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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
DISPOSAL OF EQUITY INTERESTS IN THE TARGET COMPANY**

UPDATE ON GAIN ON PREVIOUS DISPOSAL

THE DISPOSAL

The Board is pleased to announce that on 26 January 2022, the Vendor (an indirectly wholly-owned subsidiary of the Company), the Purchaser and the Target entered into the Sale and Purchase Agreement, pursuant to which Vendor has agreed to sell, and the Purchaser has agreed to acquire, the Sale Equity, which represents 35% of the equity interest in the Target, at a Consideration of approximately RMB55.6 million (equivalent to approximately HK\$68.4 million). Upon Completion, the Company will cease to have any equity interest in the Target.

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Disposal, when aggregated with the Previous Disposal, is more than 5% but less than 25%, the Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under the Listing Rules.

UPDATE ON GAIN ON PREVIOUS DISPOSAL

The Company estimates, subject to audit, that the Group will recognise an aggregate gain of RMB99.3 million (equivalent to approximately HK\$122.1 million) for the financial year ended 31 December 2021 in connection with the Previous Disposal, as described in “Financial Effect of the Disposal and the Previous Disposal” below.

THE DISPOSAL

The Board is pleased to announce that on 26 January 2022, the Vendor (an indirectly wholly-owned subsidiary of the Company), the Purchaser and the Target entered into the Sale and Purchase Agreement, pursuant to which Vendor has agreed to sell, and the Purchaser has agreed to acquire, the Sale Equity, which represents 35% of the equity interest in the Target, at a Consideration of approximately RMB55.6 million (equivalent to approximately HK\$68.4 million).

The Vendor disposed of 65% of the equity interest in the Target to the Purchaser under the Previous Disposal at a consideration of RMB104 million (equivalent to HK\$127.9 million), further details of which are set out in the Company's announcement dated 30 July 2021. Through the Sale and Purchase Agreement, the Group will exit its investment in the Target entirely.

The principal terms of the Sale and Purchase Agreement are summarized as follows:

Date: 26 January 2022.

Vendor / Vendor guarantor: Dawnrays International Company Limited, an indirectly wholly-owned subsidiary of the Company incorporated in Hong Kong. The Vendor is principally engaged in the business of investment holding and sale of pharmaceutical products.

The Vendor's obligations under the Sale and Purchase Agreement are guaranteed by 蘇州東瑞製藥有限公司 (Suzhou Dawnrays Pharmaceutical Co., Ltd.*), a wholly-owned subsidiary of the Vendor established in the PRC which is principally engaged in the manufacture and sale of pharmaceutical products.

Purchaser: 蘇州融新建設發展有限公司 (Suzhou Rongxin Construction Development Co., Ltd.*), a company incorporated in the PRC and ultimately owned by the local government of Wuzhong Economic and Technology Development Zone, Suzhou, PRC. The Purchaser is principally engaged in property development. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are Independent Third Parties.

Subject Matter: The Sale Equity is 35% equity interest in 蘇州新申醫藥科技有限公司 (Su Zhou Xinshen Pharmaceutical Science and Technology Co., Ltd.*), formerly known as 蘇州東瑞醫藥科技有限公司 (Su Zhou Dawnrays Pharmaceutical Science and Technology Co., Ltd.*), which is a company established under the laws of the PRC. The Target's principal business was to provide solvent recovery services to the Group's production plant in Suzhou, PRC. With the relocation of that plant to a new production base in another part of the Wuzhong Economic and Technology Development Zone in Suzhou, the Target's solvent recovery operations have ceased since December 2021 and based on information currently available to the Group, the Purchaser may apply to the relevant authority for a change in business scope following completion of the Disposal.

The net profit/(loss) before and after taxation of the Target for the years ended 31 December 2021 and 31 December 2020 as respectively shown in its unaudited management accounts for the year ended 31 December 2021 and audited accounts for the year ended 31 December 2020 prepared in accordance with generally accepted accounting principles in the PRC and rounded to the nearest integral number, are as follows:

	For the year ended	
	31 December 2021 <i>(unaudited)</i>	31 December 2020 <i>(audited)</i>
Net profit/ (loss) before taxation	RMB(411,205)	RMB1,112,157
Net profit/ (loss) after taxation	RMB(411,205)	RMB1,112,157

The Target's unaudited net asset value as at 31 December 2021 amounted to approximately RMB59.9 million (equivalent to approximately HK\$73.6 million).

Consideration: Under the Sale and Purchase Agreement, the Consideration for the Disposal is approximately RMB55.6 million (equivalent to approximately HK\$68.4 million) to be settled in cash in two instalments in the following manner:

- (i) RMB33.6 million is payable by the Purchaser within 28 business days following the date of signing of the Sale and Purchase Agreement; and
- (ii) The balance of the Consideration shall be payable within 20 business days from the date obtained approval of the registration of the transfer of the Sale Equity and the issue of the new business licence of the Target by the relevant authority in the PRC.

