy financial position, its experience, expertise and emphasis on research and development of innovative medical devices, and its passion and enthusiasm to establish itself in the international medical device market. We noted that the Company has been striving to enter into the international medical device market since the listing of its shares in November 2011 and Medtronic is the international medical device leader of the type that the Company seeks in order to scale its business operation, research and development expertise, global sales network, etc.

As mentioned above, the Services Agreement can assist the Company in developing its relatively novice surgical heart valve replacement business through fundamental improvements in its internal system, business operation, research and development, production and sales operation by means of Medtronic's expertise provided to the Company from around the world, whilst the Distribution Agreement allows the Company to leverage Medtronic's extensive global sales network for its heart valve products, which are expected to be improved due to Medtronic's expertise offered under the Services Agreement. The Investment Agreement in turn provides essential funding on favourable terms to the Company for its pursuit of the ultimate goal to establish itself in the international medical market. In return for the benefits brought by Medtronic to the Company as a result of such strategic alliance, the transaction provides an opportunity for Medtronic to become a controlling shareholder of the Company upon full conversion of the Convertible Notes. We believe that the entering into of the Transaction Agreements forms a strong strategic alliance between the Company and Medtronic, which, is expected to help facilitate the Company's business development and help realise the Company's long-term goal to become an international medical device player.

We also believe that the strategic alliance creates significant long-term value for both companies, which share common vision to become the recognised leaders in both the local and multinational segments of the medical device industry. The management of the Company believes that each of the Company and Medtronic offers unique value to the strategic alliance as follows:

Medtronic offers the Company:

(i) a valuable opportunity to align its brands with a global leader (i.e. Medtronic);

(ii) unparalleled access to world-class quality, operation and research and development experts through the entering into of the Services Agreement;

(iii) access to a global sales, marketing, clinical and education footprint;

(iv) a chance to equip it with global therapy, customer and market knowledge; and

(v) the potential to become a global leader for value segment products across cardiac and vascular therapies.

On the other hand, the Company provides the following value drivers for Medtronic:

(i) facilitates growth in the PRC;

(ii) provides local brand presence with established player in the cardiac and vascular segment;

(iii) enhances local segment understanding;

(iv) establishes potential investment partner; and

(v) creates a strategic partnership with unique research and development capabilities and established manufacturing presence in the PRC.

In view of the above, we consider that the strategic alliance with Medtronic, is in line with the long-established goal of the Group to enter into the international medical device market and accelerate its growth in that strategic market, and will benefit from the synergy arising therefrom. To facilitate continued success and growth as a result of the strategic alliance, Medtronic and the Company target to:

(i) achieve financial projections;

(ii) establish a harmonized quality system and culture across facilities;

(iii) develop manufacturing engineering competencies, ramp manufacturing capacity to meet demand, and improve manufacturing yield efficiencies;

(iv) execute upon existing product development initiatives and geographic approval strategies;

(v) complete pre-clinical testing and documentation per current international standards (ISO); and

(vi) implement a robust global anti-corruption and compliance program.

The management of the Company believes that the Transactions can facilitate the achievement of the above and expand the global leadership of both parties.

6 THE INVESTMENT AGREEMENT

6.1 Background information of the Investment Agreement

On 14 October 2012, the Company and Medtronic entered into the Investment Agreement, pursuant to which Medtronic conditionally agreed to subscribe for, and the Company conditionally agreed to issue to Medtronic, the First Tranche Convertible Notes on the First Tranche Completion Date and the Second Tranche Convertible Notes on the Second Tranche Completion Date.

On 5 January 2013, Medtronic and the Company entered into the Supplemental Investment Agreement to amend certain terms of the Investment Agreement, details of which are set out in the Letter from the Board.

6.2 Principal terms of the Investment Agreement

Set out below is our analysis and discussion on certain principal terms of the Investment Agreement:

First Tranche Completion

Pursuant to the Investment Agreement, completion of the issuance of the Company of, and the subscription by Medtronic for, the Convertible Notes are conditional upon the fulfilment of the First Tranche Conditions and the Second Tranche Conditions, respectively, details of which are set out in the Letter from the Board.

We note that all the First Tranche Conditions (save for condition (c) regarding the Shareholders' approval of the Transaction Agreements and the transactions contemplated thereunder as set out in the Letter from the Board) are capable of being waived by Medtronic under the Investment Agreement, which means even the condition relating to the approval by the Listing Committee for the listing of, and permission to deal in, all the Conversion Shares is capable of being waived by Medtronic (the "**Listing Approval**"). We have discussed with the management of the Company and understood that (i) despite the waivability of the First Tranche Conditions (including those relating to the requirement of GEM Listing Rules such as the seeking of the listing approval), the Directors will fulfil the fiduciary duties, duties of skills, care and diligence as required under the GEM Listing Rules and ensure the Company to fulfil the condition precedents for compliance with the GEM Listing Rules; (ii) the termination clause also stipulates that, among other things, failure to obtain any of the consents, clearances, rulings or decisions by the authorities for the transactions contemplated under the Investment Agreement may lead to termination of the Investment Agreement and thus the Company, as a party to the Investment Agreement, is obliged to comply with the GEM Listing Rules notwithstanding that the relevant conditions are capable of being waived; and (iii) the First Tranche Conditions are principally served to safeguard the interest of Medtronic and thus the waivability thereof will not jeopardize the interests of the Company and the Shareholders as a whole and any waiver will be to the detriment of Medtronic.

Second Tranche Completion

As stated in the Letter from the Board, completion of the issuance of the Second Tranche Convertible Notes is conditional upon the fulfilment of the Second Tranche Conditions. If any of the Second Tranche Conditions has not been fulfilled or waived by Medtronic on or before five years from the First Tranche Completion Date (or such other date as may be agreed by the parties), Medtronic shall be entitled to terminate any subscription of the Second Tranche Convertible Notes immediately thereafter.

The Directors consider that the five-year Shareholders' mandate to issue the Second Tranche Convertible Notes is fair and reasonable and in the interest of the Company and Shareholders as a whole after taking into account that (i) the prospects and potentials to be realised through the strategic alliance with Medtronic are expected to be enormous and optimistic, which will benefit the Company and the Shareholders as a whole; (ii) Medtronic shall have invested in the Company through subscription of the First Tranche Convertible Notes before it is granted the right to subscribe for the Second Tranche Convertible Notes and thus the Company shall have new funding for its expansion plan including increase in production capacity and improvement of product quality; and (iii) it is reasonable to provide a five-year time for Medtronic to assess the synergy to be realised through the execution of the CCT Agreements including but not limited to upgrading of the internal operation system of the Company, improvement in the product quality, increase in sales of heart valves in the overseas market and etc, before it decides to further invest in the Company through subscription of the Second Tranche Convertible Notes.

Having considered the rationale for the five-year shareholders' mandate as set out above and reviewed the distribution and expansion plan in respect of the entry of different overseas countries through Medtronic's network and assistance in application for sales permits and improvement in product quality, we are of the view that the shareholders' mandate to issue the Second Tranche Convertible Notes is coherent with the term of the Distribution Agreement and is fair and reasonable and in the interest of the Shareholders and the Company as a whole. Disclosures on the post-first tranche completion undertakings (defined below) provided that from the First Tranche Completion Date and so long as Medtronic holds Convertible Notes with 80% of the principal amount of the First Tranche Convertible Notes, and the detailed internal upgrading requirements to be fulfilled by the Company before the issue of the Second Tranche Convertible Notes have been disclosed in the Letter from the Board. The Directors are of the view that the Independent Shareholders are provided with all material information in this respect, which is part and parcel to the issue of the Second Tranche Convertible Notes under the Investment Agreement. Accordingly, together with the relevant information on material terms of the Investment Agreement as set out in the Letter from the Board, we consider that the Independent Shareholders are provided with information to form their voting decision on the Investment Agreement (including the issue of the Convertible Notes).

Pre-completion and post-completion undertakings

As stated in the Letter from the Board, the Company has given certain undertakings to Medtronic in respect of the Company's financial, legal and operational matters during the period from the date of the Investment Agreement until the completion of the issuance by the Company of, and the subscription by Medtronic for, the First Tranche Convertible Notes ("**Pre-completion Undertakings**")

and from and after the First Tranche Completion and so long as Medtronic holds Convertible Notes with an aggregate principal amount of not less than HK$121,600,000, being 80% of the principal amount of the First Tranche Convertible Notes ("**Post-completion Undertakings**"). Details of the Pre-completion Undertakings and Post-completion Undertakings are set out in the Letter from the Board of the Circular.

Taking into account the terms of the Pre-completion Undertakings and Post-completion Undertakings, the significant investment made by Medtronic in the Company through subscription of the Convertible Notes and the customary practice for parties to the agreements of different types of transactions to set out undertakings to avoid any material adverse change in respect of financial condition, legal standing, equity structure and operational of the company after signing of the agreements and before the completion of the transaction so as to protect the investor's interest, we are of the view that, in general, inclusion of certain pre-completion undertakings and post-completion undertakings are commercially acceptable. In addition, for any credit facility granted by a financial institution, it is not uncommon for the borrower to provide certain financial covenants to the lender restricting itself to carry out certain activities that might materially affect the financial, legal, equity and operation aspects. In our case, Medtronic is making significant financial investment in the Group through the subscription of the Convertible Notes, we consider that Medtronic's request for having covenants restricting the Company to carry out any activities that would materially affect the financial conditions, legal status and business operations through the Post-completion Undertakings are commercially justified.

However, we would like to draw Independent Shareholder's attention that one of the Post-completion Undertakings is that the Company shall not, without prior written consent of the Investor, issue any shares, options (except for options in respect of the 50,000,000 Shares which may be issued under the Share Option Scheme), warrants, or any securities or enter into any capital raising activities from and after the First Tranche Completion and so long as Medtronic holds Convertible Notes with an aggregate principal amount of not less than HK$121,600,000, being 80% of the principal amount of the First Tranche Convertible Notes. We consider such a specific undertaking commercially justified as Medtronic will provide sufficient and significant funding for the Company's development paved under whole strategic alliance formed through the entering into the CCT Agreements. In considering the Transactions as a whole, we consider that the Pre-completion Undertakings and Post-completion Undertakings are commercially justified.

The Controller Public Float Undertaking

We note from the Letter from the Board that on 5 January 2013, the Controlling Shareholder Group entered into the Controller Public Float Undertaking in favour of the Company and Medtronic for the purpose of assisting the Company to comply with the Public Float Requirement at all times. Details of the Controller Public Float Undertaking are set out in the Letter from the Board.

As advised by the Company's management, the Controller Public Float Undertaking is part and parcel of the Investment Agreement transaction and is implemented to ensure the compliance with the

Public Float Requirement in the event that conversion of the Second Tranche Convertible Notes gives rise to failure to comply with the Public Float Requirement. We are of the view that it is imperative to enter into the Controller Public Float Undertaking with the Controlling Shareholder Group and Medtronic for the compliance of the Company with the relevant Listing Rules.

6.3 Principal terms of First Tranche Convertible Notes

Issuer:	The Company
Subscriber:	Medtronic
Principal amount:	HK$152,000,000
Interest rate:	1.0% per annum, compounded annually
Maturity date:	the date being the fifth anniversary of the date of issue of the First Tranche Convertible Notes
Conversion rights:	The Noteholder may exercise the right to convert the whole or part of the principal amount of the First Tranche Convertible Notes into the Conversion Shares at any time on or after the date of issue of the First Tranche Convertible Notes up to the close of business on the maturity date above
Conversion price:	HK$3.80 (the "**First Tranche Conversion Price**"), subject to adjustment for inter alia customary anti-dilution events, including an alteration in the capital structure of the Company, whether by way of capitalisation of profits or reserves, bonus issue, rights issue, issue of shares by way of a scrip dividend, grant of share options or issue of shares pursuant thereto, open offer, sub-division, consolidation, reclassification, subdivision or redenomination of shares, reduction of capital of the Company in accordance with applicable laws and regulatory requirements, issues of shares at less than current market price, or otherwise
Redemption:	Unless previously redeemed, converted or purchased and cancelled, the Company shall pay each First Tranche Convertible Note on the maturity date at its principal amount together with accrued and unpaid interest thereon. Following the occurrence of specific events as defined in the terms and conditions of the First Tranche Convertible Notes, the Noteholder will have the right at such his option, to require the Company to redeem all, or only some, of such holder's First Tranche Convertible Notes at a price equal to their principal amount and interest accrued to the date fixed for redemption
Transferability:	The First Tranche Convertible Notes may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number) which is an affiliate of Medtronic

Listing:	no application will be made for the listing of, or permission to deal in the First Tranche Convertible Notes on the Stock Exchange or any other exchange. An application will be made to the Listing Committee for the listing of, and permission to deal in the Conversion Shares that may be issued upon the conversion of the Convertible Notes
Ranking of the Conversion Shares:	The Conversion Shares will rank *pari passu* in all respects with the other Shares in issue as at the First Tranche Completion Date, including the right to vote and to participate in all dividends and other distributions declared, made or paid at any time after the First Tranche Completion Date
Events of default:	If an event of default (as specified under the terms and conditions to the First Tranche Convertible Notes) occurs and is continuing, a Noteholder may give notice to the Company that the First Tranche Convertible Notes are immediately due and repayable at their principal amount together with accrued interest

