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DAWNRAYS PHARMACEUTICAL (HOLDINGS) LIMITED

東瑞製葯(控股)有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2348)

**DISCLOSEABLE TRANSACTION IN RELATION TO
FRAMEWORK AGREEMENT FOR THE ACQUISITION
OF TOP FIELD LIMITED**

FRAMEWORK AGREEMENT

On 27 February 2019 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company, entered into the Framework Agreement with the Vendor and the Guarantor in respect of the acquisition of the entire issued share capital of the Target Company at an aggregate consideration of HK\$438 million (subject to adjustment), subject to the conclusion of a formal sale and purchase agreement.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

The Board announces that on 27 February 2019 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company, entered into the Framework Agreement with the Vendor and the Guarantor in respect of the acquisition of the entire issued share capital of the Target Company at an aggregate consideration of HK\$438 million (subject to adjustment), subject to the conclusion of a formal sale and purchase agreement.

Set out below are the principal terms of the Framework Agreement.

FRAMEWORK AGREEMENT

Date

27 February 2019

Parties to the Framework Agreement

- (1) Dawnrays International Company Limited, a wholly-owned subsidiary of the Company (as Purchaser)
- (2) Supper Fort Holdings Limited (as Vendor)
- (3) Mr. Wong Wai Ming Jeff (as guarantor of the Vendor's payment obligations and representations and warranties given by the Vendor under the Framework Agreement)

To the best of the Directors' knowledge, information and belief, having made all reasonable enquires, each of the Vendor, its ultimate beneficial owner and the Guarantor is an Independent Third Party.

Asset to be acquired

The Sale Shares, representing the entire issued share capital of the Target Company as at the date of the Framework Agreement

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and its results will be consolidated into the Company's accounts.

Exclusivity period

The Vendor has agreed to grant the Purchaser an exclusivity period commencing on the date of the Framework Agreement and ending on the earlier of (i) 31 March 2019; (ii) the date of the formal sale and purchase agreement; and (iii) termination of the Framework Agreement.

In the event the Purchaser and Vendor fail to enter into a formal sale and purchase agreement by 29 March 2019 (or such other date as the parties may agree in writing), the Purchaser may terminate the Framework Agreement in writing and the Vendor shall refund the deposit within 10 Business Days from the date of the termination notice. Upon termination, neither party to the Framework Agreement will have any obligation to other parties under the Framework Agreement.

Consideration

The consideration for the Acquisition is HK\$438 million (subject to adjustment), payable in cash to the Vendor as follows:

- (i) within 10 Business Days from the date of the Framework Agreement, as to HK\$87.6 million as a refundable deposit;

- (ii) on the date of the formal sale and purchase agreement, as to HK\$87.6 million as the first instalment, representing 20% of the Consideration, to be offset against the refundable deposit;
- (iii) within 10 Business Days from the date of the formal sale and purchase agreement, as to HK\$131.4 million as the second instalment, representing 30% of the Consideration;
- (iv) within 10 Business Days from Completion and change of directors and legal representatives of certain companies in the Target Group, as to HK\$197.1 million as the third instalment, representing 45% of the Consideration, less any tax payable in respect of share transfers of companies in the Target Group since incorporation and the Reorganisation as determined by the relevant PRC tax authorities and any adjustment; and
- (v) within 10 Business Days from a six-month period after Completion and change of directors and legal representatives of certain companies in the Target Group, as to the remaining balance of the Consideration after adjustment.

The Consideration is subject to the following adjustments:

- (i) in the event the Target Group fails to obtain CDE (Centre for Drug Evaluation) reference for certain drug products within the specified timeframe, the Consideration is to be reduced as the parties may agree; and
- (ii) in the event the audited net asset value of the Target Group as at Completion is less than RMB85.72 million (equivalent to approximately HK\$99.44 million), the Consideration is to be reduced by an amount equal to the shortfall.

The consideration for the Acquisition was arrived at after arm's length negotiations between the parties to the Framework Agreement, having taken into account, among other things, (i) the market for blood lipid lowering drugs; (ii) the research and development, production and sales capabilities of the Target Group; and (iii) the valuation of the Target Company at RMB380 million (equivalent to approximately HK\$441 million) as at 31 October 2018 as determined by an independent valuer. The Group intends to finance the Acquisition with its internal resources.

