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If you have sold or transferred all your shares in Dawnrays Pharmaceutical (Holdings) Limited, you should at once hand this circular, together with the enclosed proxy form, to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

This circular appears for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

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DAWRAYS PHARMACEUTICAL (HOLDINGS) LIMITED

東瑞製葯(控股)有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2348)

**GRANT OF OPTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

A notice convening the EGM of Dawnrays Pharmaceutical (Holdings) Limited to be held at Plaza 3, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on Monday, 30 December 2019 at 3:00 p.m. is set out on pages EGM-1 to EGM-2 of this circular.

Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying proxy form in accordance with the instructions printed thereon to the Hong Kong branch share registrar of the Company, Tricor Abacus Limited, at Level 54, Hopewell Centre 183 Queen's Road East Hong Kong, as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjournment thereof. Completion and delivery of the proxy form will not preclude you from attending and voting at the EGM should you so wish.

* *For identification purpose only*

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DEFINITIONS

In this circular, unless the context otherwise requires, the following terms or expressions shall have the meanings set out below:

“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of directors of the Company;
“Company”	Dawnrays Pharmaceutical (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange;
“Director(s)”	the director(s) of the Company;
“EGM”	an extraordinary general meeting of the Company to be convened for the Shareholders to consider and, if thought fit, approve, among other things, the grant of the Options to Mr. Chen;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Latest Practicable Date”	18 November 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mr. Chen”	Mr. Chen Shaojun, the executive Director and the chief executive officer of the Company;
“Options”	a total of 64,000,000 share options of the Company granted to Mr. Chen on 28 August 2019 to subscribe for 64,000,000 Shares pursuant to the Scheme;
“PRC” or “China”	the People’s Republic of China;
“RMB”	the lawful currency of the PRC;
“Scheme”	the share option scheme adopted by the Company on 21 June 2013;
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company;

DEFINITIONS

“Shareholder(s)”	holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.



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)

Executive Directors:

Ms. LI Kei Ling (*Chairman*)
Mr. HUNG Yung Lai
Mr. CHEN Shaojun

Non-executive Director:

Mr. LEUNG Hong Man

Independent Non-executive Directors:

Mr. LO Tung Sing Tony
Mr. EDE, Ronald Hao Xi
Ms. LAM Ming Yee Joan

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Head office and principal place
of business in Hong Kong:*

Units 3001-02, 30/F.
CNT Tower
338 Hennessy Road
Wanchai Hong Kong

21 November 2019

To the Shareholders

Dear Sir or Madam,

GRANT OF OPTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 28 August 2019 in respect of the grant of Options to Mr. Chen.

The purpose of this circular is to provide you with (i) further details of the grant of the Options to Mr. Chen; and (ii) the notice of the EGM and forms of proxy.

* For identification purpose only

LETTER FROM THE BOARD

GRANT OF OPTIONS

On 28 August 2019, the Board resolved to grant Mr. Chen (being the executive Director and the chief executive officer of the Company) a total of 64,000,000 Options to subscribe for 64,000,000 Shares (representing approximately 4.09% of the total issued share capital of the Company as at the Latest Practicable Date), subject to his acceptance.

Principal terms of the grant of Options to Mr. Chen are set out below:

Date of grant of the Options : 28 August 2019

Number of the Options granted : 64,000,000 Options

Consideration : Upon acceptance of the grant of Options, Mr. Chen had paid HK\$10.00 to the Company as consideration for the grant on 17 September 2019, which was within 21 days from 28 August 2019 (i.e. the date on which the Board resolves to grant Mr. Chen the Options).