6.4 Principal terms of the Second Tranche Convertible Notes

Issuer:	The Company
Subscriber:	Medtronic
Principal amount:	HK$2,031,428,574
Interest rate:	1.0% per annum
Maturity date:	The date being the fifth anniversary of the date of issue of the First Tranche Convertible Notes
Conversion rights:	The Noteholder may exercise the right to convert the whole or part of the principal amount of the Second Tranche Convertible Notes into the Conversion Shares at any time on or after the date of issue of the Second Tranche Convertible Notes up to the close of business on the Second Tranche maturity date. Upon exercise, if the applicable Conversion Price (as described below) is greater than the Initial Conversion Price (as defined below), the number of Shares to be issued on exercise will notwithstanding be calculated based on the Initial Conversion Price, but the Noteholder will, in connection with such exercise, pay to the Company an amount per Share equal to the amount of such difference. Upon exercise, if the applicable Conversion Price is lower than the Initial Conversion Price, the number of Shares to be issued on exercise will notwithstanding be calculated based on the Initial Conversion Price, but the Company will, in connection with such exercise, pay to the Noteholder an amount per Share equal to the amount of such difference

Conversion Price: HK$6.00 (the "**Initial Conversion Price**"), subject to adjustment for inter alia customary anti-dilution events, including an alteration in the capital structure of the Company, whether by way of capitalisation of profits or reserves, bonus issue, rights issue, issue of shares by way of a scrip dividend, grant of share options or issue of shares pursuant thereto, open offer, sub-division, consolidation, reclassification, subdivision or redenomination of shares, reduction of capital of the Company in accordance with applicable laws and regulatory requirements, issues of shares at less than current market price, or otherwise; the Initial Conversion Price is also subject to adjustment as described below

Adjustment: The Initial Conversion Price shall be adjusted to the following price (the "**Conversion Price**"), as applicable:

(a) Floating Conversion Price: if either of the following has occurred: (i) the aggregate turnover of the Group for any given consecutive 12-calendar month period is not less than US$75 million, or (ii) one of the product development milestones as specified in the Investment Agreement having been achieved, the Conversion Price shall be the higher of: (1) the volume-weighted average of the closing price of the Shares as quoted on the Stock Exchange website on all the trading days falling in the six months up to and including the date immediately prior to the date of the notice by the Noteholder to subscribe for the Second Tranche Convertible Notes under the Investment Agreement; or (2) HK$4.56 per Share representing 120% of the conversion price under the First Tranche Convertible Notes; or (b) in the absence of satisfaction of the conditions under paragraph (a) above, the Conversion Price shall be the higher of (i) HK$8.00 per Share or (ii) the Floating Conversion Price determined under paragraph (a) above

Redemption: Unless previously redeemed, converted or purchased and cancelled, the Company shall pay each Second Tranche Convertible Note on the maturity date at its principal amount together with accrued and unpaid interest thereon. Following the occurrence of specific events as defined in the terms and conditions of the Convertible Notes, the Noteholder will have the right at such his option, to require the Company to redeem all, or only some, of such holder's Second Tranche Convertible Notes at a price equal to their principal amount and interest accrued to the date fixed for redemption

Transferability: The Second Tranche Convertible Notes may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number) which is an affiliate of Medtronic

Listing: No application will be made for the listing of, or permission to deal in the Second Tranche Convertible Notes on the Stock Exchange or any other exchange. An application will be made to the Listing Committee for the listing of, and permission to deal in the Conversion Shares that may be issued upon the conversion of the Second Tranche Convertible Notes

Ranking of the Conversion Shares: the Conversion Shares will rank *pari passu* in all respects with the other Shares in issue as at the Second Tranche Completion Date, including the right to vote and to participate in all dividends and other distributions declared, made or paid at any time after the Second Tranche Completion Date

Events of default: If an event of default (as specified under the terms and conditions to the Second Tranche Convertible Notes) occurs and is continuing, a Noteholder may give notice to the Company that the Second Tranche Convertible Notes are immediately due and repayable at their principal amount together with accrued interest

6.5 Comparable convertible notes

In order to assess the principal terms of the Convertible Notes, we have identified a total of 17 comparable transactions relating to the issue of convertible notes or bonds (not for payment of consideration of any transactions) within 12 months prior to the date of the Investment Agreement by companies of which the shares are listed on the Stock Exchange (the "CN Comparables"), details of which are set out as follows:

Date of announcement	Stock code	Issuer	Interest rate *(per annum)*	Maturity *(years)*	Conversion price to/over 180-day weighted average price	Closing	5-day average	10-day average	Conversion restriction
17-Jan-12	976	Chiho-Tianda Group Limited	4.0%	3	16.7%	51.9%	53.5%	—	2 years after issue
19-Jan-12	2331	Li Ning Company Limited	4.0%	5	-18.8%	15.2%	11.2%	14.3%	no
20-Jan-12	1383	Hong Long Holdings Limited	0.1%	1	-58.3%	-11.0%	-20.0%	-21.3%	no
20-Jan-12	8116	China Public Healthcare (Holding) Limited	non interest bearing	5	-5.6%	-15.5%	-19.9%	—	no
26-Feb-12	8351	Larry Jewelry Inernational Company Limited	3.0%	2	-17.2%	9.6%	8.7%	9.6%	3 months after issue
14-Mar-12	81	China Overseas Grand Oceans Group Limited	2.0%	5	36.3%	30.0%	32.1%	33.5%	2 years after issue
21-Mar-12	1378	China Hongqiao Group Limited	6.5%	5	42.7%	25.0%	29.3%	33.4%	no
31-Mar-12	417	Tse Sui Luen Jewellery (International) Limited	5.0%	5	4.2%	4.2%	3.4%	5.3%	no
19-Apr-12	8103	Tai Shing International (Holdings) Limited	non interest bearing	1.25	282.9%	2.5%	1.3%	-2.9%	no
9-May-12	756	China Tianyi Holdings Limited	3.5%	3	22.9%	33.1%	30.3%	28.6%	no
18-May-12	1028	C.banner International Holdings Limited	floating	4	Nil *(note 1)*	5.3%	4.8%	4.4%	no
8-Jun-12	1121	Baofeng Modern International Holdings Company Limited	7.0%	3	9.3%	11.0%	9.4%	8.4%	no
18-Jun-12	223	Sino Resources Group Limited	12.0%	2	-19.6%	25.8%	24.7%	25.2%	no

Date of announcement	Stock code	Issuer	Interest rate *(per annum)*	Maturity *(years)*	Conversion price to/over 180-day weighted average price	Closing	5-day average	10-day average	Conversion restriction
24-Jul-12	145	The Hong Kong Building and Loan Agency Limited	10.0%	31 Dec 2015	-61.0% *(note 2)*	0.0% *(note 2)*	-5.3% *(note 2)*	—	no
4-Sep-12	555	REXLot Holdings Limited	6.0%	28 September 2016	5.6%	12.3%	15.1%	19.7%	no
18-Sep-12	951	Chaowei Power Holdings Limited	7.3%	24 September 2017	35.1%	20.1%	17.6%	19.9%	no
25-Sep-12	388	Hong Kong Exchanges and Clearing Limited	0.5%	29 October 2017	33.9%	—	—	—	any time on and after 41st day after the date of issue
Maximum			12.0%	5	282.9%	51.9%	53.5%	33.5%	
Minimum			nil	1	-61.0%	-15.5%	-20.0%	-21.3%	
Average			4.4%	3.6	19.4%	13.7%	196.1%	177.9%	

Notes:

1. 180-day weighted average price is not available as the shares of this company were listed on the Stock Exchange on 23 September 2011.

2. The discount/premium to the share price of this company was calculated based on the assumption that the capital reorganisation of this company (details of which are set out in the circular dated 29 May 2012 and announcements dated 19 April 2012, 27 April 2012, 9 May 2012, 21 June 2012, 18 July 2012, 14 August 2012, 14 September 2012, 6 November 2012 and 27 November 2012) had been completed immediately before the date of this announcement (i.e. 24 July 2012).

The First Tranche Conversion Price

The conversion price of HK$3.80 under the First Tranche Convertible Notes represents:

(i) a discount of approximately 23.69% to the closing price of HK$4.98 per Share as quoted on the Stock Exchange on 11 October 2012, being the last trading day immediately before the entering into of the Investment Agreement (the "**Last Trading Day Discount**");

(ii) a discount of approximately 22.95% to the average of the closing prices of HK$4.932 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to 11 October 2012 (the "**5-day Discount**");

(iii) a discount of approximately 21.71% to the average of the closing prices of HK$4.842 per Share as quoted on the Stock Exchange for the last ten trading days immediately prior to 11 October 2012 (the "**10-day Discount**"); and

(iv) a discount of approximately 36.67% to the closing prices of HK$6.0 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

As stated in the Letter from the Board, the Company has taken into account the following basis for determining the First Tranche Conversion Price (i.e. HK$3.80) as stated in the Letter from the Board:

(i) the five-day average closing price of the Shares of approximately HK4.932 from 5 October 2012 to 11 October 2012; and

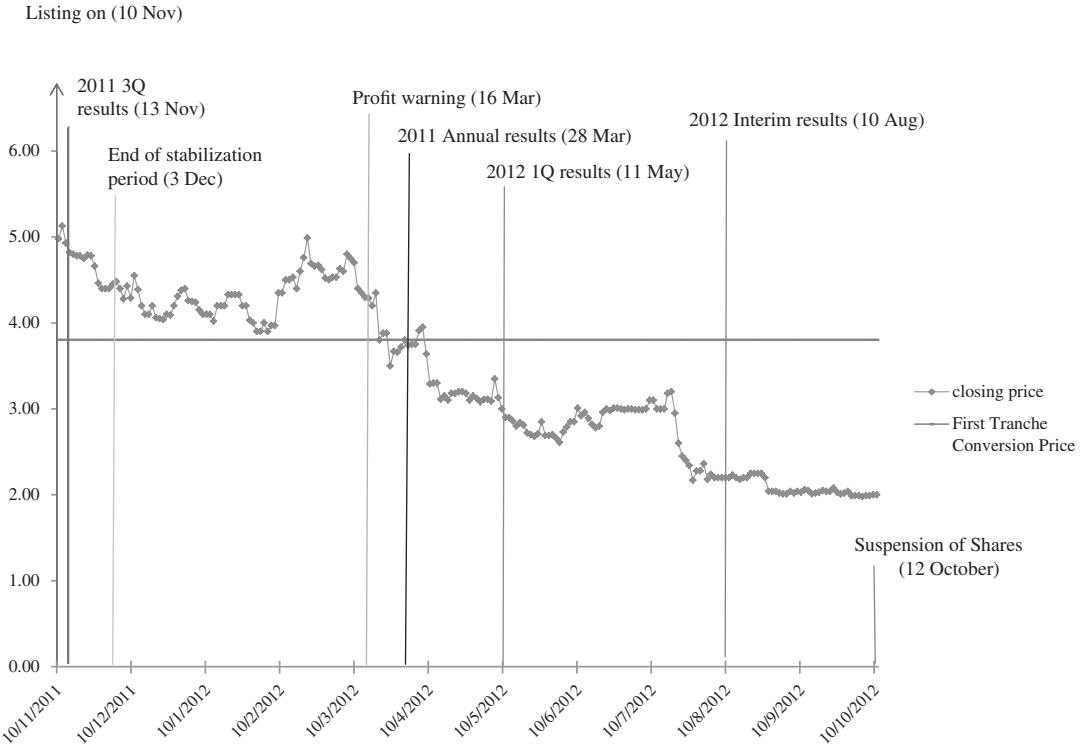
(ii) the 180-trading day volume-weighted average closing price of the Shares (the "**180-Day Average**") of approximately HK$3.797 as quoted on the Stock Exchange immediately preceding the date of the Transaction Agreements.

We have compared the First Tranche Conversion Price with the conversion prices of the CN Comparables as set out above and we noted that the Last Trading Day Discount (i.e. 23.69%), the 5-day Discount (i.e. 22.95%) and the 10-day Discount (i.e. 21.71%) as set out above fall beyond the range represented by the CN Comparables from (i) a premium of 51.9% to a discount of 15.5% in respect of the average closing price of the CN Comparables (the "**CN Share Prices**") on the last trading day; (ii) a premium of 53.5% to a discount of 20.0% in respect of the CN Share Prices in last five trading days; and (iii) a premium of 33.5% to a discount of 21.3% in respect of the CN Share Prices on the last ten trading days, respectively.

Notwithstanding the above, as it is the major basis for determining the First Tranche Conversion Price is 180-Day Average, we have compiled an additional column in the table above setting out the discount/premium represented by the CN Comparables to/over the 180-trading volume-weighted average closing prices thereof for our comparison. As set out in the table, the premium represented by the First Tranche Conversion Price to the 180-Day Average (i.e. 0.08%) falls within the range represented by the conversion price of the CN Comparables from a premium of approximately 282.9% to a discount of approximately 61.0%.

In addition to the above, we have performed a review on the historical closing price of the Shares on the Stock Exchange for the period from date of listing (i.e. 10 November 2011) to 14 October 2012, being the Last Trading Day (the "**Review Period**"), as set out below:

Closing price of the Shares and the First Tranche Conversion Price



Note: Vertical lines in the graph above denote announcements issued by the Company relating to the financial performance of the Company during the Review Period.

