
CONNECTED TRANSACTIONS

OVERVIEW

Prior to the Listing, our Group has entered into certain transactions with parties who will, upon the Listing, become connected persons of our Company. Details of such continuing connected transactions and one-off connected transaction of our Company following the Listing are set out below.

RELEVANT CONNECTED PERSONS

Upon completion of the Global Offering, the following entities with whom we have entered into transactions will be regarded as our connected persons under the Listing Rules:

<u>Connected Person</u>	<u>Connected Relationship</u>
Shanghai MicroPort Medical	Shanghai MicroPort Medical (Group) Co., Ltd. (上海微創醫療器械(集團)有限公司), a wholly-owned subsidiary of MicroPort.

ONE-OFF CONNECTED TRANSACTION

Zhangjiang Property Lease Agreement

Description of the Transaction

Principal Terms

We have entered into a property lease agreement (“**Zhangjiang Property Lease Agreement**”) with Shanghai MicroPort Medical, pursuant to which, Shanghai MicroPort Medical agreed to, lease to us a premise with a total gross area of approximately 2,906.95 sq.m. (the “**Zhangjiang Leased Premise**”), as our office building for the purposes of operations and our production premise for manufacturing our products. Details of the Zhangjiang Property Lease Agreement are set out below:

<u>Date of the agreement</u>	<u>Term of the lease</u>	<u>Landlord</u>	<u>Tenant</u>	<u>Location of the Premise</u>	<u>Total Area</u>
January 1, 2020	From January 1, 2020 to December 31, 2022	Shanghai MicroPort Medical	MP CardioFlow	No. 1601 Zhangdong Road, Zhangjiang Hi-Tech Park, Pudong New District, Shanghai	2,906.95 sq.m.

The Zhangjiang Property Lease Agreement was entered into (i) in the ordinary and usual course of business of our Group, (ii) on arm’s length basis, and (iii) on normal commercial terms with the rent being determined with reference to, among others, the prevailing market rates for similar properties in the same area, the leased acreage and the corresponding property management costs for the Zhangjiang Leased Premise.

The balance of the lease liabilities, being the present value of the lease payments recognized by our Group in relation to the Zhangjiang Leased Premise according to HKFRS 16 as of July 31, 2020 amounted to RMB10.7 million. For the years ended December 31, 2018 and 2019 and seven months ended July 31, 2020, the value of the right-of-use assets acquired by us from Shanghai MicroPort Medical were approximately RMB11.7 million, RMB6.3 million and RMB0.6 million, respectively.

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Reasons for and Benefits of the Transaction

We have been leasing premises and sharing the office building with the Retained MicroPort Group for operation since the establishment in 2015 and using the Zhangjiang Leased Premise as one of the production premises for manufacturing our products during the Track Record Period. To avoid unnecessary interruption of the administration and extra relocation cost of manufacturing facilities. The continuation of such leases is cost efficient and is beneficial to our operations.

In light of the above, our Directors are of the view that such arrangement is fair and reasonable and in the best interest of our Group and our Shareholders as a whole.

Listing Rules Implications

In accordance with HKFRS 16 “Leases”, our Group recognized a right-of-use asset on the statement of financial position in connection with the lease of the Zhangjiang Leased Premise from the Retained MicroPort Group. Therefore, the lease of the Zhangjiang Leased Premise from Shanghai MicroPort Medical under the Zhangjiang Property Lease Agreement is regarded as an acquisition of a capital asset of our Group and a one-off connected transaction entered into by our Group prior to the Listing, rather than a continuing connected transaction, for the purposes of the Listing Rules. Accordingly, the reporting, announcement, annual review, circular and independent shareholders’ approval requirements in Chapter 14A of the Listing Rules will not be applicable to it.

CONTINUING CONNECTED TRANSACTIONS

The following table sets forth a summary of our continuing connected transactions. Given substantially all of the revenue of our Group in 2019 was derived from the sale of VitaFlow™, which was officially launched in August 2019, the revenue ratio would not be an appropriate measure of the size of the continuing connected transactions set out in this section and is not indicative of the size of the transaction as compared to a full year’s results of our Group. As an alternative, we have applied a percentage ratio test based on the total expenses for R&D and administrative matters of our Group.

