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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)

SUPPLEMENTAL ANNOUNCEMENT CONNECTED TRANSACTION ACQUISITION OF 20% EQUITY INTEREST IN A NON-WHOLLY OWNED SUBSIDIARY

Reference is made to the announcement (the “**Announcement**”) of Shanghai Haohai Biological Technology Co., Ltd (the “**Company**”) dated 8 February 2023 in relation to the connected transaction contemplated under the Equity Transfer Agreement. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

The Company wishes to provide further information regarding (i) the valuation of the Target Company; (ii) the Target Company Business Profit, the Profit Guarantees and the Monetary Compensation; and (iii) the bonus to the management team of the Target Company.

VALUATION OF THE TARGET COMPANY

The Company would like to clarify that the market approach was adopted in the independent valuer’s valuation of the equity interests in the Target Company, with price-to-sales ratio (the “**P/S ratio**”) as the valuation multiple.

Having discussed with the independent valuer, the Board is of the view that:

- (i) It is reasonable to use the market approach in the valuation because the Target Company operates in industries (i.e. distribution of cataract intraocular lens as well as production and sale of orthokeratology lens in the PRC) where there are sufficient publicly available transactional data.

- (ii) While price-to-earnings ratio and P/S ratio are both commonly used in business valuation, P/S ratio is a better tool for gauging the value of the Target Company in this case since the profitability of the Target Company had been volatile in the past years. In particular, the Target Company's profit for the 12 months to 31 October 2022 was temporarily impacted by the COVID-19 pandemic and significant fluctuation of the RMB/USD exchange rate (see the paragraph headed "Target Company Business Profit, Profit Guarantees and Monetary Compensation – Calculation of Target Company Business Profit" below). Besides, since 2022, the Target Company has been re-recognised as a "High and New Technology Enterprise" in the PRC, and is entitled to a preferential enterprise income tax rate of 15%, as opposed to a tax rate of 25% which was applicable to the Target Company in 2021. These factors have swayed the Target Company's profit level from 2021 to 2022, which may not truly reflect the Target Company's business performance and prospect in the long run.

In light of the above, the Board believes that the valuation of the equity interest of the Target Company using the P/S ratio can offer an appropriate estimate of the value of the Target Company which is able to fairly reflect the Target Company's value and growth potential, and less susceptible to distortion by the short-term factors and changes occurred in the past 12 months.

After reviewing and discussing with the valuer of the appropriateness of the valuation method and the selection criteria and the characteristics of the underlying entities of the comparable transactions, the Directors believe that the basis for determining the valuation of the Target Company and the Consideration is fair and reasonable.

The Board also believes that the total assets and the net assets of the Target Company are not critical in evaluating the reasonableness of the Consideration given that the business of the Target Company is not asset-intensive.

TARGET COMPANY BUSINESS PROFIT, PROFIT GUARANTEES AND MONETARY COMPENSATION

Calculation of Target Company Business Profit

The Company would like to clarify that the Target Company Business Profit shall include the Target Company's net profit on its financial statements (the "**Target Company's Net Profit**") and the IOL Products Net Profit (i.e. the profits retained by certain wholly-owned subsidiaries of the Company incorporated in Hong Kong (the "**Relevant Subsidiaries**") for the sale of Lenstec's IOL Products from the Relevant Subsidiaries to the Target Company that are finally sold by the Target Company).

The Relevant Subsidiaries were authorised by the Target Company to purchase IOL Products from Lenstec on behalf of the Target Company so as to:

- (i) facilitate more efficient settlements of the purchase payments offshore with Lenstec; and
- (ii) minimise the impact of significant foreign currency fluctuations by allowing the Target Company more flexibility to determine the best timing to acquire USD in the PRC to settle the payments.

The Board believes that it is fair and reasonable to take into account the IOL Products Net Profit when calculating the Target Company Business Profit after having considered that:

- (a) the Relevant Subsidiaries were instructed by the Target Company to purchase the IOL Products from Lenstec purely to facilitate the settlements of purchase payments with Lenstec; and
- (b) all the IOL Products purchased by the Relevant Subsidiaries from Lenstec would be subsequently sold to the Target Company.