During the Review Period, the daily closing prices of the Shares ranged from HK$1.98 to HK$5.13 per Share with an average daily trading volume of approximately 233,513 Shares. The First Tranche Conversion Price lies within the range, and is higher than the average closing price of the Shares of approximately 3.37 for the Review Period. As at the Latest Practicable Date, the Share price closed at HK$6.00.

We notice that the Share price reached its lowest point of the Review Period at HK$1.98 on 16 November 2011 and staggered within range from its lowest point on 16 November 2012 to around HK3.18 on 7 May 2012, save for the surge to HK$3.35 on 19 April 2012 without any corporate events or financial results announced. After the Company issued its strong first quarter results of the Company for the three months ended 31 March 2012 (the "**First Quarter Result**") on 11 May 2012, the Share price began its upward trend until it reached strong resistance at HK$5.0 price level on 4 July 2012 (with a closing price of the Shares at HK$4.99) (the "**Upward Period**"). Despite the positive interim results of the Company announced on 10 August 2012, the Share price did not rise up back to the level close to HK$5.0 until 10 October 2012 (with a closing Share price of HK$5.13), being two days before the suspension of the Shares due to the entering into of the Investment Agreement and the CCT Agreements (the "**Downward Period**"). Upon resumption of trading of the Shares, the Share price surged to HK$6.0 and reached its highest at HK6.29 on 17 October 2012.

Having reviewed the Share prices of the Company throughout the Review Period, we note that the Share price did not reach the level of the First Tranche Conversion Price (i.e. HK$3.8) from its date of listing until 18 May 2012 (with a Share price closed at HK$3.95), and after the issue of the First Quarter Result, it entered into its Upward Period in May 2012 and started its Downward Period in July 2012. The First Tranche Conversion Price (i.e. HK$3.8) is higher than the average closing prices of the Shares of approximately HK$3.37 in the Review Period and the 180-Day Average of approximately HK$3.797 immediately preceding the issue of the Announcement. In view of the fluctuations of the Share prices without specific cause or corporate events announced throughout the Review Period, we consider that using 180-Day Average of the Share price as a basis for determining the First Tranche Conversion Price can average out the effect of the speculative surge of the Share price throughout the six months preceding the date of the Announcement without neglecting the fundamental strengthening of the Shareholder value due to the desirable financial results of the Company for the three months ended 31 March 2012 and six months ended 30 June 2012. Together with the synergy effect manifested from the Transactions to both the Company and Medtronic (details of which are set out in the section headed "Reasons for and Synergy of the Transactions" above), we are of the view that an approximate 24% discount to the market price of the Shares on the Last Trading Day is justified as the conversion price of HK$3.8 calculated based on the basic earning per share of the Company of approximately RMB$0.031 (equivalent to approximately HK$0.0384) for the year ended 31 December 2011 represented a price-to-earning ratio ("**PER**") of 98.96 times, which is much higher than the PER of the market comparables of the Company as shown in the subsequent paragraph named "PRR Comparables". In view of the above, the First Tranche Conversion Price is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

Anti-dilution events for First Tranche Convertible Note

Pursuant to the instrument of the First Tranche Convertible Note, the First Tranche Conversion Price will be adjusted in the event that there is an alteration in the capital structure of the Company, whether by way of capitalisation of profits or reserves, bonus issue, rights issue, issue of shares by way of a scrip dividend, grant of share options or issue of shares pursuant thereto, open offer, sub-division, consolidation, reclassification, subdivision or redenomination of shares, reduction of capital of the Company in accordance with applicable laws and regulatory requirements, issues of shares at less than the Current Market Price, or otherwise. The adjustment shall be made to (a) the number of Conversion Shares; (b) the First Tranche Conversion Price; and (iii) any combination thereof, as the independent financial adviser as, approved by the Company and the holder of the First Tranche Convertible Notes (the "Noteholder"), certify in writing to be in their opinion fair and reasonable with basis, provided with (i) any such alterations shall be made on the basis that the Noteholder shall have the right to convert the First Tranche Convertible Notes into the same proportion of the outstanding equity capital of the Company as that to which it was entitled to subscribe immediately before such adjustments; (ii) the aggregate conversion price on the full exercise of the First Tranche Convertible Notes shall remain the same or as nearly as possible the same as it was before such event; and (iii) no such alterations shall be made if the effect of such alterations would be enable a Share to be issued at less than its nominal value.

Having reviewed that the anti-dilution events for the CN Comparables, we noted that the anti-dilution events for the First Tranche Convertible Notes are customary and are generally in line with the market practice, except for the attribute of the mechanism to guarantee Medtronic the same

proportion of equity capital of the Company as to which it was entitled before the occurrence of all kinds of dilutive events. However, taking into account that (i) the low likelihood of occurrence of the dilutive events as the Company shall not issue any new shares, options (except for the options under the Share Option Scheme), warrants, debentures or other securities unless it obtains the prior written consent from Medtronic under the Investment Agreement for so long as Medtronic holds the Convertible Notes with an aggregate principal amount of not less than HK$121,600,000; (ii) the adjustment to the conversion price or the number of conversion shares of the First Tranche Convertible Notes will be made conditional on the opinion on the fairness and reasonableness of the adjustment to be given by the then independent financial advisers engaged by the Company; and (iii) the Company will greatly benefit from the synergy effect arising from strategic alliance formed with Medtronic through the entering into of the Investment Agreement (including issuance of the First Tranche Convertible Notes thereto), details of which are set out in paragraph headed "Reasons for and synergy of the Transactions" above, we are of the view that the mechanism of having the anti-dilution events under the First Tranche of the Convertible Note are fair and reasonable.

Second Tranche Conversion Price

The Initial Conversion Price of HK$6.0 under the Second Tranche Convertible Notes represents or is equivalent to (as the case may be):

(a) a premium of approximately 20.48% to the closing price of HK$4.98 per Share as quoted on the Stock Exchange on 11 October 2012, being the last trading day immediately before the entering into of the Investment Agreement;

(b) a premium of approximately 21.65% to the average of the closing prices of HK$4.932 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to 11 October 2012; and

(c) the closing prices of HK$6.0 per Share as quoted on the Stock Exchange for the Latest Practicable Date.

As advised by the Company, the Initial Conversion Price was determined by the Company and Medtronic by reference to the average of (i) the First Tranche Conversion Price; and (ii) the possible conversion price of HK$8.0 for the Second Tranche Convertible Notes, to ensure that Medtronic could gain at least 51% control over the Company upon full conversion. It is not the actual conversion price to be adopted by Medtronic for conversion of the Second Tranche Convertible Notes as the actual conversion price is to be determined under the adjustment mechanism at the time of conversion and thus the aggregate subscription monies of the Company will only be determined based on the actual conversion price (the "**Second Tranche Conversion Price**") instead of the Initial Conversion Price. We would like to draw the Independent Shareholders' attention to the lower and higher bound of the Second Tranche Conversion Price according to the adjustment mechanism shown below and the minimum amount of the proceeds to be obtained by the Company of approximately HK$1,543,885,716.3 as calculated by multiplying the number of conversion shares (i.e. 338,571,429 Shares) upon full conversion of the Second Tranche Convertible Note assuming no adjustment events occur by the lowest bound of the Second Tranche Conversion Price (i.e. HK$4.56), rather than the insignificant reference price.

Anti-dilution events for Second Tranche Convertible Note

Pursuant to the instrument of the Second Tranche Convertible Note, the Second Tranche Conversion Price will be adjusted in the same manner as that of the First Tranche Convertible Note set out in the paragraph above.

Having reviewed that the anti-dilution events for the CN Comparables, we noted that the anti-dilution events for the Second Tranche Convertible Notes are customary and are in line with the market practice, except for (a) the attribute of the mechanism to guarantee Medtronic the same proportion of equity capital of the Company as to which it was entitled before the occurrence of all kinds of dilutive events; and (b) the mechanism to determine the Second Tranche Conversion Price at the time of conversion, which will be opined on in the subsequent paragraph headed "Adjustment to the Initial Conversion Price". After taking into account that (i) the low likelihood of occurrence of the dilutive events as the Company shall not issue any new shares, options (except for the options under the Share Option Scheme), warrants, debentures or other securities unless it obtains the prior written consent from Medtronic under the Investment Agreement for so long as Medtronic holds the Convertible Notes with an aggregate principal amount of not less than HK$121,600,000; (ii) the adjustment to the conversion price or the number of conversion shares of the Second Tranche Convertible Notes will be made conditional on the opinion on the fairness and reasonableness of the adjustment to be given by the then independent financial advisers engaged by the Company; and (iii) the Company will greatly benefit from the synergy effect arising from strategic alliance formed with Medtronic through the entering into of the Investment Agreement (including issuance of the First Tranche Convertible Notes thereto), details of which are set out in paragraph headed "Reasons for and Synergy of the Transactions" above, we are of the view that the anti-dilution events of the Second Tranche of the Convertible Note are fair and reasonable.

Adjustment to the Initial Conversion Price

The Initial Conversion Price shall be adjusted as follows:

(i) if either of the following has occurred:

(a) the aggregate turnover of the Group for any given consecutive 12-calendar month period is not less than US$75 million, or

(b) one of the product development milestones as specified in the Investment Agreement having been achieved,

the Initial Conversion Price shall be adjusted to the Floating Conversion Price, which shall be the higher of:

(a) the volume-weighted average of the closing price of the Shares as quoted on the Stock Exchange website on all the trading days falling in the six months up to and including the date immediately prior to the date of the notice by the Noteholder to subscribe for the Second Tranche Convertible Notes under the Investment Agreement; or

(b) HK$4.56 per Share representing 120% of the conversion price under the First Tranche Convertible Notes; or

(ii) in the absence of satisfaction of the conditions under paragraph (i) above, the Initial Conversion Price shall be adjusted to the higher of (a) HK$8.00 per Share or (b) the Floating Conversion Price determined under paragraph (i) above.

According to the above mechanism, the Second Tranche Conversion Price will fall into a range from HK$4.56 to the higher of HK$8 and the 6-month weighted average closing price of the Shares and HK$8 per Share (in the absence of satisfaction of the conditions under paragraph (i) above).

Lower bound of the Second Tranche Conversion Price

As advised by the Company, the lower bound of Second Tranche Conversion Price of HK4.56 was determined to represent a 20% premium over the First Tranche Conversion Price (i.e. HK$3.8) so as to ensure that the Company captures the least positive effect on the Share prices as a result of the introduction of strategic partner whilst compromising with Medtronic to negate the speculative surge of Share prices as a result of market sentiment at the date of the Investment Agreement.

Upper bound of the Second Tranche Conversion Price

In view of the floating nature of the Second Tranche Conversion Price according to the adjustment mechanism and the fixed nature of the conversion prices of the CN Comparables as set out in the table above, we have not compared the Second Tranche Convertible Price with that of the CN Comparables. We have discussed with the management of the Company and noted that the upper bound of the Second Tranche Conversion Price was set as the higher of the 6-month weighted average closing prices of the Shares and HK$8 per Share (in the absence of satisfaction of the conditions under paragraph (i) above) to ensure that the Company can benefit from the increase in Shareholder value as reflected in the Share prices in the six months immediately preceding the date of conversion. As we will not know the actual conversion price of the Second Tranche Convertible Notes until the time of conversion, we will examine the fairness and reasonableness of one of the possible conversion prices that is known at present, that is, HK$8.

As advised by the Company, such upper bound of the Second Tranche Conversion Price was determined after arm's length negotiation between the Company and Medtronic by reference to (i) the price-to-revenue ratio ("**PRR**") represented by conversion price of HK$8.0 and the revenue milestones of US$75.0 million (the "**Revenue Milestone**") for any consecutive 12-month period during the term of the Second Tranche Convertible Notes; and (ii) the current PRR of the comparable listed companies (the "**PRR Comparables**") on the Stock Exchange in the medical industry.

In assessing the fairness and reasonableness of the possible upper bound of the Second Tranche Conversion Price of HK$8, we have considered and examined the following:

(i) *The PRR represented by the conversion price of HK$8*

Assuming the Revenue Milestone is reached during the term of the Second Tranche Convertible Notes and the First Tranche Convertible Notes are fully converted, the PRR of the Company as represented by the conversion price of HK$8 would be 7.48 times.

(ii) *The PRR Comparables*

As advised by the Company, the Company and Medtronic have also taken into account the current PRR of the comparable listed companies on the Stock Exchange. The Company has provided some comparables which have a similar principal business in medical device industry for our assessment. To assesse the reasonableness of the choice of the PRR Comparables, we have discussed with the management of the Company and, on a best effort basis, conducted a search of companies (i) listed on the Stock Exchange; and (ii) with principal business engaged in the manufacturing of medical devices. We have identified a total of five comparable companies meeting the criteria set out above and are of the view that the comparables identified by the Company are reasonable, save for the Sinopharm Group Co. Ltd (Stock code: 1099) in view of its major business focus on pharmacy distribution instead of manufacturing of medical devices. The list of the PRR comparables, which is exhaustive on a best effort basis, is set out below:

PRR Comparables	**Principal business**	**PRR** *(Note)*
Shangdong Weigao Group Medical Polymer Co. Ltd (1066)	Research and development, production and sale of single-use medical devices, orthopaedic products and blood purification products.	4.8
Trauson Holdings Co. Ltd (325)	Design, manufacture and sell a broad range of trauma and spine orthopaedic implants and related surgical instruments.	6.0
Microport Scientific Corporation (853)	Develop, manufacture and sale of medical devices in China, focusing primarily on minimally invasive interventional products for the treatment of vascular diseases and disorders.	5.3
Golden Meditech Holdings Ltd (801)	Development, manufacture & sale of medical devices & accessories; provision of management services & operating of hospitals; research, development, manufacture & sale of Chinese herbal medicines; provision of medical insurance services.	4.8
Mingyuan Medicare Development Co. Ltd (233)	Manufacture and trading of protein chips and HPV detection products and related equipments, operation of Woman and Child Healthcare Hospital; provision of medical diagnostic, health check and medical appraisal services.	2.1
Average		4.6

Note: The PRR of the PRR Comparables set out above was calculated based on the revenue set out in the latest published audited accounts of PRR Comparables and the closing share price of the PRR Comparables on 11 October 2012 (i.e. the Last Trading Day).