Conditions precedent

Completion is conditional upon:

- (i) the Target Group having obtained approval for producing Atorvastatin calcium tablet (阿托伐他汀鈣片) (10 milligrams) by 31 March 2019;
- (ii) the Target Group having registered Atorvastatin calcium tablet (阿托伐他汀鈣片) and certain drug products indicated for the treatment of high blood lipid and diabetes as Category III or Category IV chemical drugs according to the prevailing regulations and having prepared the registration materials of certain drug indicated for the treatment of hypertension;

- (iii) the Target Group having obtained the necessary qualifications for its operations and such qualifications having remained valid;
- (iv) the Target Group having sourced 200 kilograms of bulk medicine for and entered into supply agreement for no less than 800 kilograms of bulk medicine for 2019 for Atorvastatin calcium tablet (阿托伐他汀鈣片) (10 milligrams);
- (v) the Company having complied with the applicable requirements under Chapter 14 of the Listing Rules;
- (vi) the representations and warranties given by the Vendor in the formal sale and purchase agreement having remained true and not misleading; and
- (vii) the Vendor and the Guarantor having consulted the relevant PRC tax authorities on any tax liability in respect of share transfers of companies in the Target Group since incorporation and the Acquisition and having settled or procured the settlement of such taxes.

All conditions precedent may be waived by the Purchaser. If any of the conditions precedent has not been fulfilled or waived on or before 30 April 2019, the Purchaser or the Vendor may terminate the Acquisition, and save for any breach of the Framework Agreement by the Purchaser, the Purchaser is entitled to a refund of instalment(s) of the Consideration paid without interest within 10 Business Days after the date of the refund notice issued by the Purchaser.

UNDERTAKINGS

Reorganisation

As at the date of the Framework Agreement, the Excluded Company is a wholly-owned subsidiary of the Target Company. The Vendor will be required to, among other things, dispose of the Excluded Company for a consideration equal to its net asset value prior to Completion at the Vendor's own expense and ensure there is no outstanding liability between the Target Group and the Excluded Company.

Indemnity

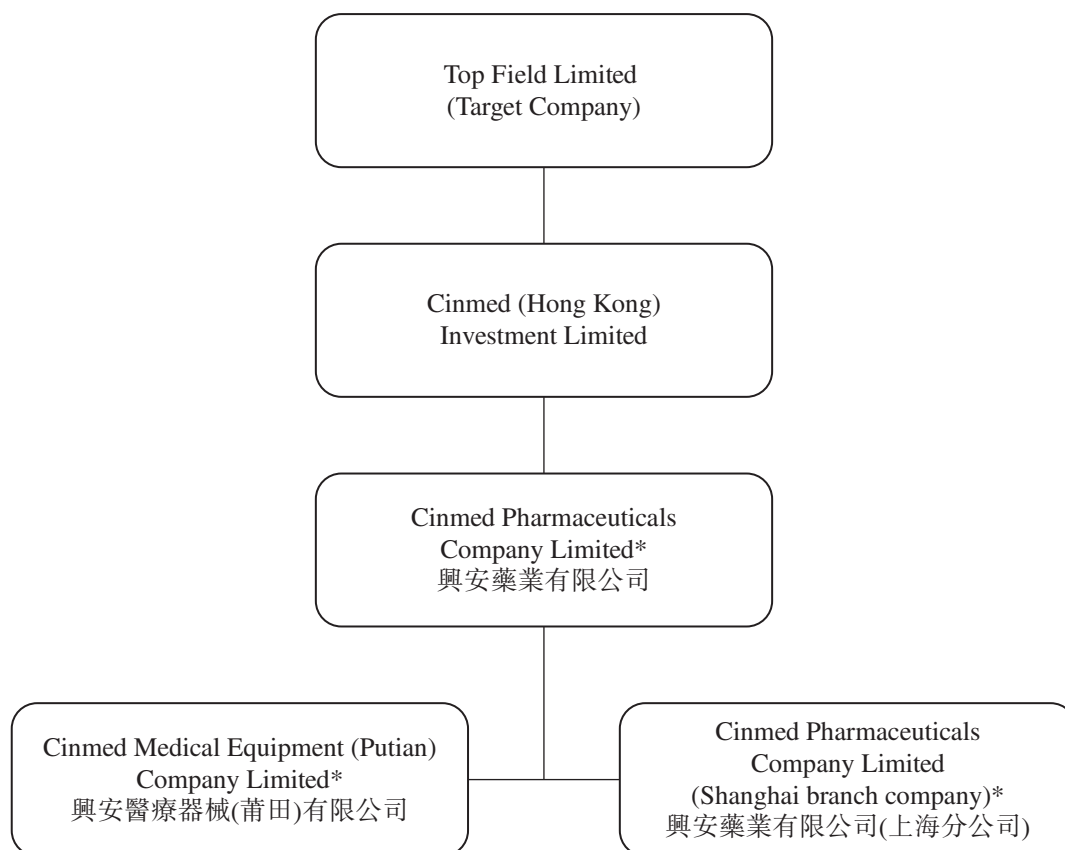
The Vendor and the Guarantor will jointly and severally undertake to indemnify the Purchaser and the Target Group for any cost, expense (including tax payable and expenses incurred in investigating or defending claims), loss or other liabilities incurred by the Purchaser or the Target Group as a result of any breach of representations and warranties, tax liability attributable to actions of the Target Group or the Vendor prior to Completion and share transfers of companies in the Target Group (including the Acquisition).