Exercise price : HK\$1.38 per Share, which is higher than the nominal value of HK\$0.05 per Share and represents:

- (i) a premium of approximately 6.98% over the closing price of HK\$1.29 per Share as stated in the daily quotations sheet of the Stock Exchange on 28 August 2019;
- (ii) a premium of approximately 1.17% over the average closing price of HK\$1.364 per Share as stated in the daily quotations sheets of the Stock Exchange for five business days immediately preceding 28 August 2019;
- (iii) a discount of approximately 1.43% to the closing price of HK\$1.40 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (iv) a discount of approximately 2.54% over the Company's net asset value per Share of approximately RMB1.245 (approximately HK\$1.416) as at 30 June 2019.

LETTER FROM THE BOARD

Exercise period : The exercise of the following 32,000,000 Options is not subject to any conditions:

Number of Options	Exercise period
16,000,000	From the date following the EGM to 30 June 2020 (both dates inclusive)
16,000,000	From 1 July 2020 to 31 December 2020 (both dates inclusive)

Subject to the fulfilment of the performance targets for the two years ending 31 December 2021 and 2022 as described below, 32,000,000 Options (“**Conditional Options**”) will be vested and exercisable as follows:

Number of Options	Exercise period and performance targets
16,000,000 (“ Conditional Options I ”)	Conditional Options I will be vested and exercisable during the period from 1 May 2022 to 30 April 2023 if, as stated in the audited consolidated financial statements of the Company for the year ending 31 December 2021, (i) revenue of the Group is not less than RMB1,250 million; and (ii) profit after tax of the Group (excluding the share of profits or losses of AD Pharmaceuticals Co., Ltd., an associate of the Company) is not less than RMB395 million (“ 2021 Performance Targets ”).

If any of 2021 Performance Targets is not met on or before 30 April 2022, Conditional Options I (together with Conditional Options II) will be vested and exercisable during the period from 1 May 2023 to 30 April 2024, on the condition that all 2022 Performance Targets (as defined below) are met on or before 30 April 2023.

LETTER FROM THE BOARD

If any of 2021 Performance Targets is not met on or before 30 April 2022 and any of 2022 Performance Targets is not met on or before 30 April 2023, Conditional Options I will automatically lapse.

16,000,000
 (“**Conditional
Options II**”)

Conditional Options II will be vested and exercisable during the period from 1 May 2023 to 30 April 2024 if, (i) as stated in the audited consolidated financial statements of the Company for the year ending 31 December 2022, (1) revenue of the Group is not less than RMB1,500 million; and (2) profit after tax of the Group (excluding the share of profits or losses of AD Pharmaceuticals Co., Ltd., an associate of the Company) is not less than RMB500 million; and (ii) during the four years ending 31 December 2022, the Group has obtained new approvals for productions issued by any regulatory body of any jurisdiction administering drugs and medical products with respect of not less than three chemical drugs (which the Group does not have approvals for production) and have launched such products in the market for sale (“**2022 Performance Targets**”).

If any of 2022 Performance Targets is not met on or before 30 April 2023, Conditional Options II will automatically lapse.

LETTER FROM THE BOARD

The above targets were determined with reference to (a) the Group's consolidated revenue, profit after tax (excluding the share of profits or losses of AD Pharmaceuticals Co., Ltd.) and the net profit margin for the financial years of 2016 to 2018 as set out in the table below; and (b) income that may be generated from the business acquired by the Group in May 2019 (which was the subject of the Company's announcement dated 27 February 2019).

Set out below are the revenue, profit after tax and net profit margin of the Group (excluding the share of profits or losses of AD Pharmaceuticals Co., Ltd.) (i) for the financial years ended 31 December 2016, 2017 and 2018 respectively, based on the audited financial information of the Group for the relevant years, and (ii) for the six months ended 30 June 2019, based on the unaudited financial information of the Group for the relevant period.