As shown above, the PRR of 7.8 times as represented by the conversion price of HK$8.0 and the Revenue Milestone falls out of the range from 2.1 to 6.0 times and is higher than the average PRR of the PRR Comparables of approximately 4.6 times. As the PRR of the Company is higher than the average and the upper bound of the range of the PRR Comparables, we consider that the estimated PRR of the Company to be offered by Medtronic is favourable to the Company and the Shareholders as a whole.

Interest rate/coupon

The interest rate of the CN Comparables range from nil to 12.0% and an average of approximately 5.1%. The Convertible Notes are of 1% interest rate, which falls within the range of interest rate and is lower than the average of the interest rates offered by the CN Comparables. Accordingly, we consider that the interest rate of the Convertible Notes is fair and reasonable and is in the interest of the Company and Independent Shareholders as a whole.

Earliest day of conversion

Most of the CN Comparables under review allows conversion of their convertible notes upon date of issue and only two convertible notes or bonds have a conversion restriction for two years from the date of issue. Taking into account that there is no restriction on the conversion of the Convertible Notes, which is in line with the market practice of the CN Comparables, we consider that the earliest day of conversion of the Convertible Notes is fair and reasonable and is in the interest of the Company and the Independent Shareholders as a whole.

Maturity

The maturity of the CN Comparables ranges from 1 to 5 years, with an average of 3.5 years. Some CN Comparables do not have an exact term but just a maturity date and the term of these CN Comparables are determined on the assumption that the convertible notes or bonds were issued on the respective dates of the announcement. The maturity of the First Tranche Convertible Notes of five years falls within the range and comparable to the average of the CN Comparables. The maturity of the Second Tranche Convertible Notes which is subject to the fulfilment of the Second Tranche Conditions and will not exceed five years, also falls within the range of the CN Comparables. We have also discussed with the management of the Company and consider that five-year term of the Convertible Notes is fair and reasonable and in the interest in the Company and Shareholders as a whole as, under preliminary estimation, it may take such period of time to improve the quality of the Company's heart valve products under the Services Agreement, generate sales in overseas market through the Distribution Agreement and ultimately realise the potentials and benefits of synergy arising from the strategic alliance formed between the Company and Medtronic.

6.6 Other alternatives

We note that as at the Latest Practicable Date, the HK$ prime lending rate of Hong Kong and Shanghai Banking Corporation Limited is 5% per annum. Since the lending rate is regarded as the fair cost of capital at which companies may obtain bank loans, the 1% interest of the Convertible Notes is favourable to the Company as it enables the Company to obtain debt capital at a very low cost

especially when it compares to the lending rate of approximately 6.5% to 7.0% that can be obtained by the Company. Medtronic's prestigious status as a major international medical device player of the holder of the Convertible Notes and the promising future and prospects of the Company as a result of the introduction of Medtronic as strategic partner also justified the management's decision in issuing the Convertible Notes to it instead of to other placees or through other alternatives for fund raising.

6.7 Dilution effect

As extracted from the Letter from the Board, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon Share Purchase Completion; (iii) immediately after full conversion of the First Tranche Convertible Notes (the "First Tranche Full Conversion"); and (iv) upon full conversion of the Convertible Notes (the "Second Tranche Full Conversion") (assuming there is no change in the issued Share capital of the Company other than issue of the Conversion Shares), are set out below:

		As of the Latest Practicable Date		Upon completion of the Share Purchase		Upon the First Tranche Full Conversion		Upon the Second Tranche Full Conversion	
Name of Shareholder	**Notes**	**No. of Shares held**	**Approx. %**	**No. of Shares held**	**Approx. %**	**No. of Shares held**	**Approx. %**	**No. of Shares held**	**Approx. %**
Medtronic		0	0	95,000,000	19.00%	135,000,000	25.00%	473,571,429	53.90%
Xianjian Tech	1,3	101,540,962	20.31%	101,540,962	20.31%	101,540,962	18.80%	90,910,248	10.35%
GE Asia	2,3	87,883,332	17.58%	87,883,332	17.58%	87,883,332	16.27%	77,252,618	8.79%
St. Christopher	4	13,583,333	2.72%	13,583,333	2.72%	13,583,333	2.52%	13,583,333	1.55%
Orchid Asia	5	98,650,618	19.73%	3,650,618	0.73%	3,650,618	0.68%	3,650,618	0.42%
Public Shareholders		198,341,755	39.67%	198,341,755	39.67%	198,341,755	36.73%	219,603,183	25.00%
Total		500,000,000	100.00%	500,000,000	100.00%	540,000,000	100.00%	878,571,429	100.00%

Notes:

1. Xianjian Advanced Technology Limited is a company wholly owned by Mr. Xie, the chairman and an executive Director.

2. GE Asia Pacific Investment Ltd is a company wholly owned by Mr. Wu, a non-executive Director.

3. Xianjian Advanced Technology Limited and GE Asia Pacific Investments Ltd are parties acting in concert.

4. St. Christopher Investment Ltd is a company wholly owned by Mr. Zhao Yiwei Michael, the chief executive officer of the Company and an executive Director.

5. Orchid Asia III is controlled by OAIII Holdings, L.P., which is in turn controlled by Orchid Asia and is ultimately controlled by The Li 2007 Family Trust. The Li 2007 Family Trust is a BVI discretionary trust established by Ms. Lam Lai Ming, spouse of Mr. Li Gabriel as settlor and Managecorp Limited as trustee. The beneficiaries of The Li 2007 Family Trust include family members of Ms. Lam Lai Ming and Mr. Gabriel Li. Mr. Gabriel Li is a non-executive Director as at the Latest Practicable Date.

6. The relevant percentages are calculated on the assumptions that (i) the Company has received notice of conversion from Medtronic on the exercise of its conversion rights under the Second Tranche Convertible Notes; (ii) Medtronic fully converts the Second Tranche Convertible Notes, (iii) for illustrative purpose only, the Controlling Shareholders will place down in aggregate 21,261,428 Shares in assisting the Company to fulfill the Public Float Requirement pursuant

to the Controller Public Float Undertaking, and (iv) it is assumed that no other Shares will be issued by the Company to any person from the Latest Practicable Date to the date on which the First Tranche Convertible Notes and the Second Tranche Convertible Notes are fully exercised, and none of the share options has been granted and exercised under the Share Option Scheme.

As shown in the table above, the shareholding interests of the existing public Shareholders in the Company will be slight diluted from approximately 39.67% to approximately 36.73% immediately upon the full conversion of the First Tranche Convertible Note. Immediately upon the full conversion of the Second Tranche Convertible Notes, the shareholding interests of the existing public Shareholders in the Company will be further diluted to approximately 22.58%, which is below the prescribed minimum public float of the Company under the GEM Listing Rules. To this end, the Controlling Shareholder Group will place down 21,261,428 Shares under the Controller Public Float Undertaking to restore the public float. Accordingly, the shareholding interest of the public Shareholders in the Company as shown in the above table immediately upon full conversion of the Second Tranche Convertible Notes and placing down of the Shares by the Controlling Shareholder Group is 25%. In the event that the Shares locked up under the Controller Public Float Undertaking is not sufficient to restore the public float, pursuant to Investment Agreement (as supplemented) the holder thereof shall not exercise its rights of conversion as long as the Public Float Requirement is fulfilled.

In view of the potential benefit and synergy effect that may be brought up by the strategic alliance with Medtronic and the relevant dilution effect as a result of the conversion of the Convertible Notes, we are of the view that the issue of the Convertible Notes to Medtronic is fair and reasonable and are in the interests of the Company and Independent Shareholders as a whole.

6.8 Financial effects of the issues of the Convertible Notes

As extracted from the Letter from the Board, set out below are the potential financial effects of the issue of the Convertible Notes:

Net assets

According to the Interim Report 2012, as at 30 June 2012, the Group's net assets attributable to Shareholders are approximately RMB286,035,000 (equivalent to approximately HK$354,683,400). The Company shall issue the Convertible Notes, resulting in (i) an increase in non-current liability (liability component); (ii) increase in convertible bonds equity reserve (equity component); and (iii) an increase in cash, a current asset. It is expected that the issue of the Convertible Notes will not have any material impact on the Group's net asset value.

Liquidity

The Interim Report 2012 states that, as at 30 June 2012, the Group has unaudited current assets and unaudited current liabilities of approximately RMB261,556,000 (equivalent to approximately HK$324,329,440) and RMB35,374,000 (equivalent to approximately HK$43,863,760) respectively, translating into a current ratio (current assets/current liabilities) of approximately 7.39 times.

As discussed earlier, the issue of the Convertible Notes will, amongst others, increase the Company's non-current liability and cash, a current asset. Since the Convertible Notes is expected to have no material effect on current liabilities, its issue is expected to improve the Group's liquidity.

Gearing

As at the Latest Practicable Date, the Group has no outstanding debts. As such, the gearing ratio of the Group is 0.

The Company shall issue the Convertible Notes which is expected to result in an increase in debt by the principal amount of the Convertible Notes. At the same time, the Company's total assets is expected to increase by the amount of net proceeds of the Convertible Notes, an amount which is smaller than the principal amount of the Convertible Notes. Accordingly, the issue of the Convertible Notes is expected to slightly increase the Company's gearing ratio.

Earnings

According to the Annual Report 2011, the Group recorded audited consolidated profit for the year attributable to the Shareholders of approximately RMB11,830,000 for the year ended 31 December 2011. Based on discussion with the Group's management, any change in fair value of the Convertible Notes and the relevant interest expense at year end will be transferred to the consolidated income statement.

It should be noted that the above-mentioned analysis are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the transactions contemplated under the Investment Agreement.

6.9 Uses of proceeds

As set out in the Letter from the Board, the proceeds from the First Tranche Convertible Notes (the "**Use of First Tranche Proceeds**") and the proceeds from the Second Tranche Convertible Notes (the "**Use of Second Tranche Proceeds**") will be used in the following ways, which, in our opinion based on our discussion with the management of the Company and the reconciliation as set out below, are in line with the business strategies of the Company as disclosed in the Prospectus (the "**Business Strategies**"):

Business Strategies	**Use of First Tranche Proceeds**	**Amount** *(HK$' million)*	**Use of Second Tranche Proceeds**	**Amount** *(HK$' million)*
Enhance Market Position of Core Cardiovascular and Peripheral Vascular Devices in Key Emerging Markets	Internal system update	68	Expansion to key emerging markets& Internal system upgrades	255

Business Strategies	Use of First Tranche Proceeds	Amount *(HK$' million)*	Use of Second Tranche Proceeds	Amount *(HK$' million)*
Continuing to Develop and Commercialize Pipeline Products	—	—	Developing and commercializing various pipeline products	400
Expansion into Key International Markets with Current and Pipeline Products	Expansion into Key International Markets with Current and Pipeline Products	35	Expansion into key current international markets with current and pipeline products	75
Expansion into Complementary Product Offerings	—	—	Expansion into complementary product offerings	295
Pursuing Selected Acquisitions, Partnerships, Alliances and Licensing Opportunities	—	—	Pursuing opportunistic, acquisitions, partnerships, alliances and licensing opportunities	800
Expansion our manufacturing facilities	Expansion the production capability of PerMed and improvement of the operation level of PerMed	38	Expansion of production capabilities of the Group& Upgrade of production facilities	204
Total		141		2,029

6.10 Our view

Having considered the principal factors and analysis as set out above, we are of the opinion that (i) the terms of the Investment Agreement (including the issue of the Convertible Notes) and the Controller Public Float Undertaking are, as a whole, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the Connected Transaction is on normal commercial terms and in the ordinary and usual course of business of the Group.

7 THE DISTRIBUTION AGREEMENT

7.1 Background of entering into the Distribution Agreement

On 14 October 2012, Medtronic entered into the Distribution Agreement (as supplemented on 5 January 2013) with the Company and PerMed in relation to the global distribution of the Company's

products through Medtronic's extensive sales network. PerMed is one of the parties to the Distribution Agreement is due to the fact that it is the manufacturing company located in the PRC mainly responsible for the production of the heart valve products to be distributed through Medtronic's network under the Distribution Agreement. Details of the terms of the Distribution Agreement are set out in the Letter from the Board whilst the reasons for and benefit of the Distribution Agreement are set out in the above paragraph 5 headed "Reasons for and synergy of the Transactions".

7.2 Principal terms of the Distribution Agreement

The major terms of the Distribution Agreement are set out in the Letter from the Board. We wish to draw the attention of the Independent Shareholders to the following:

5-year term of the Distribution Agreement with 3-year automatic renewal term

The Distribution Agreement shall be effective for five years from the First Tranche Completion Date. Thereafter, the Distribution Agreement shall, unless terminated pursuant to the terms of the Distribution Agreement or a six-month advance notice of non-renewal is served by either party and subject to the compliance with the GEM Listing Rules, be automatically renewed for additional periods of not more than three years each. The Company will duly comply with all applicable requirements under Chapter 20 of the GEM Listing Rules upon confirmation of renewal of the Distribution Agreement in the future.