<u>Transaction</u>	<u>Applicable Listing Rules</u>	<u>Waiver Sought</u>	<u>Proposed Annual Caps for the Year Ending December 31,</u>		
			<u>2021</u>	<u>2022</u>	<u>2023</u>
<i>(RMB in thousands)</i>					
A. Fully Exempt Continuing Connected Transactions					
Trademark Licensing Agreement	LR14A.76(1)(a)	N/A	N/A	N/A	N/A
Beijing Property Lease Agreements . . .	LR14A.76(1)(a)	N/A	N/A	N/A	N/A
B. Non-exempt Continuing Connected Transactions					
Procurement of Services	LR14A.34 to 14A.36, 14A.49, 14A.51 to 14A.59 and 14A.71	Waiver from announcement and independent shareholders’ approval requirements	11,250	16,950	10,500
Procurement of raw materials	LR14A.34 to 14A.36, 14A.49, 14A.51 to 14A.59 and 14A.71	Waiver from announcement and independent shareholders’ approval requirements	23,000	38,000	39,000

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A. Fully Exempt Continuing Connected Transactions

Trademark Licensing Agreement

MP CardioFlow and Shanghai MicroPort Medical entered into a trademark licensing agreement (the “**Trademark Licensing Agreement**”) on January 21, 2021, pursuant to which Shanghai MicroPort Medical agreed to irrevocably and unconditionally grant our Group a license to use the certain trademarks which have been or are being registered by Shanghai MicroPort Medical in the PRC and other jurisdictions for our use in connection with our operations on a royalty-free basis for a term of ten years commencing from January 1, 2017.

As the license of the trademarks granted by Shanghai MicroPort Medical to us is on a royalty-free basis, the transactions under the Trademark Licensing Agreement fall within the de minimis threshold under Rule 14A.76(1)(a) of the Listing Rules and are exempt from the annual review, reporting, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. We believe that entering into the Trademark Licensing Agreement with a term of ten years, which is more than three years, can ensure the stability of the operations of our Group, and is in the interest of our Company and our Shareholders as a whole and will be beneficial to our Group. Having considered the terms of the Trademark Licensing Agreement, the Joint Sponsors are of the view that it is commercially justifiable and normal business practice for agreements of similar nature to be of such duration.

Beijing Property Lease Agreements

We have entered into two property lease agreements (the “**Beijing Property Lease Agreements**”) with Shanghai MicroPort Medical, pursuant to which, Shanghai MicroPort Medical agreed to lease to us premises in Beijing with a total gross area of approximately 37.57 sq.m. (the “**Beijing Leased Premises**”) as our offices. Details of the Beijing Property Lease Agreements are set out below:

<u>No.</u>	<u>Date of the agreement</u>	<u>Term of the lease</u>	<u>Landlord</u>	<u>Tenant</u>	<u>Location of the Premise</u>	<u>Total Area</u>
1.	December 20, 2018	From December 20, 2018 to December 19, 2021	Shanghai MicroPort Medical	Beijing Chenxue	Room 1502, No. 2, Xizhimen South Street, Xicheng District, Beijing	26.57 sq.m.
2.	March 16, 2020	From March 16, 2020 to December 31, 2022		MP CardioFlow, Beijing Branch	Room 1503(C), No. 2, Xizhimen South Street, Xicheng District, Beijing	11 sq.m.

The Beijing Property Lease Agreements were entered into (i) in the ordinary and usual course of business of our Group, (ii) on arm’s length basis, and (iii) on normal commercial terms with the rent

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being determined with reference to, among others, the prevailing market rates for similar properties in the same area and the leased acreage for the Beijing Property Leased Premises.

As each of the applicable percentage ratios (other than the profit ratio) is expected to be, on an annual basis, less than 0.1%, the transactions under the Beijing Property Lease Agreements are exempt from the annual review, reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

B. Non-exempt Continuing Connected Transactions

Following the Listing, the following transactions will be regarded as continuing connected transactions subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules following the Listing.

Master Service Procurement Agreement

Our Company (for itself and on behalf of its subsidiaries) and Shanghai MicroPort Medical (for itself and on behalf of its subsidiaries) entered into the Master Service Procurement Agreement on January 21, 2021, pursuant to which our Group will procure animal test services, balloon processing services, sterilization services, product testing services and numerical simulation service from the Retained MicroPort Group.