	2016	2017	2018	Six months ended 30 June 2019*
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revenue	824,351	882,483	948,938	490,750
Profit after tax (excluding the share of profits or losses of AD Pharmaceuticals Co., Ltd.)	265,917	299,660	318,009	155,930
Net profit margin (excluding the share of profits or losses of AD Pharmaceuticals Co., Ltd.)	32.3%	34.0%	33.5%	31.8%

* *The financial performance of the business acquired by the Group in May 2019 for the six months ended 30 June 2019 has been consolidated in the financial information of the Group for the period.*

The 2021 Performance Targets and the 2022 Performance Targets were set by taking into account the audited financial information of the Group set out above, the foreseeable policies for medical reform to be introduced by the PRC government and the expected sale of certain new products of the Group in 2022 which are currently in their research phase, based on which the Board is of the view that the 2021 Performance Targets and 2022 Performance Targets are fair and reasonable.

LETTER FROM THE BOARD

The above targets were set as a basis for performance targets for the vesting of the Options only and do not represent the Board's projection or forecast of the Group's performance in the two years ending 31 December 2022. The Board makes no representation on whether any of these targets can or may be achieved by the Group.

If any Option(s) is/are not exercised within the relevant exercise periods set out above, such Option(s) lapse upon the expiry of the relevant exercise period.

Reasons for the Grant of the Options

The purpose of the Scheme is to reward the participants of the Scheme who have contributed or will contribute to the Group and to encourage the participants of the Scheme to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole.

As disclosed in the annual reports of the Company, the remuneration policy of the Group is generally based on the references of market salary index and individual qualifications. The Group provides its employees with other fringe benefits, including defined contribution retirement schemes, share option scheme and medical coverage. Set out below are details of Mr. Chen's other fringe benefits, including defined contribution retirement scheme:

	For the financial year ended 31 December		
	2016	2017	2018
	(RMB)	(RMB)	(RMB)
Salaries, allowances and benefits in kind	1,414,000	1,559,000	1,519,000
Bonus	3,757,000	4,680,000	2,462,000
Pension scheme contributions	5,000	16,000	26,000

Note: Mr. Chen was appointed as an executive Director with effect from 8 January 2018. He has been the chief executive officer of the Company since April 2016.

Mr. Chen's bonus for each year was determined after reviewing the financial performance (in particular net profits after tax) of the Group of the relevant year. While there was an increase in revenue and profit in 2018 compared to 2017, the bonus to Mr. Chen was significantly reduced, as the Remuneration Committee considered that the structure of Mr. Chen's remuneration package should be adjusted, with a decrease in cash portion coupled with the grant of share options to Mr. Chen in order to align his interest with the Group as a stakeholder to provide incentive to strive for future growth of the Group.

Mr. Chen joined the sales and marketing department of Suzhou Dawnrays Pharmaceutical Company Limited, a subsidiary of the Company, in August 2002 as area manager and was responsible for developing area market of the Group's new specific medicines and managing

LETTER FROM THE BOARD

sales business. Mr. Chen has extensive experience in sales promotion, network building, branding upgrade, planning and managing of business development in China pharmaceutical market.

Mr. Chen was appointed as the chief executive officer of the Company in April 2016 and was appointed as the executive Director in January 2018. As the chief executive officer of the Company, Mr. Chen is responsible for the Group's daily business operations and management. Despite various reforms introduced by the PRC government over the past years which brought downward pressure on sales of the Group's products and profit margins, Mr. Chen has implemented measures (including but not limited to the expansion of overseas markets, streamlining of the sales team for efficiency and cost control, focus sales efforts on selected products, expansion the sales network to chain pharmacies) to maintain the revenue and profit of the Group amid the challenges. The financial performance of the Group between 2016 and 2018 have gradually increased in terms of its revenue, gross profit and profit (before and after tax) and continued to be in a position to distribute dividends to its Shareholders between 2016 and 2018. In view of the above, the grant of 32,000,000 unconditional Options is commensurate with his past contribution to the Group.