INFORMATION ON THE TARGET GROUP

The Target Company is an investment holding company incorporated in BVI. The Target Group is principally engaged in the research, development, production and sale of drugs and has developed, among other things, Atorvastatin calcium tablet (阿托伐他汀鈣片) and certain drug indicated for the treatment of high blood lipid to prevent cardiovascular

diseases, and drugs indicated for the treatment of hypertension and diabetes. The Target Group also has a track record of producing and selling generic drugs such as Simvastatin pill (辛伐他汀滴丸) indicated for the treatment of high blood lipid and anti-inflammatory medication Loxoprofen sodium tablet (洛索洛芬鈉片).

The shareholding structure of the Target Group is shown as follows:



Set out below is a summary of the unaudited combined financial information of the Target Group for the year ended 31 December 2017 and the 10 months ended 31 October 2018 prepared in accordance with the International Financial Reporting Standards (IFRS), assuming the Reorganisation had been completed on 1 January 2017:

	For the year ended 31 December 2017 RMB'000 (unaudited) (Note 1)	For the 10 months ended 31 October 2018 RMB'000 (unaudited) (Note 2)
Revenue	38,270	24,272
Net profit before taxation	2,161	499
Net loss after taxation	<u>664</u>	<u>306</u>

As at
31 October
2018
RMB'000
(unaudited)
(*Note 2*)

Net assets 90,582

Note 1: The information represents the combined results of the Target Group for the financial year ended 31 December 2017.

Note 2: The information represents the combined results of the Target Group for the 10 months ended or as at 31 October 2018 (as the case may be), being the Reference Date of the Valuation Report.

INFORMATION ON THE VENDOR

The Vendor is an investment holding company incorporated in Hong Kong. The Target Group is a major asset of the Vendor. As at the date of this announcement, the Guarantor is the sole beneficial owner of the Vendor.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company incorporated in the Cayman Islands. The Group is principally engaged in the development, manufacture and sale of non-patented pharmaceutical medicines including intermediate pharmaceuticals, bulk medicines and finished drugs. The Group has established product brands in the cardiovascular, anti-HBV (Hepatitis B virus), anti-allergic and third-generation cephalosporin antibiotics medicine fields.

Over the past two decades, the Group has built up a strong product brand and sales network in the cardiovascular medicine field. As the Target Group engages in the research and development of, among other things, cardiovascular medicine, the Acquisition is an opportunity for the Group to enhance its capability in the field. Upon Completion, the addition of the Target Group's major product, Atorvastatin calcium tablet (阿托伐他汀钙片) (indicated for the treatment of high blood lipid to prevent cardiovascular diseases), to the Group's product portfolio will expand the range of products offered by the Group. The Group expects to leverage on its sales network and resources to promote drug products of the Target Group and enjoy synergy, which would in turn strengthen the overall competitiveness of the Group.

Having considered the above, the Directors believe that the terms of the Acquisition (including the Consideration) are fair and reasonable and in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

Beijing Zhongqin Yongli Asset Appraisal Company Limited* (北京中勤永勵資產評估有限責任公司), an independent professional valuer, issued a valuation report on 3 February 2019 (the “**Valuation Report**”) which stated the fair value of the Target Company to be RMB380 million (equivalent to approximately HK\$441 million) as at 31 October 2018 (the “**Reference Date**”).