Principal Terms

The Master Service Procurement Agreement has an initial term commencing from the Listing Date till December 31, 2023. Subject to compliance with Listing Rules and applicable laws and regulations, the Master Service Procurement Agreement may be renewed for a further term of three years from time to time, unless either party notifies the other party to the contrary with one month's written notice prior to the expiry of the agreement's term. Upon renewal of the Master Service Procurement Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

Pricing Policy

The service fee has been and will be determined through arm's length negotiation primarily based on the cost of provisions of such services (such as the labor cost and the cost of consumables used for providing the services) and the procurement volume of each type of service, with reference to a number of factors applicable to all service providers, including but not limited to the nature, complexity, and value of tasks completed by Retained MicroPort Group under each work order, quantity and sourcing of materials, the method of delivery, the fees charged for historical transactions of similar nature and the then prevailing market rates based on same supply conditions and technical specifications by obtaining and comparing against fee quotes provided by other third-party suppliers. Each of the services provided by the Retained MicroPort Group can be readily sourced from third-party suppliers. We have been identifying alternative suppliers for such services and we will engage Retained MicroPort Group to provide such services if they are provided to our Group on normal commercial terms or better when compared with other third-party suppliers. We believe that our procurement of services from the Retained MicroPort Group does not constitute any undue reliance on it. For details, please see "Relationship with our Controlling Shareholders—Independence of Our

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Group from Our Controlling Shareholders—Operational and Administrative Independence—Procurement.”

Our procurements of services from the Retained MicroPort Group have been 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 and in the section headed “Relationship with Our Controlling Shareholders—Independence of Our Group from Our Controlling Shareholders—Operational and Administrative Independence—Procurement”, we do not consider such termination will materially and adversely affect our business.

Reasons for and Benefits of the Transactions

As we are a biotechnology medical device company, the services provided by the Retained MicroPort Group are essential to our development and manufacturing process and such services require sophisticated technologies and knowledge that are better handled by service providers with such capabilities. The Retained MicroPort Group has been providing for our Group the animal test services, balloon processing services, sterilization services and product testing services of good quality at reasonable fee rate during the Track Record Period, and started to provide the numerical simulation service for our Group in 2020. Due to the geographical proximity and long-term and stable cooperation relationship between the Retained MicroPort Group and us, we believe the Retained MicroPort Group will provide such services to us in a timely and cost-efficient manner. Thus, we are of the view that continuous procurement of the services from the Retained MicroPort Group are in the interest of our Company and our Shareholders as a whole and will be beneficial to our Group.

Historical Transaction Amounts

The following table sets forth the historical transaction amounts of the procurement of animal test services, balloon processing services, sterilization services, product testing services and numerical simulation services by our Group from the Retained MicroPort Group during the Track Record Period:

<u>Service</u>	<u>For the year ended December 31,</u>		<u>For the seven months</u>
	<u>2018</u>	<u>2019</u>	<u>ended July 31,</u>
			<u>2020</u>
	<i>(RMB in thousands)</i>		
Animal test services	—	298	17
Balloon processing services	437	1,001	581
Sterilization services	162	216	118
Product testing services	284	1,737	1,250
Numerical simulation services	330	—	—
Total	<u>1,213</u>	<u>3,252</u>	<u>1,966</u>

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Annual Caps

The following table sets forth the proposed annual caps for the transaction amounts under the Master Service Procurement Agreement :

<u>Service</u>	For the year ending December 31,		
	2021	2022	2023
	<i>(RMB in thousands)</i>		
Animal test services	750	750	1,500
Balloon processing services	3,400	6,300	6,500
Sterilization services	800	1,100	1,200
Product testing services	6,000	8,500	1,000 ^{Note}
Numerical simulation service	300	300	300
Total	<u>11,250</u>	<u>16,950</u>	<u>10,500</u>

Note:

The Company plans to establish its own product testing center in 2023. Therefore, the annual cap for product testing services decreases significantly in 2023.

The proposed annual caps were in line with the development and manufacturing plan of our Group. Considering the nature of the transactions under the Master Service Procurement Agreement, the transaction amounts for such transactions are also expected to increase along with the development and commercialization of our products and product candidates. Since (i) VitaFlow™ has just been launched in August 2019 and the Company expects to further advance the sales of VitaFlow™ in the near future, and (ii) according to our manufacturing and R&D schedule, most of the services were provided by Shanghai MicroPort Medical in the second half of 2020, which are not reflected in the historical transaction amount for the seven months ended July 31, 2020, the historical amounts for the connected transactions for Track Record Period are not directly comparable to the proposed annual caps.