In assessing the duration of the Distribution Agreement, we have considered, based on the information provided by the Company, the following reasons and factors:

(i) the Company considers that it is commercially sensible for the Distribution Agreement to have such duration in order to (a) coherent with the time required for obtaining the regulatory approval from the local medical authorities for its products to be distributed to other countries including but not limited to the U.S. and European countries, which, with Medtronic's assistance in the application process, normally takes one to five years; (b) benefit from the syngery effect as detailed in section 5 headed "Reasons for and synergy of the Transactions" above; and (c) mirror the expected time required for internal system upgrade of the Company pursuant to the Services Agreement for manufacturing heart valve that can reach the overseas industry standard and get the distribution to ramp up to a commercially reasonable level;

(ii) Medtronic is global market player in the medical device market and in particular, the market leader in the Chinese heart valve device market in 2011 according to the MN Report, details of which are set out in section 4.3 headed "Information on Medtronic";

(iii) it is normally time consuming for the parties to the distribution agreement of similar type to agree on the standard and quality of the products, strategies and sequence of entry into different markets and etc and thus it is in the commercial interest of the Company to maintain a stable distributor to provide the Company with greater degree of stability and

continuity to formulate a long term strategic plan and unify the fragmented and small scale sub-distributors to save time and cost required for coordination and logistics. On the above rationale, having a term of more than three years for the Distribution Agreement is practicable and commercially sensible for the Group;

(iv) the transactions contemplated under the Distribution Agreement will be in the ordinary and usual course of business of the Company; the distribution agreements entered into between the Company or its subsidiaries with the overseas and local distributors, which are independent third parties of the Company, for the distribution of the Group's medical device products other than heart valves have a term ranging from one to five years and thus the term of the Distribution Agreement falls within the range;

(v) as the market leader in the heart valve device market in the PRC and one of the top three market player in the heart valve device market in Brazil and India, Medtronic also enter into distribution agreement with a term of more than 3 years for the provision of distribution services to its strategic partner when establishing a strategic alliance with another company as its standard practice; and

(vi) we have conducted certain researches on some comparable transactions in Hong Kong Stock Exchange and have found several distribution agreements entered into by the listed companies in the medical or pharmaceutical industry. However, we noted that these distribution agreements are not comparable to the Distribution Agreement taking into account that the products to be distributed are commercialized products that did not involve more time-consuming tasks such as technical transfer or further product development or regulatory approval for its sales in respective markets. We have also conducted another researches on the overseas medical markets such as Canada and the U.S. and noted several comparable transactions relating to distribution of medical products developed in connection with technical transfer or assistance or requiring regulatory approval for its sales in target markets. Based on the publicly available information on the aforesaid distribution arrangements, we noted that the duration of these comparable distribution arrangements are normally longer than 3 years ranging from 5 years to 20 years from the date of the agreements.

Taking into account of the above reasons and factors, we are of the view that a five-year term for the Distribution Agreement is required and it is not an uncommon business practice for agreements of this type to be of such duration.

Conditions to be fulfilled before the Start Date

Pursuant to the Distribution Agreement, Medtronic shall commence its performance of the Distribution Agreement including but not limited to the marketing, promotion or distribution of the Products only upon satisfaction of a number of conditions, including but not limited to (i) the Internal Upgrade Requirements under the Investment Agreement are completed; and (ii) all the existing distributors and sales agents for the Products as of the First Tranche Completion Date have been transferred to Medtronic.

Having considered that (i) the Company's existing sales network for heart valve products is limited with only three out of 11 distributors purchased heart valve products from the Company in 2012; (ii) Medtronic has strong sales network spreading over 120 countries; and (iii) the Company will closely monitor the progress of the internal system upgrades at PerMed and other subsidiaries of the Group and will only transfer the existing distributors to Medtronic when the Board has been advised by the JSC that the internal system upgrade requirements have been met, we are of the view that the transfer of the distributors to Medtronic would not have material adverse impact on the Company's operation.

We are also of the view that the effective date of the Distribution Agreement set as the First Tranche Completion is fair taking into account that (i) the transactions contemplated under the Transaction Agreements are part and parcel transactions; (ii) it provides sufficient time for the Company to finish the internal upgrading based on the Services to be provided by Medtronic under the Services Agreement before the Company starts distributing its products through Medtronic's extensive distribution channels; and (iii) the Company has no obligation for payment under the Distribution Agreement until Medtronic starts distributing its products on the Start Date.

As confirmed by the management of the Company, the Company expects to take approximately six months for completing the internal system upgrade for PerMed alone and 24 to 30 months for completing the Internal Upgrade Requirements by all of its subsidiaries and it is expected that the Start Date (i.e. date of commencement of Medtronic's obligation under the Distribution Agreement) will be 1 October 2013. Having reviewed the internal upgrading plan setting out the internal system upgrading tasks to be finished by the Company in each month before the expected Start Date (i.e. 1 October 2013) as provided by the Company, we are of the view that the expected Start Date is estimated by the Company after due care and is fair and reasonable.

Pricing of the Products

As stated in the Letter from the Board, the Transfer Price payable by Medtronic to PerMed for a given type of Product purchased by Medtronic during the second year and the subsequent years shall be established by a formula that is based on the difference between the first year average resale price and the Transfer Price for the first year for a given Product.

We have discussed with the management of the Company and understood that the Transfer Price was determined after arm's length negotiation between them taking into account the following factors:

(i) As advised by the Company, Medtronic and the Company have decided to effectively share the collective margin between manufacturer and end users, with both parties being protected when it comes to pricing as a result of the annual adjustment mechanism. So if the market can bear a higher price, both PerMed and Medtronic will benefit; and conversely, if the market can only bear a lower price, both PerMed and Medtronic will share in that "cost."

(ii) The Company and Medtronic have considered the key benefits from the entering into of the Distribution Agreement which include (a) PerMed's ability to leverage the breadth/worldwide geographic scope and product-specific/cardiovascular expertise of

Medtronic's distribution system; (b) access by PerMed to Medtronic's dealer/distributor management experience; and (c) PerMed's ability to leverage the existing relationships between Medtronic and its customers worldwide. To elaborate, Medtronic's global sales representatives, agents and distributors have years of experience selling and marketing heart valves as well as other cardiovascular products; and Medtronic's global distribution network of representatives, agents and distributors is more expansive than that used currently by the Company. Medtronic will have multiple people manage the relationships and performance of the sales representatives, agents and distributors, relieving the Company of this significant task and obligation. Medtronic has established relationships with customers that purchase heart valves and other cardiovascular products.

(iii) As advised by the Company, although the Company may be able to achieve a high price per unit with other potential distribution partners in the PRC, it is unlikely that the company will be able to achieve greater profit. Increased profit from heart valve operations globally will be a result of (a) Medtronic's leadership and existing distribution channel and expertise in the China's surgical tissue valve segment, and (b) Medtronic's ability to support the Company in improving its production volume and manufacturing efficiencies to produce more product at lower prices than it could do without Medtronic's support. The combination of market expertise, a large heart valve distribution channel in China and throughout the globe, and manufacturing expertise will allow the Company to garner greater profits from its heart valve operations that its current or potential future distribution partners.

Notwithstanding that the adjustment mechanism as stipulated in the Distribution Agreement cannot be disclosed in details in this letter or in the Circular due to commercial confidentiality, we, still, have assessed the pricing of the Distribution Agreement based on the adjustment mechanism stipulated in the Distribution Agreement. In assessing the maximum price of the heart valve products to be distributed by Medtronic in year one of the Distribution Agreement, we have reviewed the invoices from the existing independent distributors engaged by the Company for the distribution of its heart valve products in the PRC and noted that the average wholesale price of the heart valve products to these distributors is higher than the maximum Transfer Price in year one under the Distribution Agreement. Despite the fact that the Transfer Price offered by PerMed to Medtronic represents a discount to the wholesale price charged to the independent distributors, we are of the view that such discount is justified taking into account the synergy effect arising from the strategic alliance formed with Medtronic as detailed in the section headed "Reasons for and synergy of the Transactions" above and the expected increase in the sales volume and thus profitability of the Group's heart valve products after engaging Medtronic as its worldwide distributor, details of which are shown in point (ii) above.

In assessing the fairness and reasonableness of the adjustment mechanism of the Transfer Price in subsequent years, we have reviewed the sample invoices issued to the Group's independent distributors in the PRC and the major overseas markets of the Group such as India, Russia (both of which are one of the top three largest markets of the Group), Vietnam and Ukraine. We have also reviewed the sample invoices provided by its PRC's distributors to its end-customers (i.e. hospitals in the PRC) and retail price information confirmed by the overseas distributors to the hospitals located in India, Vietnam, Russia and Ukraine respectively. We noted from the above documents that the adjustment mechanism under the Distribution Agreement to adjust the Transfer Price in subsequent

years based on a designated percentage of the retail price is in line with the Company's existing pricing arrangement with the independent distributors of the Company in the PRC and the overseas markets. We have also discussed with the management of the Company and as advised by them, Medtronic, as the largest market player in the tissue heart valve device market in the PRC and the world's largest maker of implantable medical devices, also carries out similar adjustment mechanisms based on similar percentage of the retail price for determining the wholesale prices of its medical device products in subsequent years of the distribution with its other independent third parties clients. Together with our consideration of the costs and benefits of engaging Medtronic as distributor as shown above, we consider the pricing mechanism is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

Annual sales target and minimum purchase quantities

The parties shall agree in good faith, in respect of the first year from the Start Date, a minimum purchase quantity and, in respect of each year thereafter, an annual sales target for each type of the Products that Medtronic shall purchase from PerMed in the relevant year. There is minimum purchase quantity for both first year and subsequent years of the Distribution Agreement.

We have discussed with the Company and noted that the annual sales target to be negotiated between the Company and Medtronic is favourable to the Company in the sense that (i) it allows more flexibility and room for PerMed to articulate its production plan for the coming year in terms of production capacity, labour force arrangement, and capital deployment; and (ii) it gives a preliminary portray of the annual sales to be contributed by the sales of heart valve products and thus more adaptive to the overall business development plan of the Group as a whole.

Payment terms

Under the Distribution Agreement, Medtronic's payment to PerMed for the heart valve products shall be made 60 days after the date of invoice or the date of delivery, whichever is later.

We have reviewed the distribution agreements entered into between Lifetech Shenzhen and the independent distributors provided by the Company, under which the payment terms offered by Lifetech Shenzhen to its agents ranged from 0 days to 90 days. The Directors have confirmed to us that the payment terms for transactions with Medtronic contemplated under the Distribution Agreement are in general no less favourable than those offered by the Group to the independent distribution agents.

Other material terms

The Distribution Agreement also stipulates that:

(i) *Right of first negotiation:* For so long as the Distribution Agreement remains effective, Medtronic shall have the right of first negotiation, for a period of 90 days, to become the exclusive, worldwide distributor of each and every existing and future cardiac or vascular related product other than heart valves that are developed by, manufactured by, licensed to, owned by or otherwise available to PerMed, the Company or their affiliates as such

products become approved for commercial sale and available for distribution in any part of the world. In such circumstances, the parties shall enter into good faith negotiation for the exclusive distribution rights of Medtronic and, if agreed, such distribution rights shall be governed by the terms of the Distribution Agreement.In the event Medtronic and its affiliates need to engage any third party in China in research and development or manufacturing of any cardiac or vascular related product, the Group shall, to the extent the Group has the necessary competence and capabilities as determined by Medtronic, have a similar right of first negotiation.

We have discussed with the Company and understood that the right of first negotiation does not contravene the terms of the distribution agreements entered into between the Group and its existing distributors, and instead provides timely opportunities for the Company to enhance its distribution network by shifting its distribution channels for heart valve products and other cardiac and vascular products from its existing distribution agents, which are small scale and fragmented, to Medtronic, which is a global medical device player with extensive sales network and experienced sales expertise in the PRC and around the world.

(ii) *Product discontinuation:* Except for events of force majeure, PerMed shall not discontinue the production of a Product within five years from the First Tranche Completion Date or for so long as Medtronic holds at least 15% of the share capital of the Company (whichever is longer). Thereafter, if PerMed intends to stop making a Product, PerMed shall give Medtronic written notice at least three (3) years before the date on which PerMed is planning to stop making a product. In such case, Medtronic shall have the right of first negotiation with PerMed to purchase any assets, know-how and intellectual property necessary for manufacturing and selling the relevant Product. If PerMed and Medtronic fail to reach an agreement in respect of the purchase and PerMed starts negotiating such purchase with any third party, Medtronic shall have the right of first refusal for such purchase under the same financial terms and conditions that such third party has offered to PerMed.

As advised by the Company, 3-year advance notice for product discontinuation is reasonable and fair. Usually, it will take more than 5 years to launch a new medical device. Due to the nature of medical devices, the product launch cycle will experience 5 different stages, namely: (i) design and development stage; (ii) animal testing, (iii) clinical trial stage, (iv) verification of clinical trial, and (v) applying for regulatory approval stage. A three-year advance notice period for product discontinuation is standard to Medtronic as it allows it to obtain alternative sourcing of products and avoid supply disruptions to patients and medical doctors who rely on these lifesaving technologies. We have discussed with the Company and the management of the Company is of the view that 3-year advance notice is reasonable in view of the life-and-death nature of medical device products and the importance of stable and quality supply to the patients.