The Valuation Report was prepared based on asset-based approach and with reference to the unaudited combined net asset value of the Target Company as at the Reference Date. In determining the value of the Target Company’s investment in Cinmed Pharmaceuticals Company Limited* (興安藥業有限公司), which is a major asset of the Target Company, the valuer adopted the discounted cash flow approach. Accordingly, the Company takes the view that the Valuation Report in substance constitutes a profit forecast under Rule 14.61 of the Listing Rules. The following are details of the principal assumptions upon which the Valuation Report was issued:

1. there will be no material change in the relevant laws and regulations, policies or macroeconomic conditions after the Reference Date and there will be no material change in political, economic or social conditions where parties to the Acquisition are located;
2. the Target Group will continue to operate after the Reference Date, with its business scope, mode of operation and direction remaining unchanged under the current management practice and level;
3. the Target Group will be managed by responsible, stable and competent personnel after the Reference Date;
4. the Target Group complies with the relevant laws and regulations;
5. the Target Group will not be affected by any force majeure or unforeseeable factors after the Reference Date;
6. the accounting policies adopted by Target Group after the Reference Date are consistent with those adopted for the Valuation Report in all material respects;
7. there will be no material change in interest rate, exchange rate, taxation basis, tax rate or policy charges after the Reference Date;
8. the Target Group recorded a positive cash flow at financial year end;
9. the products of the Target Group will maintain their competitiveness in the market after the Reference Date;
10. with regard to matters that have yet to take place, the valuer deferred to management judgments; and
11. the physical assets or premises of the Target Group meet the PRC quality standards and are functional to support normal use.

Ernst & Young, the auditors of the Company, has reviewed the arithmetical accuracy of the calculations of the discounted cash flow forecast, which does not involve the adoption of accounting policies. Crescendo Capital Limited, the financial adviser to the Company, has reviewed the discounted cash flow forecast of Cinmed Pharmaceuticals Company Limited* (興安藥業有限公司) for the five years ending 31 December 2023 and is of the view that such forecast has been made after due and careful enquiry. Letters from the auditors and financial adviser to the Company are included as appendices I and II to this announcement.

The following are qualifications of the experts who have given their opinion and advice included in this announcement.

Name	Qualifications
Beijing Zhongqin Yongli Asset Appraisal Company Limited* (北京中勤永勵資產評估有限責任公司)	Independent professional valuer
Ernst & Young	Certified Public Accountants
Crescendo Capital Limited	Licensed to advise on corporate finance

As at the date of this announcement, each of Beijing Zhongqin Yongli Asset Appraisal Company Limited* (北京中勤永勵資產評估有限責任公司), Ernst & Young and Crescendo Capital Limited does not have any shareholding, directly or indirectly, in any member of the Group 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.

Each of Beijing Zhongqin Yongli Asset Appraisal Company Limited* (北京中勤永勵資產評估有限責任公司), Ernst & Young and Crescendo Capital Limited has given and has not withdrawn its consent to the publication of this announcement with the inclusion of its report and reference to its name in the form and context in which it appears.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Acquisition”	the acquisition of the Sale Shares by the Purchaser
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday or a Sunday) on which banks are open for general banking business in Hong Kong and the PRC
“BVI”	British Virgin Islands

“Company”	Dawnrays Pharmaceutical (Holdings) Ltd., a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2348)
“Completion”	the completion of the sale and purchase of the Sale Shares
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration for the Acquisition, subject to adjustment
“Director(s)”	the director(s) of the Company
“Excluded Company”	An Mai Long Biotechnology (Shanghai) Company Limited* (安脉龍生物科技(上海)有限公司), a wholly-owned subsidiary of the Target Company as at the date of the Framework Agreement
“Framework Agreement”	the framework agreement dated 27 February 2019 entered into among the Purchaser, the Vendor and the Guarantor in relation to the Acquisition
“Group”	the Company and its subsidiaries (as defined in the Listing Rules)
“Guarantor”	Mr. Wong Wai Ming Jeff (王惠明), the sole beneficial owner of the Vendor as at the date of the Framework Agreement
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	a third party who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquires, is independent of the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, and for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	Dawnrays International Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Reorganisation”	the disposal of the Excluded Company
“RMB”	Renminbi, the lawful currency of the PRC

“Sale Shares”	60,000 shares in the issued share capital of the Target Company, representing 100% of the issued share capital of the Target Company as at the date of the Framework Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Top Field Limited, a company incorporated in the BVI with limited liability
“Target Group”	the Target Company and its subsidiaries immediately after the Reorganisation
“Vendor”	Supper Fort Holdings Limited (興安豐盛投資有限公司), a company incorporated in Hong Kong with limited liability
“%”	per cent

* *For identification purposes only*

For the purpose of this announcement, unless otherwise indicated, conversion of RMB into HK\$ is calculated at the exchange rate of RMB1.0 to HK\$1.16. The exchange rate is for illustrative purpose only and does not constitute a representation that any amount has been, could have been, or may be exchanged at this or any other rate at all.

