

---

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

---

### OVERVIEW

As of the Latest Practicable Date, MicroPort, through its wholly-owned subsidiary Shanghai MicroPort, was indirectly interested in approximately 49.92% of the total issued share capital of our Company. Immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options under the Share Option Scheme), (i) MicroPort will have an indirect interest, through Shanghai MicroPort, in approximately 45.59% of the total issued share capital of our Company; (ii) our Company will remain as an indirectly non-wholly owned subsidiary of MicroPort; and (iii) Shanghai MicroPort and MicroPort will continue to be the Controlling Shareholders of our Company. Please refer to “History, Development and Corporate Structure” for the shareholding and corporate structure of our Group.

### BACKGROUND OF OUR CONTROLLING SHAREHOLDERS

MicroPort is a leading medical device company focusing on innovating, manufacturing and marketing high-end medical devices globally that has been listed on the Main Board of the Stock Exchange since 2010 (Stock Code: 00853). MicroPort maintains world-wide operations in a broad range of business segments. As of December 31, 2019, the MicroPort Group had eight major business segments, being cardiovascular devices, orthopedics devices, cardiac rhythm management business, endovascular devices, neurovascular devices, heart valve business, surgical devices and surgical robot business, offering more than 300 varieties of medical devices. In 2019, MicroPort recorded revenues of RMB793.5 million with total assets worth RMB1,598.0 million as of December 31, 2019.

Shanghai MicroPort, a wholly-owned subsidiary of MicroPort, is a limited liability company incorporated under the laws of the BVI. Shanghai MicroPort is an investment holding entity with no other business operations as of the Latest Practicable Date.

### DELINEATION OF BUSINESS FROM THE RETAINED MICROPORT GROUP

There is a clear delineation between the business of the Retained MicroPort Group (the “**Retained Business**”) and our business. The table below sets forth the principal businesses of our Group and the Retained MicroPort Group:

<b>Our Group:</b>	The business of R&D, manufacturing and sale of devices treating valvular heart diseases (the “ <b>Principal Business</b> ”).
<b>Retained MicroPort Group:</b>	(i) the cardiovascular devices business offering products and services for the treatment of coronary artery-related diseases (the “ <b>Cardiovascular Business</b> ”); (ii) the orthopedics devices business offering an extensive range of products that includes reconstructive joints, spine and trauma, and other professional implants and equipment; (iii) the cardiac rhythm management business developing, manufacturing and marketing products including defibrillators, cardiac resynchronization therapy devices and pacemakers for the diagnosis, treatment and management of heart rhythm disorders and heart failure (the “ <b>CRM Business</b> ”);

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iv) the endovascular devices business offering a range of products and services for the interventional treatment of thoracic and abdominal aortic aneurysm, peripheral vascular disease, aortic dissection and other endovascular related diseases (the “**EV Business**”). The Retained MicroPort Group carries on the EV Business through a non-wholly owned subsidiary, Shanghai MicroPort Endovascular MedTech (Group) Co., Ltd. (上海微創心脈醫療科技(集團)股份有限公司) (“**Shanghai MicroPort Endovascular**”), which is currently listed on the science and technology innovation board of the Shanghai Stock Exchange;
- (v) the neurovascular devices business offering products and services for the treatment of neurovascular diseases including cerebral aneurysms, intracranial atherosclerotic diseases, carotid artery diseases and other neurovasculature related diseases; and
- (vi) the surgical robot business committed to cutting-edge research and technology integration in the fields of robot, intelligent control and information to provide innovative medical products.

As illustrated above, the Retained Business focuses on different types of medical devices that are of a different nature and have different applications from that of our Principal Business. Although the Retained MicroPort Group also engages in businesses that focus on the treatment of heart related diseases, for example the Cardiovascular Business, the CRM Business and the EV Business, the products and services of such businesses of the Retained MicroPort Group and the Principal Business of our Group are designed to treat different types of heart related diseases and are different in nature in terms of the technical requirements, treatment of diseases and applications. They are not interchangeable nor can they be replaced by each other. None of the products or R&D focus areas of the Retained MicroPort Group is related to valvular heart diseases. Please see the table below for further illustration about the difference between our Principal Business, the Cardiovascular Business, the CRM Business and the EV Business.