Determination of Profit Guarantees

The Board believes that the Profit Guarantees are fair and reasonable notwithstanding it is higher than the Target Company Business Profit (i.e. the Target Company's Net Profits and IOL Products Net Profits combined) as recorded for the years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022 for the following reasons:

- (a) Since the Group's acquisition of 60% of the equity interest in the Target Company in 2016, the Group has been involved in the management of the Target Company, and has closely monitored its business operations. The Target Company's performance from 2020 to 2022 had been materially and adversely affected by the COVID-19 pandemic. As the impact of the COVID-19 pandemic has subsided since the beginning of 2023, it is believed that the Target Company's business outlook is set to improve.
- (b) The Target Company Business Profit for the nine months ended 30 September 2022 was particularly impacted by the exchange loss recorded as a result of the depreciation of RMB against USD during the period. If the depreciation of RMB against USD were disregarded, the Target Company Business Profit for the nine months ended 30 September 2022 would be approximately RMB25,435,000, which is close to the results of RMB28,487,000 achieved for the year ended 31 December 2021. In fact, the foreign exchange loss recorded by the Target Company for the nine months ended 30 September 2022 was largely due to the accounts payable denominated in USD due to the Relevant Subsidiaries. As RMB strengthened against USD towards the end of 2022, the foreign exchange loss of the Target Company had largely been eliminated.
- (c) Further, the Target Company obtained the Class III medical device license for orthokeratology lens on 23 December 2022 in the PRC, which further optimises the products line of the Target Company.

Calculation of Monetary Compensation

As disclosed in the Announcement, the Sellers' obligation to provide Monetary Compensation in a given year will be waived if the Actual Profit for the relevant year is below the Profit Guarantee for the relevant year but not less than 90% of the Profit Guarantee for the relevant year (the "**Profit Guarantee Buffer**").

The Company would like to clarify that the Profit Guarantee Buffer is a contractual term agreed by the parties after arms' length negotiations which is not subject to the Purchaser's discretion, and will be available to the Sellers if the Actual Profit falls short by no more than 10% of the Profit Guarantee for the relevant year.

The Directors believe that the Profit Guarantee Buffer represents a reasonable compromised buffer due to the following reasons:

- (i) The uncertainty associated with the recent implementation of the policy of volume-based procurement (帶量採購政策) of high-valued medical consumables (including IOL Products) by the National Healthcare Security Administration (國家醫療保障局) of the PRC may impact the sales volume of IOL Products of the Target Company in the future.
- (ii) While the Sellers will not be obliged to pay Monetary Compensation if the shortfall of the Actual Profit is not more than 10% of the Profit Guarantee, once the shortfall exceeds 10%, the Purchaser will be entitled to Monetary Compensation based on the full amount of the shortfall of the Actual Profit (as opposed to reducing the Profit Guarantee by 10% and then calculating the Monetary Compensation).
- (iii) The Profit Guarantees were secured by a pledge of the remaining 20% equity interests of the Target Company owned by Mr. Zhang, Shenzhen Baina and Shenzhen Jiusi.

The Company would like to clarify that there is no cap on the amount of the Monetary Compensation, and the formula for the calculation of Monetary Compensation as disclosed in the Announcement is applicable regardless of whether the Target Company is profit-marking in a relevant year, i.e. if the Actual Profit for a relevant year is negative, the Monetary Compensation will be calculated on the basis that the Actual Profit is a negative figure.

Payment terms of the Monetary Compensation

When the Monetary Compensation mechanism is triggered, the Purchaser shall be entitled to send a written notice to the Sellers to request for Monetary Compensation at any time. Within 15 working days upon receipt of the above written notice, the Monetary Compensation shall be unconditionally paid to the Purchaser's bank account by the Sellers in proportion to their equity interests in the Target Company sold under the Equity Transfer Agreement.

BONUS TO THE MANAGEMENT TEAM OF THE TARGET COMPANY

As disclosed in the Announcement, after the expiration of the profit guarantee period, the management team of the Target Company will be entitled to bonus if the aggregated Actual Profits exceed 110% of the aggregated Profit Guarantees for the three years ending 31 December 2025.

As at the date of this announcement, the management team of the Target Company includes 11 members, all of which are independent third parties save for Ms. Zhang Caixia, the executive vice-general manager of the Target Company, who is a younger sister of Mr. Zhang and therefore a connected person of the Company at the subsidiary level.

Pursuant to the Equity Transfer Agreement, the general manager of the Target Company will determine the identities of the awardees and the allocation of the bonus. There is no guarantee that any of the above-mentioned management members will be awarded any bonus.

The Company will comply with the Listing Rules (including but not limited to the connected transaction rules under Chapter 14A of the Listing Rules) when any bonus is granted to connected persons of the Company.

GENERAL

Save as disclosed above, all other information set out in the Announcement remains unchanged. This announcement is supplemental to and shall be read in conjunction with the Announcement.

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

Shanghai, the PRC, 9 March 2023

As at the date of this announcement, the executive Directors are Dr. Hou Yongtai, Mr. Wu Jianying, Ms. Chen Yiyi and Mr. Tang Minjie; the non-executive Directors are Ms. You Jie and Mr. Huang Ming; and the independent non-executive Directors are Mr. Guo Yongqing, Mr. Jiang Zhihong, Mr. Su Zhi, Mr. Yang Yushe and Mr. Zhao Lei.

* *For identification purpose only*