(iii) *Termination:* The Distribution Agreement may be terminated in whole or in part, including on a "per-Product" basis pursuant to its term, including but not limited to termination by (a) Medtronic upon written notice to PerMed if the Product is delivered late or is defective

for more than six times in any 12-month period; (b) Medtronic upon the termination of the Investment Agreement or the Services Agreement, or upon the distribution rights under the Distribution Agreement becoming non-exclusive; (c) Medtronic upon a change of control of PerMed or the Company; (d) PerMed upon an unacceptable change of control in Medtronic; (e) PerMed if Medtronic has committed a material breach of its obligations under the Distribution Agreement including but not limited to, in case Medtronic fails to meet and purchase the annual sales target or the minimum sales quantity under the Distribution Agreement, Medtronic's failure to make up the shortfall within six months upon written notice from PerMed (in such case, the termination shall be limited to the relevant Product only).

We noted that one of the termination clause entitles Medtronic to terminate the Distribution Agreement due to 6-time late delivery of the Company in 12 months. We have discussed with the management of the Company and they are of the view that this term is fair and reasonable and in the interest of the Company and the Shareholders as a whole taking into account that PerMed has rights to negotiate with Medtronic the delivery time for every order of the heart valve products and thus the probability of late delivery is relatively low.

7.3 The Proposed Distribution Caps

It is stated in the Letter from the Board that the proposed annual caps for the transactions under the Distribution Agreement (the "Proposed Distribution Caps") for the five years ending 31 December 2013, 2014, 2015, 2016 and 2017 are as follows:

2013	2014	2015	2016	2017
RMB813,000	RMB39,690,000	RMB56,270,000	RMB81,510,000	RMB110,093,000

As stated in the Letter from the Board, the Distribution Annual Caps were determined based on the estimated quantities of the Products that may be distributed by Medtronic under the Distribution Agreement in China, North America, Europe and other markets, taking into consideration the potential benefits brought by the extensive global sales network of Medtronic, and the enhancement in the quality of the Products as a result of, the consulting services provided by Medtronic pursuant to the Services Agreement with Medtronic.

We have discussed with the management of the Company and has examined the sales forecasts of the heart valve products (including bovine tissue heart valve, P-valve and A-valve) to be distributed through Medtronic for the five years ending 31 December 2017. We understood from the management of the Company that they have made the following estimations and assumptions while preparing the sales forecast for the five years ending 31 December 2017:

Bovine Tissue Heart Valve

(i) Actual distribution under the Distribution Agreement is expected to commence in October 2013;

(ii) the average selling price (the "Average Selling Price") of the heart valve to be sold by Medtronic to its end customers is expected to increase over the term of the Distribution Agreement (save for the slight decrease as the Company expects to enter into the markets offering lower pricing such as India, Malaysia and Vietnam) as (a) the Company expected to enter into the EU markets such as the U.K and France, which normally offers 10% to 20% premium over the selling price at which the heart valve products sold in the PRC; (b) part of the heart valve products will be directly sold by Medtronic instead of through its sub-distributors, which offers higher margin;

(iii) the sales volume of heart valve products (the "Sales Volume") is expected to increase over the term of the Distribution Agreement due to (a) very small sales volume base figure in 2013 driving a dramatic increase of sales volume in terms of percentage; (b) entering into the EU heart valve markets and thus larger demand for the heart valve products; (c) significant increase in Sales Volume in the PRC through Medtronic's extensive sales network in the PRC with a coverage of 700 hospitals; and (d) the annual production capacity of PerMed is expected to increase dramatically in 2013 and 2014 by recruitment of additional staff, expansion of production plant, acquisition of new equipment, etc; and

Pulmonary-Valve ("P-Valve")

(i) The sales volume of P-valve is expected to increase over the term of the Distribution Agreement due to entering into the P-valve market in Vietnam and Indonesia;

(ii) It is expected that the sale volume of P-valve is expected to increase after entering into the EU market in 2016 according to its business development plan;

(iii) The selling price for P-valve to its end-customers is expected to remain consistent over the term of the Distribution Agreement.

Aortic-Valve ("A-Valve")

(i) It is expected that the Company will obtain a sales permit in Vietnam and Indonesia in or about 2014;

(ii) The retail price of A-Valve (the "A-Valve Price") is expected to remain consistent over the term of the Distribution Agreement;

(iii) The sales volume of A-Valve is expected to increase over the term of the Distribution Agreement, as the product gains additional regulatory approvals in the PRC and other countries.

Having (i) examined the sales forecast and its breakdown by different kind of heart valve products to be distributed by Medtronic as compiled by the Group for each of the five years ending 31 December 2017; (ii) examined the sample invoices as to the historical sales of the heart valve products distributed by the Group's existing distribution agents in the PRC as at the Latest Practicable Date; (iii) discussed with the Group's management on the bases, assumptions and underlying figures

adopted in the sales forecast and factors considered by the Group's management; (iv) reviewed the sample distribution agreements entered into between the Company and the domestic and overseas distributors; (v) reviewed the documents ascertaining the estimated selling price of the bovine tissue heart valve, P-valve and A-valve such as bidding results of the Company's heart valve products in the PRC publicly available on the website of the hospitals and the relevant sample invoices of the heart valve products provided to the hospitals; and (vi) reviewed the research reports on the tissue heart valve markets in EU and BRIC, we are of the view that the sales forecast are fair and reasonable and thus setting the Proposed Distribution Caps at a level which can sufficiently cover the Group's sales forecast for its heart valve products is fair and reasonable. The Distribution Transaction is conducted in the Group's ordinary and usual course of business and represents a new business segment that the Group would like to pursue and develop and is believed to benefit the business development of the Group.

8. SERVICES TRANSACTION

8.1 Background to and reasons for the Services Connected Transaction

On 14 October 2012, Medtronic and the Company entered into the Services Agreement for the provision of consulting services with respect to the Group's operational, quality systems and product development processes as part of the Transactions which was supplemented on 5 January 2013 with certain corrective changes. Details of the Services Agreement are set out in the Letter from the Board whilst the reasons for entering into the Services Agreement together with the Investment Agreement and the Distribution Agreement are set out in paragraph 5 headed "Reasons for and Synergy of the Transactions" above.

8.2 Principal terms of the Services Agreement

Pursuant to the Services Agreement, Medtronic will provide the Company with certain Services, which comprise, among other things, consultative services with respect to certain internal operations, quality systems and product development processes of the Company. Medtronic shall provide such competent personnel available to the Company for the time periods specified in the Services Agreement, subject to Medtronic's discretion as to any specified time period in the event the Services relating to such personnel are complete or such personnel is no longer required by the Company. The Company may request the replacement of any specific personnel provided by Medtronic for reasons of the incompetence of such personnel.

Medtronic will, in the course of the Services, make certain know-how available to the Company. Medtronic granted to the Company the License, strictly for the Company's internal purposes, to any operational, manufacturing, quality and other know-how, and any related materials and documents that Medtronic makes available to the Company.

The major terms of the Services Agreement are set out in the Letter from the Board in the Circular. We wish to draw the attention of the Independent Shareholders to the following:

2-year Term

As stated in the Letter from the Board, the term of the Services Agreement is two years from the First Tranche Completion Date. Despite the fact that the term of the Services Agreement is set as two years from the First Tranche Completion Date, the royalty payment to be made by the Company to Medtronic will last for a maximum of 20 years, subject to a cap. The justifications and our opinion on the term of the Services Agreement are set out in the paragraph headed "*Fees, Royalty and Additional Payment — Royalty for the License*" below.

Fees, Royalty and Additional Payment

The aggregate fees as to the services provided by Medtronic to the Company consist of three components, namely services fee, royalty for the License and the additional payment. The aggregate fees were determined after arm's length negotiation after taking into account (i) the "opportunity cost" to Medtronic of deploying its internal resources for purposes of assisting another company to make improvements to its own internal systems and processes; (ii) its function as compensating Medtronic should control or ownership of the Company (after value added by Medtronic to the Company through provision of services and technical know-how) fall into the hands of third party; and (iii) other factors specific to each of the fees as set out below.

(i) *Fees for the Services*

The Company shall pay to Medtronic Fees of, in aggregate, US$5,000,000 for the Services, in five installments:

	Amount	**Date of payment**
First installment	US$500,000	First Tranche Completion Date
Second installment	US$500,000	1 March 2013
Third installment	US$500,000	1 October 2013
Fourth installment	US$2,500,000	1 March 2014
Final installment	US$1,000,000	1 October 2014

Having (i) discussed with the Company and understand that the service fees were determined based on Medtronic's anticipated direct cost of providing the services, namely (with respect to the employees providing the services) a pro- rata portion of each employee's pay, benefits and actual expenses, and are to recoup the costs of functional expertise to be provided by Medtronic to the Company; and (ii) reviewed the basis and assumptions for the service fees forecast including the detailed estimated costs by function based on the actual salary of the existing employees planned to be relocated by Medtronic to facilitate the internal system upgrade of PerMed and the fringe benefits to be provided to these employees based on the global assignment policy of Medtronic, we are of the view the service fees are fair and reasonable.

(ii) *Royalty for the License*

As stated in the Letter from the Board, the Company shall pay to Medtronic, on a quarterly basis, a royalty equal to 4% of the incremental sales revenue achieved by the Group, subject to a cumulative cap of RMB300,000,000 provided, however, that, in the event any person other than Medtronic holds an interest of 50% or more in the Shares in the Company, such cumulative cap shall be increased to RMB600,000,000. The Company's obligation to pay the Royalty shall terminate upon Medtronic holding more than 50% in the issued share capital of the Company on a fully-diluted basis.

We have discussed with management of the Company and understood that the Royalty is intended to be Medtronic's compensation for the proprietary know-how and related materials that will be licensed to and made available to, the Company in the course of providing services; and which the Company will retain for use in perpetuity after the services agreement expires.

In assessing the fairness and reasonableness of the payment term of the Royalty, we have attempted to identify information in relation to royalty fee for similar licensing arrangements in respect of production of medical devices for our comparison but we failed to identify similar licensing arrangements in the medical industry in the public domain. To this end, we have instead examined the details of the comparable licensing agreements (the "Company Services Comparables") provided by the Company relating to the granting or receipt of the license for the technical know-how (i.e. method and technology) in the medical device industry by a US-based company principally engaged in development and commercializing innovative solutions for diagnosing and treating lung disease. Set out below are the details of the Company Services Comparables to the Services Agreement (the "Services Comparables"):

Company Services Comparables

Date of licensing agreement	Licensor	Licensee	Licensed Technology/IPs	Sign-up fee	Royalty	Term
12 June 2008	A non-profit company based in Pennysylvania mainly operated for creating, purchasing, holding and selling patent rights for inventions and designs.	U.S.-based company engaged in developing and commercializing innovative solutions for diagnosing and treating lung diseases ("Company A").	1. Software such as virtual navigator toolbox. 2. Patent such as method and apparatus for continuous guidance of endoscopy.	1. USD200,000 license fee; and 2. 333,334 shares of common stock.	1. 9% of net sales with minimum amount payable as to US$50,000 in 2010; US$100,000 in 2011 and US$150,000 in each of the subsequent years; and 2. 2.25% of additonal sublicensing revenue	Perpetual

Date of licensing agreement	Licensor	Licensee	Licensed Technology/IPs	Sign-up fee	Royalty	Term
30 December 2003	A California-based medical device company mainly engaged in design, development and manufacturing of catheter-based medical devices.	Company A	1. Bleb reducer, etc.	N.A.	Royalty-free	Perpetual
30 December 2003	Company A	A California-based medical device company mainly engaged in design, development and manufacturing of catheter-based medical devices.	1. Devices for applying energy to tissue, etc.	N.A.	Royalty-free	Perpetual
29 March 2001	A California-based innovative medical device company engaged in development of devices and treatments to address common post-surgical problems.	Company A	Method and system for reducing surgical complications, etc.	N.A. (with some consulting fee based on services provided)	2% of net sales if such licensed products perform the use of thermal energy to modulate the healing response in biological tissues 1% of net sales if such licensed products perform other material functions in addition to the aforesaid function	Perpetual
15 October 1998	A California-based medical device company engaged in the development and commercialisation of minimally invasive products for the treatment of venous reflux disease.	Company A	Temperature measurement board technology	USD10,000 (one-time payment)	Royalty-free	50 Years

As set out above, we noted that (i) the annual royalty rate of the Services Comparables ranges from nil to 9% of net sales and thus the Royalty (i.e. 4% of the incremental sales revenue) falls within the range thereof; and (ii) the 2-year term of the Service Agreement as well the 20-year term of the royalty payment under the Services Agreement also fall within the range of the term of the licensing arrangement of the Services Comparable, from 50 years to perpetual.