<u>Businesses</u>	<u>Major products, services and/or business activities</u>	<u>Technical Requirement</u>	<u>Treatment of Relevant Diseases</u>	<u>Applications</u>
Principal Business	VitaFlow™ and VitaFlow™ II (replacement or repair of the dysfunctional heart valve with a prosthetic heart valve through transcatheter or surgical approach)	Anti-calcification treatment of the bovine pericardium, high radial force of the frame, durability of the valve, low incidences after implantation and ease of use of the motorized delivery system are the key requirements.	Valvular heart diseases, in particular aortic stenosis, mitral regurgitation and tricuspid regurgitation.	Implantation of a prosthetic heart valve in the native aortic valve.
Cardiovascular Business	Coronary stent system (implantation of cardiovascular stent for improving luminal diameter in the stenosis site of coronary artery through Percutaneous Coronary Intervention approach (PCI))	Combining drug loading stent design and drug-eluting stent body, drug and formula design, the cycle of drug release are the key technical requirements.	Coronary heart diseases caused by artery stenosis and restenosis, myocardial infarction. Open the narrowed artery, restore blood flow and prevent the recurrence of the treated vessel narrow or blockage.	Implantation in the stenosis site of coronary artery.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

<u>Businesses</u>	<u>Major Products, services and/or business activities</u>	<u>Technical Requirement</u>	<u>Treatment of Relevant Diseases</u>	<u>Applications</u>
CRM Business	Cardiac implantable electronic devices and other products (managing (treating and diagnosing) cardiac rhythm disorders and heart failure through fully implanting procedures)	Low-power hardware platform design of the pacemaker, automated and physiological pacing algorithms, pacemaker assembly process.	Bradycardia due to abnormal cardiac electrical conduction in the ventricle or atrium, including sick sinus syndrome, AV block.	Implantation in ventricle and atrium.
EV Business	Thoracic and abdominal aortic stent-graft (implanting the artificial stent graft on the aneurysmal aorta through minimally invasive intervention to avoid rupture of the aorta)	The stent-graft is made of Nitinol alloy stent and Dacron graft with medical suture assembly. The key technology is to prevent stent-graft endoleak, migration and fully exclude aneurysm sac.	Thoracic and abdominal aneurysm stent-graft implantation can isolate aortic aneurysms and prevent blood pressure from impacting the aneurysms, leading to vascular rupture and massive bleeding.	Implantation in the thoracic and abdominal aneurysm lesion.
	Peripheral products (clearing the plaque, thrombosis and other obstructions in the peripheral vessel by balloon, stent or rotary cutting device to restore the blood flow in the peripheral vessel)	By dilating the stenosis lesions to reopen the vascular or by removing the thrombus in vessel through the thrombectomy device. The key technology is how to more effectively clear the blockage and avoid long-term restenosis caused by smooth muscle proliferation without damaging the intima.	Peripheral vascular arteriosclerosis, iliac vein compression syndrome, deep vein thrombosis, pulmonary thrombosis.	Peripheral vascular arteriosclerosis, iliac vein compression syndrome, deep vein thrombosis, pulmonary thrombosis.

Given there is a clear delineation between the businesses of our Group and the Retained MicroPort Group, our Directors are of the view that the Retained Business does not compete and is unlikely to compete, directly or indirectly, with our Group's business.

### INDEPENDENCE OF OUR GROUP FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from our Controlling Shareholders after the Listing.

---

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

---

### **Operational and Administrative Independence**

We have full rights to make all decisions on, and to carry out, our own business operation independently from our Controlling Shareholders and their respective close associates and will continue to do so after the Listing. Our business model involves the use of our own technology, facilities and funds to carry out R&D of devices treating valvular heart diseases. Our Group is able to operate without reliance on the Retained MicroPort Group on the following basis:

### ***Research and Development***

We have our own R&D center in Shanghai, which is operated independently from the R&D centers of the Retained MicroPort Group. Our R&D team comprised 50 members as of the Latest Practicable Date, who are all full time employees of our Group and do not hold any position in the Retained MicroPort Group. In addition, our Group owned over 130 patents for our operations and is the sole owner of such patents, which are required for the R&D and manufacturing of the products of our Group. With such independent R&D center, experienced and independent R&D team and solely-owned patents, our Group has all the requisite resources to carry on the R&D process independently. Currently, all of our on-going R&D process, including preclinical studies, clinical trials, post-market clinical studies, are conducted independently by our R&D team without reliance on any patented technology or personnel of the Retained MicroPort Group. Thus, our Group is capable of independently carrying on the R&D process without reliance on the Retained MicroPort Group.