The proposed annual caps were estimated with reference to, amongst others, (i) the historical transaction amounts as set out above; (ii) anticipated increasing demand for balloon processing services, sterilization services and product testing services from Shanghai MicroPort Medical which is primarily driven by the R&D and registration progress of our product candidates for the next three years and the estimated increasing production volume of VitaFlow™; (iii) the historical or agreed future service fee rate and the expected increase of the infrastructure maintenance costs and labor cost of the service provider; and (iv) the relevant service provision capacity of Shanghai MicroPort Medical.

Master Raw Materials Procurement Agreement

Our Company (for itself and on behalf of its subsidiaries) and Shanghai MicroPort Medical (for itself and on behalf of its subsidiaries) entered into the Master Raw Materials Procurement Agreement on January 21, 2021, pursuant to which our Group will procure certain raw materials (the “**Raw Materials**”), such as evacuation tubes, outer tubes, inner tubes, nitinol tubes and PTFE sheathes, from the Retained MicroPort Group.

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Principal Terms

The Master Raw Materials Procurement Agreement has an initial term commencing from the Listing Date till December 31, 2023. Subject to compliance with Listing Rules and applicable laws and regulations, the Master Raw Materials Procurement Agreement may be renewed for a further term of three years from time to time, unless either party notifies the other party to the contrary with one month's written notice prior to the expiry of the agreement's term. Upon renewal of the Master Raw Materials Procurement Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

Pricing Policy

These prices have been and will be determined through arm's length negotiation primarily based on the production cost of the Raw Materials and our procurement volume, with reference to a number of factors applicable to all suppliers, including but not limited to the market price of the products, quantity and method of procurement, specifications of the products, the fees charged for historical transactions of similar nature and the prevailing market price of such Raw Materials of the same quality. Each of the Raw Materials can be readily sourced from third-party suppliers. We have been identifying alternative suppliers for the Raw Materials and we will engage Retained MicroPort Group to provide such Raw Materials if they are provided to our Group on normal commercial terms or better when compared with other third-party suppliers. We believe that our procurement of Raw Materials from the Retained MicroPort Group does not constitute any undue reliance on it. For details, please see "Relationship with our Controlling Shareholders—Independence of Our Group from Our Controlling Shareholders—Operational and Administrative Independence—Procurement."

Our procurements of Raw Materials from the Retained MicroPort Group have been 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 and in the section headed "Relationship with Our Controlling Shareholders—Independence of Our Group from Our Controlling Shareholders—Operational and Administrative Independence—Procurement", we do not consider such termination will materially and adversely affect our business.

Reasons for and Benefits of the Transactions

We plan to procure the Raw Materials from the Retained MicroPort Group as the prices are more favorable as compared to other third party suppliers. The production of the Raw Materials requires specialized production line, facilities and personnel. The Retained MicroPort Group currently has such production capacity, and offers to provide customization of such products for independent third parties, while we do not have or plan to build up such production capacity. Thus, it is commercially sensible to procure the Raw Materials from the Retained MicroPort Group or Independent Third Parties instead of building up our own production capacity solely for the purpose of producing the Raw Materials. The Raw Materials are produced by Retained MicroPort Group with high quality, stable and quick delivery in reasonable price could satisfy and ensure our efficient

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commercialized production of our products and further product candidates. Accordingly, we are of the view that continuous procurement of the Raw Materials from Retained MicroPort Group are in the interest of our Company and our Shareholders as a whole and will be beneficial to our Group.

Historical Transaction Amounts

The following table sets forth the historical transaction amounts of the procurement of the Raw Materials by our Group from the Retained MicroPort Group during the Track Record Period:

For the year ended December 31,		For the seven months ended July 31,
2018	2019	2020
7	(RMB in thousands) 326	236

Annual Caps

The following table sets forth the proposed annual caps for the transaction amounts under the Master Raw Materials Procurement Agreement :

For the year ending December 31,		
2021	2022	2023
23,000	(RMB in thousands) 38,000	39,000

The proposed annual caps were in line with the development and manufacturing plan of our Group. Considering the nature of the transactions under the Master Raw Materials Procurement Agreement, the transaction amounts for such transactions are also expected to increase along with the development and commercialization of our products and product candidates.