In addition, we have also taken into account the royalty rates of the medical industry as set out in a research report named 'Royalty Rates for Technology- 5th Edition' dated October 2012 (the "**IPRA Research Report**") as prepared by IPRA, Inc, which is an independent consulting and publishing organization dedicated to discovering new information and innovative methods regarding the value and pricing of intellectual property including technological know-how, patents, trademarks, copyrights, trade secrets and other intellectual properties and intangible assets. Information in the IPRA Research Report has been collected since September 1990 through 2012 and is considered to represent a comprehensive collection of technology pricing information. As stated in the Research Report, the most frequently negotiated royalty term found across a diverse number of industries including automotive, chemical, medical, mechanical, sports, toys, etc, is 5% of sales. As set out in the Research Report, IPRA has identified a total 73 market transactions relating to granting of intellectual property in the medical industry (the "Market Comparables") which determine the royalty rate by reference to the sales. Based on the findings in the Research Report, we noted that the royalty rate of the Market Comparables ranged from approximately 0.5% to approximately 20% of sales and thus the rate of the Royalty which was determined by reference to the incremental sales of the Group instead of the sales is more favourable to the Company and the Shareholders as a whole. In view of the above, we are of the view that the Royalty and the term of the Services Agreement are fair and reasonable.

(iii) *Additional Payment*

From and after the First Tranche Completion Date and for so long as Medtronic holds any Convertible Notes or has any present or future right to subscribe for any Convertible Notes, the Company shall pay to Medtronic the Additional Payment in the event that any person other than Medtronic holds an interest of 50% or more in the issued share capital of the Company. Notwithstanding the above, if, at the time of the change of control contemplated by the foregoing sentence, Mr. Xie or Mr. Wu is an executive officer, executive director or non-executive director of the Company and any combination of Mr. Xie or Mr. Wu or any persons or entities associated with either of them owns equity interests in the Company that constitute more than 30% of the equity share capital of the Company, and they or any combination of Mr. Xie or Mr. Wu or any persons or entities associated with either of them dispose of any shares to that person resulting in that person acquiring a controlling interest of 50% or more in the Company, then the Company shall be required to make the Additional Payment.

In assessing the fairness and reasonableness of the Additional Payment, we have discussed with the Company and understood that the Additional Payment was determined on the premises that (a) it is intended to provide adequate compensation to Medtronic should ownership or control of the Company (and consequently all of the value and know-how that Medtronic has added to the Company) fall into the hands of a third party; and (b) the payments are proportionate, reflect a fair value in the overall context of the transaction inasmuch as the services and know-how transfer are for the direct benefit and improvement of Company's internal systems and processes.

As advised by the Company, Medtronic is providing personnel to help address 52 action items outlined in the Services Agreement. In doing so, it is anticipated that Medtronic will provide significant know-how with respect to its policies, processes, and procedures to the Company and Permed over the course of the strategic alliance. Such know-how is confidential and proprietary information developed and acquired by Medtronic over the course of its 65- year history. This know-how is permanent once provided and cannot be revoked or discontinued. As such, the Additional Payment is intended to compensate Medtronic for this know-how becoming part of non-affiliated group and was determined to parallel the amount of the Royalty. As the Additional Payment only survives the duration of the Second Tranche Convertible Note, should Medtronic choose to exercise conversion of the Second Tranche Convertible Note, allow the term to expire, or choose not to exercise the note, the obligation created by the Additional Payment will be terminated. This payment is solely intended to compensate Medtronic for the know-how and only in the event that such know-how is left to an entity no longer affiliated with Medtronic, which is very likely to become the competitor of Medtronic. As advised by the Company, as the royalty to be charged by Medtronic is much lower than the industry practice, the management of the Company is of the view that the Additional Payment is fair and reasonable in the event of change of control.

We also assessed the fairness and reasonableness of the Additional Payment in view of the possible shield given by the Controller Guarantee and Indemnity to the Company from its obligation to make the Additional Payment once any person acquires controlling interest (50% or more) in the Company. On 5 January 2013, each of the Controlling Shareholder Group jointly and severally, irrevocably and unconditionally (i) guaranteed to the Company that, it would not dispose any shares in the Company to a person resulting in that person acquiring a controlling interest of 50% or more in the Company to the effect that the Company shall be required to make the Additional Payment to Medtronic pursuant to the Services Agreement; and (ii) undertakes to the Company that they will hold the Company fully and effectively indemnified against all the liabilities which the Company may suffer or incur as a result of the breach of the guarantee as set out in (i) above. With such guarantee and indemnity provision, the Company can be shielded from its obligation to make the Additional Payment as (i) no person is able to acquire a 50% or more of the equity interest in the Company unless Medtronic or any of its subsidiaries or the Controlling Shareholder Group dispose its Shares; and (ii) even if the Controlling Shareholder Group does so, the Company will be indemnified the amount equivalent to the Additional Payment and other relevant expenses and costs incurred.

In view of the above, we are of the view that the pricing bases of the Service Agreements is acceptable and we consider that the terms of the Services Agreement are (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Group and the Independent Shareholders as a whole.

8.3 Other material terms

The Services Agreement also stipulated that:

(i) *Third Party Services and Incremental Hires:* As stated in the Letter from the Board, the Company shall make certain incremental hires for fulfilling its obligations under the Investment Agreement and in connection with the Services through third parties at its own cost. In the event that Medtronic provides services that might otherwise have been provided by a third party, the Company may engage Medtronic for the provision of such services on appropriate compensation, in addition to the Fees and Royalty, to be agreed in good faith between the Company and Medtronic.

The Directors are of the view that the above clause can provide flexibility for the Company in recruitment of additional staff through third parties and it is fair and reasonable to give compensation for Medtronic's assistance in the hires in the circumstance that the Company needs its help.

(ii) *Service Interruption or Suspension:* Upon reasonable written notice to and subject to the agreement of the Company, Medtronic may temporarily suspend or interrupt the provision of the Services. In case of such interruption, Medtronic may continue to provide off-site supports to the Company to the extent feasible.

The Directors are of the view that the above clause is reasonable and can provide the flexibility to the Company to determine whether to suspend or interrupt the Services or to engage another third party to provide similar services.

(iii) *Ownership of Assets*: Any information system, software, computer network, database or file owned, licensed, leased or provided by or for Medtronic which is used by Medtronic or its suppliers on behalf of Medtronic in connection with provision of the Services as modified, maintained or enhanced from time to time by Medtronic or any third party shall remain the sole exclusive property of Medtronic or its suppliers.

The management of the Company is of the view that it is fair and reasonable to retain the ownership of the assets mentioned above at Medtronic's hands as long as it has already provided the Company the Services for upgrading the internal system of the Company and improving the quality of the heart valve products.

(iv) *Intellectual Property*: Any intellectual property newly developed in the course of the Services shall be owned by the party which developed it. However, the Company shall grants a non-exclusive, fully-paid, perpetual royalty-free license to Medtronic if the intellectual property is developed thereby solely.

The management of the Company is of the view that it is fair and reasonable to determine the ownership of the intellectual property developed by either parties depending on who developed it and it is also an obligation for the Company to grant the license for the intellectual property developed thereby to Medtronic during the course of provision of the Services.

(v) *Termination*: As stated in the Letter from the Board, the Services Agreement may be terminated in the event that, among other things, (a) Medtronic's interest in the Shares in the Company, on a fully-diluted basis; falling below 15%, or rising above 50%; and (b) the termination of the Distribution Agreement.

The management of the Company is of the view that the termination clause of the Services Agreement is generally standard term save for the termination condition (a) and (b) stated above. However, they are of the view that the conditions thereon are fair and reasonable and are in the interest of the Company and the Shareholders as a whole taking into account the entering into of the Investment Agreement, the Distribution Agreement and the Services Agreement constitute the desired strategic alliance the Company and Medtronic would like to form. Either failure to have essential control on the Company by Medtronic (i.e. more than 15% shareholding) or gaining majority control of the Company (i.e. more than 50% shareholding), or termination of the Distribution Agreement would result in a rupture of the strategic alliance. Accordingly, it is fair and reasonable to stipulate the Services Agreement conditional on the above factors.

(vi) *Limitation of liability*: The maximum aggregate liability of Medtronic to the Company under the Services Agreement shall not exceed the Fees and the Royalty.

The Company's management considered that this term is reasonable as the Royalty is believed to be substantial enough to cover the relevant liability of Medtronic in normal circumstances.

8.4 Proposed Services Caps and basis of calculation

As announced by the Company on 6 January 2013 and stated in the Letter from the Board, assuming that the First Tranche Completion Date is expected to take place in 2013, the annual caps for the transactions under the Services Agreement have been revised as set out below, and such annual caps include the Fees and the Royalties at 4% of the incremental sales revenue achieved by the Group (the "**Incremental Sales Revenue**") but exclude the additional royalties of RMB300,000,000 (the "**Additional Royalties**") and the additional payment of RMB300,000,000 (the "**Additional Payment**") under the Services Agreement:

(i) for the year ending 31 December 2013, the annual cap will comprise the Fees at the amount of RMB9,450,000 plus the Royalties calculated with reference to the quarterly Incremental Sales Revenue,

(ii) for the year ending 31 December 2014, the annual cap will comprise the Fees at the amount of RMB22,050,000 plus the Royalties calculated with reference to the quarterly Incremental Sales Revenue,

(iii) for the each of the 18 remaining years ending 31 December 2032, the annual cap will comprise the Royalties calculated with reference to the quarterly Incremental Sales Revenue only.

The Incremental Sales Revenue above refers to, starting from the First Tranche Completion Date, any incremental portion of the sales revenues achieved by the Group for all of its products in each quarter of its financial year that is above its average quarterly sales revenues for the financial year ended 31 December 2012 (the "**Base Line**"). For the avoidance of doubt, the Base Line shall be determined according to the 2012 annual report of the Company to be published by the Company pursuant to the applicable GEM Listing Rules.

The Royalties portion of the above revised annual caps above are subject to the cumulative cap of RMB300,000,000 (the "**Cumulative Cap**") (with the Cumulative Cap being increased to RMB600,000,000 under the Services Agreement if the Additional Royalties payment conditions are triggered). The annual caps under the Services Agreement, the Cumulative Cap and the Additional Royalties are applicable to the Company throughout the entire term of the Services Agreement. The Royalties are intended to be Medtronic's compensation for the proprietary know-how and related materials that will be licensed to and made available to the Company in the course of providing the Services, and which the Company will retain for use into perpetuity long after the expiry of the Services Agreement. At 4%, the Royalties are lower than the Company typically would see for a substantive license of know-how in the medical device industry. In addition, the 4% figure is based on the incremental, new revenue the Company experiences subsequent to the First Tranche Completion Date. For further details, please refer to the Letter from the Board.

Services Fee Caps

As stated in the paragraph headed "*Fees, Royalty and Additional Payment*" above, in assessing the fairness and reasonableness of such services fee, we have (i) discussed with the Company and understand that the service fees were determined based on Medtronic's anticipated direct cost of providing the services, namely (with respect to the employees actually providing the services) a pro-rata portion of each employee's pay, benefits and actual expenses, and are to recoup the costs of functional expertise to be provided by Medtronic to the Company; (ii) reviewed the forecasted costs by function such as Investment Management, Quality, Packaging and Labelling, Clinical, Regulatory and TechComm, Research and Development and general operation in Beijing and Shenzhen as provided by Medtronic; (iii) reviewed the sample employment contracts of the expertise to be recruited for various functions stated above to justify the estimated costs arising from recruitment of new staff. Having considered the above, we are of the view that the Services Fee Caps is fair and reasonable.

Royalty Caps

As stated in the paragraph headed "*Fees, Royalty and Additional Payment*" above, in assessing the fairness and reasonableness of the Royalty Caps, we have (i) discussed with the Company and understand that royalty were determined based on 4% of the incremental sales revenue of the Company and subject to the maximum payment obligation of the royalty (i.e. RMB300,000,000); and (ii) reviewed the Services Agreement in respect of such terms. Despite the fact that the rate of royalty shall be in fact 4% of the incremental sales revenue of the Company, it is the obligation instead of discretion for the Company to pay the maximum royalty fee of RMB300,000,000 in any year of the entire term of the Services Agreement whenever the incremental sales surge to a level triggering obligation of the Company to pay such amount of royalty. Accordingly, it is necessary to determine the Royalty Cap as the maximum amount of the Royalty that may be required to pay in year one or any year during the term of the payment (i.e. 20 years) so as to ensure that the Company can perform its obligation under the Services Agreement. Despite the Services Agreement stipulating that in the event that any person other than Medtronic acquiring a controlling interest in the Company of 50% or more, the maximum royalty fee to be paid by the Company to Medtronic will be increased to RMB600,000,000, the Proposed Services Caps will not be set as RMB600,000,000 as it is impossible to trigger the increase in the royalty cap assuming the Controlling Shareholder Group would not breach its obligation under the Controller Guarantee and Indemnity. Having considered the above, we are of the view that the Proposed Services Caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

9. OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that the terms of the Investment Agreement and the CCT Agreements (including the Proposed Distribution Caps and the Proposed Services Caps) are fair and reasonable and in the interest of the Company and the Shareholders as a whole. In addition, we consider that the Transactions are on normal commercial terms and the Investment Agreements and the CCT Agreements are entered into by the Company for the ordinary and usual course of business of the Group.

Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to approve, if thought fit, the Investment Agreement, the Distribution Agreement and the Services Agreement, and the transactions contemplated under each of them at the EGM.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED
Mei H. Leung
Chairman

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests of Directors and chief executives of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Nature of interest	Number of shares	Position	Percentage of the Company's issued share capital
XIE Yuehui	Interest of controlled corporation *(Note 1)*	101,540,962	Long	20.31%
WU Jianhui	Interest of controlled corporation *(Note 2)*	87,883,332	Long	17.58%
ZHAO Yiwei Michael	Interest of controlled corporation *(Note 3)*	13,583,333	Long	2.72%
LI Gabriel	Interest of controlled corporation *(Note 4)*	98,650,618	Long	19.73%

Note 1: These shares are held through Xianjian Advanced Technology Limited, a company wholly owned by Mr. Xie, the chairman of the Company and an executive Director.