### ***Sourcing and Manufacturing***

We have our own production facilities, which are different from and not interchangeable with the production facilities of the Retained MicroPort Group. The production personnel of our Group and the Retained MicroPort Group are trained differently and possess different skills and there exists no sharing of production facilities and production personnel between our Group and the Retained MicroPort Group. We have been leasing a premise from an Independent Third Party for production and obtained the production license from Shanghai NMPA for such premise, which is required under applicable laws and regulations in the PRC.

One of our production premises is located in the office building leased from the Retained MicroPort Group, and we expect to continue to rent the premise from the Retained MicroPort Group after the Listing to avoid unnecessary relocation cost. The relevant lease arrangements constitute connected transaction of our Company. For details, see “Connected Transactions — One-off Connected Transaction” of this prospectus. Our Directors believe such lease from the Retained MicroPort Group will not give rise to any reliance issue due to the following reasons:

- (i) the terms of the lease were on normal commercial terms and the pricing terms were determined with reference to a valuation report prepared by an Independent Third Party, the prevailing market rates for similar properties in the same area, the leased acreage and the property management costs for the premise. Thus, our Directors are of the view that the rent is fair and reasonable and in the interest of our Company and our Shareholders as a whole; and

---

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

---

- (ii) in anticipation of the future expansion of the manufacturing of VitaFlow™ and future new products, we have rented new premises from Independent Third Parties, and have obtained the relevant production licenses to avoid unnecessary interruption to our production.

### *Procurement*

We have our own procurement team independent from the Retained MicroPort Group. The Retained MicroPort Group and we have been and will be carrying out respective selection of suppliers independently in accordance with respective supplier management system. Our procurement team may select supplier candidates from respective supplier list or reach out to supplier candidates, which are not within the list according to specific procurement demand. Our procurement team runs the supplier selection process and the procurement process independently, negotiate the terms of the procurement agreements with the suppliers directly and independently.

### *Overlapping suppliers between the Retained MicroPort Group and our Group*

During the Track Record Period, our procurement team may sometimes select supplier candidates from the supplier list of the Retained MicroPort Group and collect fee quotes from them, and supplier candidates initially identified and approached by us were also added into the supplier list of the Retained MicroPort Group. Our Directors are of the view that procurement from overlapping suppliers does not affect the business delineation between the Retained MicroPort Group and us, or result in any reliance issue, on the following basis:

- (i) as set out above, we have established our own supplier list, which is separate from that of the Retained MicroPort Group. We have full discretion to select our suppliers, and all the terms of the procurement agreements are negotiated directly and independently;
- (ii) as set out above, during the Track Record Period, supplier candidates initially identified and approached by us were also added into the supplier list of the Retained MicroPort Group. Although the Retained MicroPort Group has procured services and materials from such suppliers, their transaction amounts with us are much higher compared with that with the Retained MicroPort Group;
- (iii) among the products procured from the overlapping suppliers, low-consumption standard products such as computers and screws and low-value consumables such as masks and alcohol cleaners are readily available from third party suppliers in the market. Since the supplier candidates in the supplier list of the Retained MicroPort Group have already passed its strict selection process, and are believed to be able to supply high quality products at competitive price, we finds it commercially sensible to collect quotes from them and compare with the terms offered by other supplier candidates. The rest of the products procured from the overlapping suppliers are customized products, such as implanted nickel-titanium materials (植入類鎳鈦材料) and implanted high-molecular tubular products (植入類高分子管材). Most of suppliers of the customized products are high profile and sizable suppliers in the medical devices industry; and
- (iv) the procurement amount from each overlapping supplier is relatively low. The low supplier concentration minimizes the risk that may be caused by potential change of any single supplier.

---

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

---

### *Procurement from the Retained MicroPort Group*

We procured certain services and raw materials from the Retained MicroPort Group during the Track Record Period and expect to continue certain procurements after the Listing. For details, see “Connected Transactions — Continuing Connected Transactions — B. Non-exempt Continuing Connected Transactions” of this prospectus. In 2018, 2019 and the seven months ended July 31, 2020, total purchases from the Retained MicroPort Group accounted for approximately 28.2%, 15.8% and 8.4% of our total purchases, respectively, and the purchases which will continue and constitute continuing connected transactions upon the Listing only accounted for approximately 5.1%, 5.4% and 6.3% of our total purchases for the respective corresponding period. Our Directors believe such procurements from the Retained MicroPort Group will not give rise to any reliance issue due to the following reasons:

- (i) The procurement of product testing services: We have the capability to and currently plan to establish our own testing center to meet our increasing product testing demand. Before the establishment of our own testing center, the Retained MicroPort Group will continue to provide such services for us.
- (ii) The procurement of balloon processing services, sterilization services, animal test services and numerical simulation services: The fee rate for such services was determined through arm’s length negotiation primarily based on the cost of provisions of such services and the procurement volume, with reference to the fees charged for historical transactions of similar nature and the prevailing market rate of such services. Thus, our Board is of the view that the service fee rate is fair and reasonable and it is commercially sensible for us and in the interest of our Company and our Shareholders as a whole to procure such services from the Retained MicroPort Group without taking into consideration its shareholding in our Company. Moreover, all of these services are readily available from third party suppliers and if their terms of supply are more favorable for us, we will procure such services from such third party suppliers.
- (iii) The procurement of raw materials: We are able to procure all of our key raw materials and materials produced by third parties directly and independently. As for the raw materials we expect to continue to procure from the Retained MicroPort Group, such as evacuation tube, outer tube and inner tube, and the new raw materials we plan to procure from the Retained MicroPort Group, such as nitinol tube and PTFE sheath, which are produced by a subsidiary of the Retained MicroPort Group, the price was determined through arm’s length negotiation primarily based on the production cost and volume, with reference to the prevailing market price of such raw materials of the same quality. Thus, our Board is of the view that the price is fair and reasonable and it is commercially sensible for us and in the interest of our Company and our Shareholders as a whole to procure such raw materials from the Retained MicroPort Group without taking into consideration its shareholding in our Company. Moreover, such raw materials can be readily sourced at similar quality and terms from third party suppliers.

Upon the Listing, we will continue to make efforts to ensure that, as a percentage of our total purchases, the purchases from the Retained MicroPort Group will decrease gradually for the three years ending December 31, 2023.



---

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

---

### *Sales and Marketing*

We have our independent sales and marketing teams and channels. Members of our marketing team were recruited by our Group independently, and most of them have prior working experience at other medical devices companies which are not affiliated with the Retained MicroPort Group. We have also established our own distributor network independent from the Retained MicroPort Group.

Each of the Retained MicroPort Group and our Group entered into distribution agreements with their distributors independently, the distribution agreements of the Retained MicroPort Group and our Group are not bundled together, and neither the Retained MicroPort Group nor our Group will generate any benefits by virtue of the sales of the other to the overlapping distributors.

We had two overlapping distributors with the Retained MicroPort Group during the Track Record Period. However, the overlapping distributors' revenue contributions to our Group are relatively low, and their distribution agreements with our Group have already been terminated in 2019. We expect that all of our distributors will not overlap with distributors of the Retained MicroPort Group after the Listing and we will continue to develop our own distribution channel independent of that of the Retained MicroPort Group.

### *Administration*

We have independent R&D center and production facilities, full time management team and team of staff to carry out its own administration and operation independent of the Retained MicroPort Group. The support services comprising accounting, administration, corporate secretarial, compliance and human resource management will also continue to be handled by a team of staff employed directly by our Group and are separated from the Retained MicroPort Group. As all key administrative function of our Group will be carried out by our own without reliance on the support of the Retained MicroPort Group, we will remain administratively independent after the Listing.

### *Connected Transactions with Our Controlling Shareholders*

The connected transactions set out in “Connected Transactions” of this prospectus were and will be conducted in the ordinary and usual course of business of our Group, on an arm's length basis and on normal commercial terms or better. Furthermore, the risk of the Retained MicroPort Group terminating the connected transactions is remote as the parties under the relevant agreements have limited termination rights and the termination would not be in the commercial interest of the Retained MicroPort Group in commercial aspect. In an unlikely event that the Retained MicroPort Group terminates any connected transaction with us, given the reasons set out above, we do not consider such termination will materially and adversely affect our business.

Based on the above, our Directors believe that we are able to operate independently from our Controlling Shareholders and their respective close associates.

