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## **Shanghai Haohai Biological Technology Co., Ltd.\***

**上海昊海生物科技股份有限公司**

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock code: 6826)**

### **PROPOSED CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING**

Reference is made to the prospectus issued by Shanghai Haohai Biological Technology Co., Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 20 April 2015 (the “**Prospectus**”) in relation to the placing and public offer (the “**Global Offering**”) of the Company’s H shares for the listing on the Main Board of The Stock Exchange of Hong Kong Limited. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Prospectus.

#### **USE OF PROCEEDS FROM THE GLOBAL OFFERING**

The net proceeds from the Global Offering was approximately HK\$2,274.66 million (“**Net Proceeds**”) (equivalent to approximately RMB1,794.28 million after deducting underwriting commissions and related expenses). It was disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus and in the Company’s announcement of allotment results dated 29 April 2015 that the Company intended to use the net proceeds of the Global Offering for the following purposes:

1. approximately 25% of the Net Proceeds will be used to construct new production lines at Shanghai Likangrui, including the new production facilities for animal origin fibrin sealant products and biomedical materials to meet the continually increasing demand for the Group’s products (“**Constructing New Production Lines at Shanghai Likangrui**”);
2. approximately 25% of the Net Proceeds will be used to selectively acquire suitable biopharmaceutical or biomedical materials companies or assets with a focus on products that have high growth potentials within the Group’s target therapeutic areas and products complementary to the Group’s existing product portfolio (“**Acquiring Suitable Businesses**”);

3. approximately 18% of the Net Proceeds will be used to purchase new production equipment, as well as to renovate and upgrade the Haohai Biological facility (“**Purchasing New Production Equipment**”);
4. approximately 13% of the Net Proceeds will be used to fund research and development activities and clinical applications for the Group’s pipeline products, including the thermal-sensitive chitosan products and new generation of cross-linked sodium hyaluronate products (“**Funding R&D Activities**”);
5. approximately 9% of the Net Proceeds will be used to expand the Group’s sales and marketing network by hiring additional marketing and sales personnel, commercialize those pipeline products successfully developed, and increase the level of marketing and promotional activities (“**Expanding Sales and Marketing Network**”); and
6. approximately 10% of the Net Proceeds will be used for working capital and general corporate purposes (“**Working Capital**”).

As at 29 February 2016, approximately HK\$1,803.34 million (equivalent to approximately RMB1,424.64 million) of the Net Proceeds remain unutilized. Table 1 below summarises the use of Net Proceeds of the Company as of 29 February 2016:

***Table 1***

		Proposed Allocation on the Use of Net Proceeds		Utilized Net Proceeds up to 29 February 2016	Remaining Balance of Unutilized Net Proceeds
		(approximately HK\$ million)	(approximately RMB million)	(RMB million) approximately	(RMB million) approximately
1.	Constructing New Production Lines at Shanghai Likangrui	568.67	448.57	12.93	435.64
2.	Acquiring Suitable Businesses	568.67	448.57	214.45	234.12
3.	Purchasing New Production Equipment	409.44	322.97	5.96	317.01
4.	Funding R&D Activities	295.71	233.26	3.84	229.42
5.	Expanding Sales and Marketing Network	204.72	161.49	0.00	161.49
6.	Working Capital	227.45	179.42	132.46	46.96
	<b>Total</b>	<b>2,274.66</b>	<b>1,794.28</b>	<b>369.64</b>	<b>1,424.64</b>

## PROPOSED REALLOCATION OF USE OF PROCEEDS

The board of directors (the “**Board**”) of the Company has resolved to reallocate and change the use of the remaining balance of unutilized Net Proceeds (the “**Proposed Reallocation**”) of approximately RMB1,424.64 million (equivalent to HK\$1,803.34 million) as particularized in Table 2 below:

Table 2

		<b>Proposed Reallocation</b> <i>(approximately RMB million)</i>	<b>Approximate Percentage of the Remaining Balance of Unutilized Net Proceeds</b>
(i)	Constructing new R&D centers, management centers and pharmaceutical and medical device development centers, purchasing or constructing new production lines and new production equipment, and renovating and reforming production lines and production equipment at the production facilities of the Group	427.39	30%
(ii)	Selectively acquiring or investing in suitable biomaterials, pharmaceutical or medical devices companies and companies providing medical and consulting services, as well as assets or business with a focus on upstream or downstream products which are complementary to the Group’s existing and potential product portfolio, and setting up and injecting additional capital into subsidiaries of the Group for conducting biomaterials, pharmaceutical or medical device business and medical and consulting services	783.55	55%
(iii)	Working capital of the Company and its subsidiaries and general corporate purposes	213.70	15%
	<b>Total</b>	<b>1,424.64</b>	<b>100%</b>