Note 2: These shares are held through GE Asia Pacific Investments Ltd., a company wholly owned by Mr. Wu, a non-executive Director.

Note 3: These shares are held through St. Christopher Investment Ltd., a company wholly owned by Mr. Zhao Yiwei Michael, the chief executive officer of the Company and an executive Director.

Note 4: These shares are held through Orchid Asia III, L.P., which is indirectly controlled by Orchid Asia Group Limited, which is in turn controlled by YM Investment Limited. The entire issued share capital of YM Investment Limited is ultimately held by The Li 2007 Family Trust, which is a BVI discretionary trust established by Ms. Lam Lai Ming, spouse of Mr. Li Gabriel, a non-executive Director, as settlor and Managecorp Limited as trustee on 22 January 2008. The beneficiaries of The Li 2007 Family Trust include family members of Ms. Lam Lai Ming and Mr. Li Gabriel.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at the Latest Practicable Date, other than the interests of a director or chief executive of the Company as disclosed under the heading "Directors' and chief executive's interests and short position in the shares, underlying shares and debentures" above, the interests and short positions of persons in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of Shareholder	Number of shares	Position	Capacity	Percentage of the Company's issued share capital
Medtronic, Inc. (*Note 1*)	473,571,429	Long	Beneficial owner	51.00%
YM Investment Limited (*Note 2*)	98,650,618	Long	Interest of controlled corporation	19.73%
Lam Lai Ming (*Note 2*)	98,650,618	Long	Interest of controlled corporation	19.73%
Managecorp Limited (*Note 2*)	98,650,618	Long	Trustee	19.73%
Orchid Asia Group Management, Limited (*Note 3*)	98,650,618	Long	Interest of controlled corporation	19.73%
Orchid Asia Group, Limited (*Note 3*)	98,650,618	Long	Interest of controlled corporation	19.73%
Orchid Asia III, L.P. (*Note 3*)	98,650,618	Long	Beneficial owner	19.73%
Xianjian Advanced Technology Limited	101,540,962	Long	Beneficial owner	20.31%
GE Asia Pacific Investments Ltd.	87,883,332	Long	Beneficial owner	17.58%
Themes Investment Partners II, GP. L.P.	86,456,000	Long	Interest of controlled corporation	17.29%
Themes Investment Partners II, L.P.	86,456,000	Long	Interest of controlled corporation	17.29%

Name of Shareholder	Number of shares	Position	Capacity	Percentage of the Company's issued share capital
TIP II General Partner Limited	86,456,000	Long	Interest of controlled corporation	17.29%
Yi Xiqun	86,456,000	Long	Interest of controlled corporation	17.29%
Yu Fan	86,456,000	Long	Interest of controlled corporation	17.29%
Ally Investment Holdings Limited	82,400,000	Long	Interest of controlled corporation	16.48%
Prosperity International	82,400,000	Long	Beneficial owner and person having a security interest in shares	16.48%
Wanhui Limited	82,400,000	Long	Interest of controlled corporation	16.48%

Note 1: From these 473,571,429 Shares, 95,000,000 Shares are acquired pursuant to the Share Purchase Agreement dated 14 October 2012, and the remaining 378,571,429 Shares are the underlying Shares to be acquired from the full conversion of the First Tranche Convertible Notes and the Second Tranche Convertible Notes pursuant to the Investment Agreement dated 14 October 2012.

Note 2: These Shares are held through Orchid Asia III, L.P., which is indirectly controlled by Orchid Asia Group Limited, which is in turn controlled by YM Investment Limited. The entire issued share capital of YM Investment Limited is ultimately held by The Li 2007 Family Trust, which is a BVI discretionary trust established by Ms. Lam Lai Ming, spouse of Mr. Gabriel Li, a non-executive Director, as settlor and Managecorp Limited as trustee on 22 January 2008. The beneficiaries of The Li 2007 Family Trust include family members of Ms. Lam Lai Ming and Mr. Gabriel Li.

Note 3: Orchid Asia III, L.P. is controlled by OAIII Holdings, L.P., which is in turn controlled by Orchid Asia Group Management Limited, which is in turn controlled by Orchid Asia Group Limited.

Save as disclosed above, as at the Latest Practicable Date, the directors of the Company were not aware of any other person (other than the directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

5. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as was known to the Directors, none of the Directors or their respective associates had interests in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group.

6. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

Save as disclosed in the section headed "Letter from the Board" of this circular, as at the Latest Practicable Date, none of the Directors:

(i) had any interest in any assets which have been since 31 December 2011 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; or

(ii) was materially interested in any contract or arrangement, subsisting at the date of this circular, which is significant in relation to the business of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011, being the date to which the latest published audited accounts of the Company were made up.

8. EXPERT AND CONSENT

The following is the qualification of the expert who has provided its opinion or advice, which is contained in this circular:

Name	Qualification
Optima Capital Limited	a corporation licensed under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser in respect of the Transaction Agreements

Optima has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and references to its name and advice or opinion in the form and context in which they respectively appear.

9. INTERESTS OF EXPERT AND COMPLIANCE ADVISER

As at the Latest Practicable Date, Optima:

(a) did not have any shareholding in or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(b) was not interested, directly or indirectly, in any assets which have been or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2011, being the date to which the latest published audited accounts of the Company were made up.

As at Latest Practical Date, South West Capital Limited ("**SWCL**"), the Company's compliance adviser, neither SWCL nor any of its directors or employees or associates had any interests in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities).

10. LITIGATION

As at the Latest Practicable Date, the Group was engaged in the following pending litigation or arbitration of material importance:

Litigation in India

In 2008, AGA Medical Corporation (the "**Plaintiff**") filed a suit with The High Court of Delhi (the "**Court**") at New Delhi, India, against (i) Lifetech Shenzhen, (ii) Lifetech Shenzhen's importer in India; and (iii) such importer's local Indian distributor (individually and collectively referred to as the "**Defendants**"). The Plaintiff pleaded to the Court to issue a permanent injunction restraining the Defendants from importing and selling HeartR occluders in India which were accused of infringing the Plaintiff's patent. The Plaintiff also pleaded to order the national importer in India and its local Indian distributor to surrender all the rendition of accounts of profits or a decree of damages of Indian Rupee 2,100,000.

As at the Latest Practicable Date, the issues of the case have been framed and the Plaintiff has concluded filing its evidence on 9 August 2011. The litigation is still at fact finding and cross examination of evidence stage and the Court conclusion cannot be reasonably estimated.

11. MISCELLANEOUS

(a) The registered office of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(b) The branch share registrar of the Company in Hong Kong is at 12/F, the Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong.

(c) The company secretary of the Company is Liu Jianxiong.

(d) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

12. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the office of O'Melveny & Myers at 31st Floor, AIA Central, 1 Connaught Road Central, Hong Kong during normal business hours up to and including the date of the EGM:

(a) the Transaction Agreements;

(b) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 55 to 56 of this circular;

(c) the letter from the Independent Financial Adviser, the text of which is set out on pages 57 to 108 of this circular; and

(d) the written consent referred to in paragraph 8 of this appendix.

LIFETECH SCIENTIFIC CORPORATION
先健科技公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8122)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of LifeTech Scientific Corporation (the "**Company**") will be held at Cybio Electronic Building, Langshan 2nd Street, North Area of High-tech Park, Nanshan District, Shenzhen, the PRC on 21 January 2013 at 10:00 a.m. for the purpose of considering as special business and, if thought fit, passing the following resolutions, with or without amendments:

THE INVESTMENT AGREEMENT AND THE CONVERTIBLE NOTES

1. "AS AN ORDINARY RESOLUTION, THAT

   (a) the entering into the Investment Agreement dated 14 October 2012 between the Company and Medtronic for, among other things, the subscription of the Convertible Notes at the aggregate principal amount of HK$2,183,428,574 (a copy of which marked "A" has been produced to the meeting and signed by the Chairman of the Company for the purpose of identification), and the Supplemental Investment Agreement dated 5 January 2013 (a copy of which marked "B" has been produced to the meeting and signed by the Chairman of the Company for the purpose of identification), together with the Controller Public Float Undertaking dated 5 January 2013 entered into by the Controlling Shareholder Group in favour of the Company and Medtronic (a copy of which marked "C" has been produced to the meeting and signed by the Chairman of the Company for the purpose of identification) for the purpose of assisting the Company in fulfilling the Public Float Requirement, and other transactions contemplated thereunder be hereby approved, confirmed and ratified;

   (b) the issuance of the Convertible Notes to Medtronic in accordance with the terms of the Investment Agreement be and is hereby confirmed and approved;

   (c) conditional upon the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in the Conversion Shares pursuant to the exercise of the conversion rights attached to the First Tranche Convertible Notes, the allotment and issue of the Conversion Shares contemplated thereunder under a specific mandate be and are hereby approved;

(d) conditional upon the completion of the First Tranche Convertible Notes as stipulated under the Investment Agreement and the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in the Conversion Shares pursuant to the exercise of the conversion rights attached to the Second Tranche Convertible Notes, the allotment and issue of the Conversion Shares contemplated thereunder under a specific mandate be and are hereby approved; and

(e) any one Director be and is hereby authorized to do all such acts and things and execute all such documents which he considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Investment Agreement as well as in relation to the allotment and issue of all Conversion Shares and the respective transactions contemplated thereunder, and to make or agree such variations of a non-material nature to any of the terms thereof as any Director may in this discretion consider to be desirable and in the interest of the Company."

THE DISTRIBUTION AGREEMENT

2. "AS AN ORDINARY RESOLUTION, THAT

(a) conditional upon the passing of resolution 1 above, the entering into the Distribution Agreement dated 14 October 2012 between the Company, PerMed and Medtronic (a copy of which marked "D" has been produced to the meeting and signed by the Chairman of the Company for the purpose of identification), the Supplemental Distribution Agreement dated 5 January 2013 (a copy of which marked "E" has been produced to the meeting and signed by the Chairman of the Company for the purpose of identification) and the transactions contemplated thereunder be and are hereby confirmed, approved and ratified; and

(b) the proposed annual caps of RMB813,000, RMB39,690,000, RMB56,270,000, RMB81,510,000 and RMB110,093,000 for each of the five years ending 31 December 2017, respectively, in respect of the transactions contemplated under the Distribution Agreement be and are hereby confirmed, approved and ratified; and

(c) any one Director be and is hereby authorized to do all such acts and things and execute all such documents which he considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Distribution Agreement and the respective transactions contemplated thereunder, and to make or agree such variations of a non-material nature to any of the terms thereof as any Director may in this discretion consider to be desirable and in the interest of the Company.

THE SERVICES AGREEMENT

3. "AS AN ORDINARY RESOLUTION, THAT

(a) conditional upon the passing of resolution 1 above, the entering into the Services Agreement dated 14 October 2012 between the Company and Medtronic (a copy of which marked "F" has been produced to the meeting and signed by the Chairman of the Company

for the purpose of identification), the Supplemental Services Agreement dated 5 January 2013 (a copy of which marked "G" has been produced to the meeting and signed by the Chairman of the Company for the purpose of identification), and the Controller Guarantee and Indemnity dated 5 January 2013 entered into by the Controlling Shareholder Group in favour of the Company in relation to the Additional Payment contemplated under the Services Agreement (a copy of which marked "H" has been produced to the meeting and signed by the Chairman of the Company for the purpose of identification), the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) the proposed annual caps as set out in the circular of the Company dated 6 January 2013, being the Fees at the amount of RMB9,450,000 plus the Royalties calculated with reference to the quarterly Incremental Sales Revenue for the year ended 31 December 2013, the Fees at the amount of RMB22,050,000 plus the Royalties calculated with reference to the quarterly Incremental Sales Revenue for the year ended 31 December 2014, and the Royalties calculated with reference to the quarterly Incremental Sales Revenue for each of the 18 years ending 31 December 2032 in respect of the transactions contemplated under the Services Agreement be and are hereby confirmed, approved and ratified;

(c) any one Director be and is hereby authorized to do all such acts and things and execute all such documents which he considers necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Services Agreement and the respective transactions contemplated thereunder, and to make or agree such variations of a non-material nature to any of the terms thereof as any Director may in this discretion consider to be desirable and in the interest of the Company.

Capitalised terms in this notice of EGM shall have the same meanings as defined in the circular of the Company dated 6 January 2013 unless the context otherwise specified.

By Order of the Board
LifeTech Scientific Corporation
XIE Yuehui
Chairman

Hong Kong, 6 January 2013

Notes:

(1) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or, if he is the holder of two or more shares, more proxies to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.

(2) In order to be valid, this proxy form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be delivered to the Company's branch share registrar, Tricor Investor Services Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the meeting (or any adjournment thereof).

(3) The register of members of the Company will be closed from 18 January 2013 to 21 January 2013 (both days inclusive), during which period no transfer of shares in the Company will be registered. In order to qualify for entitlement to attend the meeting, all completed transfer forms, accompanied by the relevant share certificates, have to be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration, not later than 4:30 p.m. on 17 January 2013.