By Order of the Board
DAWNRAYS PHARMACEUTICAL (HOLDINGS) LIMITED
Li Kei Ling
Chairman

Hong Kong, 27 February 2019

As at the date of this announcement, the Board of the Company comprises three executive directors, namely Ms. Li Kei Ling, Mr. Hung Yung Lai and Mr. Chen Shaojun; one non-executive director, namely Mr. Leung Hong Man; three independent non-executive directors, namely Mr. Lo Tung Sing Tony, Mr. Ede, Ronald Hao Xi and Ms. Lam Ming Yee Joan.

APPENDIX I — LETTER FROM THE AUDITORS OF THE COMPANY

The following is the text of a report from Ernst & Young, the auditors of the Company, prepared for inclusion in this announcement.



27 February 2019

The Directors

Dawnrays Pharmaceutical (Holdings) Limited
Units 3001–02, 30/F, CNT Tower, 338 Hennessy Road
Wanchai, Hong Kong

REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF EQUITY INTEREST IN TOP FIELD LIMITED

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the “Forecast”) on which the valuation dated 3 February 2019 prepared by Beijing Zhongqin Yongli Assets Appraisal Co., Ltd. in respect of Top Field Limited (the “Target”) as at 31 October 2018 is based. The valuation is set out in the announcement of Dawnrays Pharmaceutical (Holdings) Limited (the “Company”) dated 27 February 2019 (the “Announcement”) in connection with the acquisition of the Target. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Directors’ responsibilities

The directors of the Company (the “Directors”) are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the “Assumptions”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the section headed “Listing Rules Implications” of the Announcement.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Ernst & Young
Certified Public Accountants
Hong Kong
22/F, CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong

APPENDIX II — LETTER FROM THE FINANCIAL ADVISER TO THE COMPANY

The following is the text of a letter from Crescendo Capital Limited, the financial adviser to the Company, in connection with the profit forecast in the Valuation Report, for inclusion in this announcement.



27 February 2019

Dawnrays Pharmaceutical (Holdings) Limited

Units 3001-02

30/F., CNT Tower

338 Hennessy Road

Wanchai, Hong Kong

Attn.: The Board of Directors

Dear Sirs,

We refer to the valuation of the fair value of Top Field Limited as at 31 October 2018 (the “Valuation”) prepared by Beijing Zhongqin Yongli Asset Appraisal Company Limited* (北京中勤永勵資產評估有限責任公司) as mentioned in the announcement of Dawnrays Pharmaceutical (Holdings) Limited dated 27 February 2019 (the “Announcement”). Capitalized terms used in this letter have the same meanings as those defined in the Announcement unless the context requires otherwise.

We noted that the Valuation was prepared based on asset-based approach and with reference to the unaudited combined net asset value of the Target Company as at the Reference Date. In determining the value of the Target Company’s investment in Cinmed Pharmaceuticals Company Limited* (興安藥業有限公司), which is a major asset of the Target Company, the valuer adopted the discounted cash flow method under income approach, which takes into account the discounted cash flow forecast of Cinmed Pharmaceuticals Company Limited for the five years ending 31 December 2023 (the “Forecast”). As such, the Valuation is regarded in substance constitutes a profit forecast under Rule 14.61 of the Listing Rules. We have reviewed the Forecast, for which you as the Directors are solely responsible for, and have discussed with you and Beijing Zhongqin Yongli Asset Appraisal Company Limited the basis and assumptions adopted for the Forecast. We have also considered the letter issued by Ernst & Young, the auditors of the Company, dated 27 February 2019 as set out in Appendix I to the Announcement regarding the calculations upon which the Forecast has been made.

* *For identification purposes only*

On the basis of the foregoing, we are satisfied that the Forecast, for which you as the Directors are solely responsible for, has been made after due and careful enquiry. However, we express no opinions on whether the actual cash flows would eventually be achieved in correspondence with the Forecast. We accept no responsibilities to any other person in respect of, arising out of or in connection with our work. Our work in connection with the Forecast has been undertaken solely for the strict compliance with Rule 14.62 of the Listing Rules and for no other purposes.

Yours faithfully,
For and on behalf of
Crescendo Capital Limited

Amilia Tsang
Managing Director

Helen Fan
Associate Director