### **Management Independence**

Save as disclosed below, our Company and the Retained MicroPort Group have their respective directors and management teams independent of each other. Our Board consists of nine Directors, comprising three executive Director, three non-executive Directors and three independent non-executive Directors. See “Directors and Senior Management” for further details. Of the nine

---

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

---

Directors, two non-executive Directors and one independent non-executive Director currently hold positions in the Retained MicroPort Group, details of which are set out below:

<u>Name</u>	<u>Positions, Roles and Responsibilities in the Retained MicroPort Group</u>
Dr. Luo Qiyi (羅七一) . . . . .	Chief technology officer, member of the Intercontinental Cardiac Rhythm Management Committee, and Greater China Executive Committee of MicroPort responsible for R&D
Mr. Zhang Junjie (張俊傑) . . . . .	Director of Shanghai MicroPort Endovascular responsible for participating in decision-making for the development of Shanghai MicroPort Endovascular
Mr. Jonathan H. Chou (周嘉鴻) . . . . .	Independent non-executive director of MicroPort responsible for giving strategic advice and guidance to the business and operations of the MicroPort Group

Our Directors are of the view that our Group will be managed and will operate independently of each other in the interests of their respective shareholders as a whole on the following basis:

- (i) none of our executive Directors and senior management members, who are responsible for the day-to-day management of our Group's business, has any ongoing role with the Retained MicroPort Group;
- (ii) a majority of the members of our Board will be independent of the Retained MicroPort Group;
- (iii) should there be a conflict of interest or a connected transaction between our Company (on one hand) and members of the Retained MicroPort Group (on the other hand), the relevant common directors will abstain from voting on, and will not be counted in the quorum for, the relevant board resolution(s) of our Company. There would be sufficient quorum for the board meetings of MicroPort and our Company if the common directors abstain from voting due to conflict of interest; and
- (iv) our Company will adopt corporate governance policies, including but not limited to, rules relating to the procedure for board meetings and decision-making protocols on conflict of interest and connected transactions, setting out circumstances that require the relevant common directors to abstain from voting on, and not to be counted in the quorum for, the relevant board resolutions. Moreover, the Retained MicroPort Group will abstain from voting on the relevant resolutions in the meetings of shareholders. Thus, we would be operated and managed independently in the interests of our Shareholders as a general body, and not in the interests of the Retained MicroPort Group only.

### **Financial Independence**

We are able to finance our own operations. As of the Latest Practicable Date, we did not have any outstanding loans owing to the Retained MicroPort Group, and we did not have any share pledges or guarantees provided by the Retained MicroPort Group and their respective associates on our borrowing. We have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to



---

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

---

third party financing. In addition, we have obtained a credit facility of up to RMB70 million from the Zhangjiang Science and Technology branch of Shanghai Pudong Development Bank Co., Ltd.. On the basis of the foregoing, we believe we are able to maintain financial independence from the Retained MicroPort Group.

### CORPORATE GOVERNANCE MEASURES

We will comply with the provisions of the Corporate Governance Code set forth in Appendix 14 to the Listing Rules, which sets out the principles of good corporate governance.

Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (i) as part of our preparation for the Global Offering, we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provided that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (ii) a Director with material interests shall make full disclosure in respect of matters that may have conflict or potentially conflict with any of our interest and abstain from the board meetings on matters in which such Director or his associates have a material interest, unless the attendance or participation of such Director at such meeting of our Board is specifically requested by a majority of the independent non-executive Directors;
- (iii) we are committed that our Board should include a balanced composition of executive Directors and independent non-executive Directors. We have appointed independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors are set out in the section headed “Directors and Senior Management — Board of Directors” in this prospectus;
- (iv) the independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between our Group and any Controlling Shareholder (the “**Annual Review**”) and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (v) our Company will disclose decisions on matters reviewed by the independent non-executive Directors either in its annual reports or by way of announcements;
- (vi) we have established internal control mechanisms to identify connected transactions. Upon the Listing, if we enter into connected transactions with any Controlling Shareholder or any of their associates, we will comply with the applicable Listing Rules;
- (vii) as required by the Listing Rules, our independent non-executive Directors shall review connected transactions annually and confirm in our annual report that such transactions

---

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

---

have been entered into in our ordinary and usual course of business, are on normal commercial terms or better and on terms that are fair and reasonable and in the interests of our Shareholders as a whole;

- (viii) should there be a conflict of interest or a connected transaction between our Company (on one hand) and members of the Retained MicroPort Group (on the other hand), the relevant common directors will abstain from voting on, and will not be counted in the quorum for, the relevant board resolution(s) of our Company;
- (ix) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company's expenses; and
- (x) we have appointed Somerley Capital Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to Directors' duties and corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect our minority Shareholders' interests after the Listing.