## **REASONS FOR THE PROPOSED REALLOCATION**

### **Change in production needs**

The Company notes that the construction of new production lines and production facilities at Shanghai Likangrui has been basically completed, and the Group is in the process of applying for the drug manufacturing permits and Good Manufacturing Practices (“GMP”) certificates for Shanghai Likangrui. The Company does not expect to incur material capital expenditures for the new production lines of Shanghai Likangrui before the permits and GMP certificates are expected to be obtained in early 2018. On the other hand, the Group envisages the funding needs for constructing, developing and optimizing the production facilities owned by the Company and other PRC subsidiaries of the Group<sup>1</sup> in response to market changes. As such, the Company intends to combine the unutilized Net Proceeds from Constructing New Production Lines at Shanghai Likangrui (as particularized under item 1 in Table 1) and Purchasing New Production Equipment (as particularized under item 3 in Table 1) and reallocate them for constructing new R&D centers, management centers and pharmaceutical and medical device development centers, purchasing or constructing new production lines and new production equipment and renovating and reforming production lines and production equipment at the production facilities of the Group (as particularized under item (i) in Table 2).

### **Change in acquisition strategies**

The State Council has recently called for the innovation and upgrading of the medical and pharmaceutical industry in the PRC. In response to the new policy of the State Council and to cope with the fast changing market conditions, the Group is actively looking for potential acquisition or investment targets which can bring synergies with the products of the Group. On the other hand, the Net Proceeds allocated for Funding R&D Activities (as particularized under item 4 in Table 1) and for Expanding Sales and Marketing Network (as particularized under item 5 in Table 1) remains largely unutilized. This is due to fact that limited research and development activities as well as sales and market activities have been undertaken by the Group itself since the Listing, and the current funds required for such activities can be effectively covered by the revenue and profits generated by the Group’s day-to-day operations.

<sup>1</sup> This excludes estimated capital expenditure of RMB250.0 million through 2017 for the construction of production lines at the Minhang facility which will be financed through the Group’s internal financial resources as disclosed in the Prospectus.

To better utilize the Net Proceeds, the Company intends to combine the unutilized Net Proceeds originally allocated for Funding R&D Activities and Expanding Sales and Marketing Network (under items 4 and 5 in Table 1) and reallocate them to accommodate the adjusted acquisition strategies of the Group. In the result, the reallocated Net Proceeds will be used for selectively acquiring or investing in suitable biomaterials, pharmaceutical or medical devices companies and companies providing medical and consulting services, as well as assets or business with a focus on upstream or downstream products which are complementary to the Group's existing and potential product portfolio, and setting up and injecting additional capital into subsidiaries of the Group for conducting biomaterials, pharmaceutical or medical device business and medical and consulting services (as particularized under item (ii) in the Table 2). In addition, the Group aims to take advantage of acquiring potential targets with outstanding research and development capabilities as well as mature sales and marketing networks as part of the Group's expansion strategy.

After considering the estimated size of the Net Proceeds with respect to the Proposed Reallocation as particularized under items (i) and (ii) in Table 2, the Company intends to increase the allocation for working capital from the original 10% to 15% for the day-to-day operations of the Company and its subsidiaries (as particularized under item (iii) in Table 2).

The Board has considered the impact on the Group's business arising from the above change in the use of the Net Proceeds. The Board believes that the Proposed Reallocation above will be more in line with the current business needs of the Company and is beneficial to the continued and rapid development of the Group. The Proposed Reallocation will allow the Company to deploy its financial resources more effectively and the Board considers that the Proposed Reallocation will strengthen the Group's market position as an integrated player in the industry. The Board confirms that there is no material change in the nature of business as set out in the Prospectus and considers that the Proposed Reallocation is in the best interest of the Company and its shareholders as a whole.

## **OTHER MATTERS**

According to the articles of association of the Company and the relevant laws and regulations, the Proposed Reallocation is subject to the approval of the shareholders of the Company by way of ordinary resolution at the general meeting of the Company. The Board has resolved at the Board meeting held today that an ordinary resolution to consider and approve the Proposed Reallocation and to authorize the Board and its authorized persons to do such other related matters will be proposed at the upcoming annual general meeting of the Company to be convened by the Board in due course (the “AGM”). A circular containing, among other things, the details in relation to the Proposed Reallocation and a notice in respect of the AGM will be despatched to the shareholders of the Company in due course.

By order of the Board  
**Shanghai Haohai Biological Technology Co., Ltd.\***  
*Chairman*  
**Hou Yongtai**

Shanghai, the PRC, 18 March 2016

*As at the date of this announcement, the executive directors of the Company are Dr. Hou Yongtai, Mr. Wu Jianying, Mr. Huang Ping and Ms. Chen Yiyi; the non-executive directors of the Company are Ms. You Jie and Mr. Gan Renbao; and the independent non-executive directors of the Company are Mr. Chen Huabin, Mr. Shen Hongbo, Mr. Li Yuanxu, Mr. Zhu Qin and Mr. Wong Kwan Kit.*

*\* For identification purpose only*