The proposed annual caps were estimated with reference to, amongst others, (i) the historical purchase volume of the Raw Materials by our Group from the Retained MicroPort Group; (ii) the unit price of such Raw Materials; (iii) anticipated increasing demand for such Raw Materials from the Retained MicroPort Group which is primarily driven by the R&D, registration and commercialization progress of our product candidates and the estimated increasing production volume of VitaFlow™; (iv) the expected increase in the production and supply capacity of the Retained MicroPort Group; and (v) the potential price fluctuation of the Raw Materials.

Due mainly to the following reasons, the annual caps for the three years ending December 31, 2023 are significantly higher than the historical transaction amount for Track Record Period:

- (i) VitaFlow™ has just been launched in August 2019 and the Company expects to further advance the sales of VitaFlow™ in the near future; and
- (ii) the Company currently expects that VitaFlow™ II will be registered in China in 2021 and will be subsequently commercially launched in China; and
- (iii) the Retained MicroPort Group recently built up its production capacity of certain new raw materials (the “**New Raw Materials**”) such as nitinol tube and PTFE sheath, which are needed by our Group for expanded production. We used to procure such New Raw

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Materials from overseas suppliers. As (i) the prices offered by the Retained MicroPort Group are more favorable, (ii) the New Raw Materials are produced by Retained MicroPort Group with high quality, and (iii) the stable and quick delivery offered by the Retained MicroPort Group could satisfy and ensure the efficient commercialized production of our products and product candidates, we plan to change the sourcing of the New Raw Materials from the overseas suppliers to the Retained MicroPort Group. The New Raw Materials are not substitutes of the raw materials we have procured from the Retained MicroPort Group during the Track Record Period. The unit value of the New Raw Materials (ranging from RMB300 - RMB2,200) is significantly higher as compared to the raw materials we have procured from the Retained MicroPort Group during the Track Record Period (below RMB150), thus the expected future procurement of the New Raw Materials accounts for a significant portion of over 95% of our annual caps. According to the Company's management accounts, the historical purchase amount from the original overseas suppliers for such New Raw Materials was approximately RMB8 million for 2019 and RMB18 million for 2020. The sharp increase in the annual caps for transactions under the Master Raw Materials Procurement Agreement was mainly due to the expected procurement of the New Raw Materials. Taking into consideration the historical purchase for such New Raw Materials, the Company believes that the annual caps for the three years ending December 31, 2023 are fair and reasonable.

Listing Rules Implications

As the highest of the applicable percentage ratios (other than the profit ratio) calculated for the purpose of Chapter 14A of the Listing Rules will exceed 5%, the transactions under the Master Service Procurement Agreement and Master Raw Materials Procurement Agreement are continuing connected transactions subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

WAIVER APPLICATION FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

By virtue of Rule 14A.76(2) of the Listing Rules, each of the transactions under the sub-section "—B. Non-Exempt Continuing Connected Transactions" will constitute connected transactions subject to reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the above non-exempt continuing connected transactions are expected to continue on a recurring, continuing basis and will extend over a period of time, our Directors consider that compliance with the above announcement and independent shareholders' approval requirements would be impractical, unduly burdensome and would impose unnecessary administrative costs on our Company.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement and independent shareholders' approval requirements in respect of the above non-exempt continuing connected transactions. In addition, we confirm that our Company will comply at all time with the other applicable provisions under the Listing Rules in respect of the discloseable and non-exempt continuing connected transactions.

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In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this prospectus, our Company will take immediate steps to ensure compliance with such new requirements within a reasonable time.

CONFIRMATION FROM OUR DIRECTORS

Our Directors (including the independent non-executive Directors) are of the view that: (i) the non-exempt continuing connected transactions as set out above have been and will be entered into in the ordinary and usual course of business of our Group, on normal commercial terms or terms better to us, that are fair and reasonable and in the interest of us and our Shareholders as a whole; and (ii) the proposed annual caps for these non-exempt continuing connected transactions described above are fair and reasonable and in the interest of us and our Shareholders as a whole.

CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors have reviewed the relevant information and historical figures (if any) prepared and provided by our Company in relation to the continuing connected transactions described in this section. Based on the Joint Sponsors' due diligence, the Joint Sponsors are of the view that: (i) the non-exempt continuing connected transactions have been and will be entered into in the ordinary and usual course of business of our Company, on normal commercial terms or better, which are fair and reasonable, and in the interests of our Group and Shareholders of our Company as a whole; and (ii) the proposed annual caps in respect of such transactions are fair and reasonable and in the interests of our Group and Shareholders of our Company as a whole.