Subsequent to the completion of the acquisition of Top Field Limited in May 2019 (which was the subject of the Company's announcement dated 27 February 2019), the major product developed by the subsidiary(ies) of Top Field Limited, Atorvastatin calcium tablet (阿托伐他汀鈣片) (indicated for the treatment of high blood lipid to prevent cardiovascular diseases) has been added to the Group's product portfolio. In order to encourage Mr. Chen to further engage in the development and management of the newly acquired companies and product, and to maintain the profitability of the Group's existing products, the Board has decided to further grant Mr. Chen 32,000,000 Options with performance targets in 2021 to 2022 as incentive and motivation to commit to the long-term business growth of the Company. The Board is of the view that the grant of such 32,000,000 conditional Options is commensurate with his possible future contribution to the Group given that measures for medical reform are introduced constantly and the Group must adapt to the new environment by adjusting its business model from time to time accordingly. Mr. Chen with his extensive experience and knowledge in the industry could lead the Group to develop new products and introduce new measures to cope with such changes in the industry. Granting such 32,000,000 conditional Options to Mr. Chen could provide incentive for him to achieve the 2021 Performance Targets and the 2022 Performance Targets.

The Board (including members of the remuneration committee of the Company) determined the number of Options to be granted to Mr. Chen (being 64,000,000 Options, representing approximately 4.09% of the total issued share capital of the Company as at the Latest Practicable Date) offers Mr. Chen the opportunity of becoming a substantial shareholder (as defined under Part XV of the Securities and Futures Ordinance) (assuming exercise in full of (i) 16,000,000 share options held by him as at the Latest Practicable Date (see below); and (ii) 64,000,000 Options), with the aim to encourage Mr. Chen to continue working with the Company to strive for better returns for all Shareholders.

LETTER FROM THE BOARD

In view of the above, the Directors considered that the grant of the 64,000,000 Options in aggregate to Mr. Chen is fair and reasonable and therefore is in the interests of the Company and the Shareholders as a whole.

Listing Rules Implications

The grant of the Options to Mr. Chen has been approved by the independent non-executive Directors in accordance with Rule 17.04(1) of the Listing Rules.

As the total number of Shares to be issued upon full exercise of the Options granted to Mr. Chen represents over 1% of the Shares in issue as at the date of grant, pursuant to the note to Rule 17.03(4) of the Listing Rules, the grant of the Options to Mr. Chen will be subject to approval by the Shareholders in EGM with Mr. Chen and his associates abstaining from voting. As at the Latest Practicable Date, Mr. Chen beneficially owned 8,377,000 Shares (representing approximately 0.54% of the total issued share capital of the Company as at the Latest Practicable Date) and held 16,000,000 share options granted by the Company.

Set out below are details of the 16,000,000 share options held by Mr. Chen as at the Latest Practicable Date:

Date of grant of share options	Number of share options as at the Latest Practicable Date	Exercise period of share options (dd/mm/yy)	Exercise price of share options (HK\$)
8 January 2015	6,000,000	08/01/16–07/01/21	2.575
18 March 2015	6,000,000	18/03/16–17/03/21	2.635
16 April 2015	4,000,000	16/04/16–15/04/21	3.670

LETTER FROM THE BOARD

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (a) as at the date of the Latest Practicable Date; (b) immediately after the allotment and issuance of new Shares upon the full exercise of 64,000,000 Options by Mr. Chen; and (c) immediately after the allotment and issuance of new Shares upon the full exercise by Mr. Chen of 64,000,000 Options and the 16,000,000 share options held by Mr. Chen as at the Latest Practicable Date, assuming there being no other change in the share capital or shareholding of the Company from the Latest Practicable Date to the date of such allotment and issuance of new Shares:

Name	(a) As at the Latest Practicable Date		(b) Immediately after the allotment and issuance of new Shares upon the full exercise of 64,000,000 Options held by Mr. Chen		(c) Immediately after the allotment and issuance of new Shares upon the full exercise of 64,000,000 Options and 16,000,000 shares options held by Mr. Chen as at the Latest Practicable Date	
	Number of Shares	Approximate percentage	Number of Shares	Approximate percentage	Number of Shares	Approximate percentage
<i>Directors</i>						
Ms. Li Kei Ling (Note 1)	104,640,000	6.69%	104,640,000	6.42%	104,640,000	6.36%
Mr. Hung Yung Lai (Note 1)	624,000	0.04%	624,000	0.04%	624,000	0.04%
Mr. Chen Shaojun	8,377,000	0.54%	72,377,000	4.44%	88,377,000	5.37%
<i>Company controlled by Director</i>						
Toyo International Investment Limited (Note 2)	100,000,000	6.39%	100,000,000	6.14%	100,000,000	6.08%
<i>Substantial shareholders</i>						
Fortune United Group Limited (Note 1)	588,144,000	37.58%	588,144,000	36.11%	588,144,000	35.76%
Public Shareholders	<u>763,125,000</u>	<u>48.76%</u>	<u>763,125,000</u>	<u>46.85%</u>	<u>763,125,000</u>	<u>46.39%</u>
Total:	<u>1,564,910,000</u>	<u>100.00%</u>	<u>1,628,910,000</u>	<u>100.00%</u>	<u>1,644,910,000</u>	<u>100.00%</u>

Notes:

- Ms. Li Kei Ling and Mr. Hung Yung Lai are each beneficially interested in 50% of the share capital in Fortune United Group Limited.
- Mr. Leung Hong Man, the non-executive Director, and Mr. Leung Yiu Sing are each beneficially interested in 50% of the share capital of Toyo International Investment Limited.

EGM

Notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM, you are requested to complete the proxy form accompanying this circular in accordance with the instructions printed thereon and return to the Hong Kong branch share registrar of the Company, Tricor Abacus Limited, at Level 54, Hopewell Centre 183 Queen's Road East Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM

LETTER FROM THE BOARD

or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof in person if you so wish, and in such event, your proxy form will be deemed to be revoked.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. As such, the resolution set out in the notice of the EGM will be decided by poll.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

RECOMMENDATION

The Directors (including all of the independent non-executive Directors) consider that the grant to share options to Mr. Chen are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the grant of Options to Mr. Chen.

Yours faithfully,
By order of the Board
Dawnrays Pharmaceutical (Holdings) Limited
LI Kei Ling
Chairman

NOTICE OF EXTRAORDINARY GENERAL MEETING



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)

NOTICE IS HEREBY GIVEN THAT that an extraordinary general meeting (the “**Meeting**”) of Dawnrays Pharmaceutical (Holdings) Limited (the “**Company**”) will be held at Plaza 3, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on Monday, 30 December 2019 at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following resolution with or without amendments as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT** the grant of 64,000,000 share options of the Company to Mr. Chen Shaojun, the executive director and the chief executive officer of the Company, to subscribe for 64,000,000 shares of the Company (the “**Shares**”) at the exercise price of HK\$1.38 per Share and on the terms and conditions as set out in the circular of the Company dated 21 November 2019 be and is hereby approved, confirmed and ratified and that any one director of the Company is hereby authorized to do all such acts and/or execute all such documents as may be necessary or expedient in order to give full effect to such grant and exercise of the Options.”

By order of the Board
Dawnrays Pharmaceutical (Holdings) Limited
LI Kei Ling
Chairman

Hong Kong, 21 November 2019

Notes:

1. For determining the entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from Monday, 23 December 2019 to Monday, 30 December 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the Meeting, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate share transfer forms must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at Level 54, Hopewell Centre 183 Queen’s Road East Hong Kong for registration not later than 4:30 p.m. on Friday, 20 December 2019.

* *For identification purpose only*

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint another person as his proxy to attend and vote on his behalf. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares of the Company in respect of which each such proxy is so appointed.
3. To be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at Level 54, Hopewell Centre 183 Queen's Road East Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjournment thereof.
4. Delivery of an instrument appointing a proxy should not preclude a member of the Company from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Further details regarding resolution set out in this notice will be sent to the shareholders of the Company together with this notice.

As at the date of this notice, the board of directors 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.