The Consideration was negotiated between the Vendor and the Purchaser on an arm's length basis. The Company determined the Consideration by reference to (i) the net asset value of the Target as at 31 July 2020 determined by an independent valuer of approximately RMB152.6 million (compared with the book value of the Target in the Company's consolidated financial statements as at that date of approximately RMB60.0 million) which included a valuation of the land use rights and buildings of the Target of approximately RMB111.9 million (book value: approximately RMB19.4 million) and the fact that the site of the Target's land and buildings is being supported by improved transportation network compared to the time when the Target's business first commenced which also formed the basis of the consideration under the Previous Disposal, and (ii) the financial performance of the Target during 2021 attributable to its continued operations of solvent recovery business until December 2021 which served only the Group.

FINANCIAL EFFECT OF THE DISPOSAL AND THE PREVIOUS DISPOSAL

Upon Completion, the Company will cease to have any equity interest in the Target.

It is estimated that the Group would recognise, subject to audit, a nominal loss on the Disposal of approximately RMB0.07 million (equivalent to approximately HK\$0.09 million) based on the difference between the Consideration and the carrying value of Group's 35% equity interest in the Target that is recorded as non-current assets held for sale in the Company's consolidated management accounts as at 31 December 2021 of approximately RMB55.6 million (equivalent to approximately HK\$68.4 million)(which took into account the increase in fair value of such equity interest as a result of the Previous Disposal).

In connection with the Previous Disposal, the Company estimates subject to audit, that the Group will recognise an aggregate gain of RMB99.3 million (equivalent to approximately HK\$122.1 million) for the financial year ended 31 December 2021 comprising a gain of Previous Disposal of approximately RMB64.6 million (equivalent to approximately HK\$79.4 million and a corresponding increase in fair value of the 35% equity interest in the Target by approximately RMB34.7 million (equivalent to approximately HK\$42.7 million).

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is principally engaged in the development, manufacture and sale of non-patented pharmaceutical medicines including intermediate pharmaceutical, bulk medicines and finished drugs.

As disclosed by the Company in its announcement of the Previous Disposal, the disposal of the Group's interest in the Target is an integral part of the relocation of the Group's production plant in Suzhou to new facilities which include integrated solvent recovery functions. With such relocation completed and the Target having ceased operations in 2021, the Directors consider it to be in the best interest of the Group to dispose of its residual interest in the old production site of Target through the Disposal and deploy the net proceeds of such disposal towards the development of the Group's existing businesses.

Taking into account the above, the Directors are of the view that the terms of the Sale and Purchase Agreement are fair and reasonable, and that the Disposal is in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Disposal, when aggregated with the Previous Disposal, is more than 5% but less than 25%, the Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under the Listing Rules.

DEFINITIONS

“Board”:	the board of Directors;
“Company”:	Dawnrays Pharmaceutical (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange (stock code: 2348.HK);
“Completion”	the completion of the Disposal pursuant to the terms and conditions of the Sale and Purchase Agreement;
“Consideration”	the total consideration for the sale and purchase of the Sale Equity pursuant to the terms of the Sale and Purchase Agreement;
“Director(s)”	the director(s) of the Company;
“Disposal”	the disposal of the Sale Equity in the Target by the Vendor as contemplated under the Sale and Purchase Agreement;
“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 PRC;
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons (as defined under the Listing Rules);
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China which for the purposes of this announcement excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“Previous Disposal”	the disposal by the Vendor to the Purchaser of 65% equity interest in the Target, details of which are set out in the Company’s announcement dated 30 July 2021;
“Purchaser”:	蘇州融新建設發展有限公司 (Suzhou Rongxin Construction Development Co., Ltd.*), a company incorporated in the PRC and ultimately owned by the local government of Wuzhong Economic and Technology Development Zone, Suzhou, PRC;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale and Purchase Agreement”	the sale and purchase agreement dated 26 January 2022 entered into between the Vendor, the Purchaser and the Target in respect of the sale and purchase of the Sale Equity;

“Sale Equity”	35% equity interest in the Target as held by the Vendor, being the subject of the transactions underlying the Sale and Purchase Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Target”	蘇州新申醫藥科技有限公司 (Su Zhou Xinshen Pharmaceutical Science and Technology Co., Ltd.*), formerly known as 蘇州東瑞醫藥科技有限公司 (Su Zhou Dawnrays Pharmaceutical Science and Technology Co., Ltd.*), a company incorporated in the PRC; and
“Vendor”	Dawnrays International Company Limited, a company incorporated in Hong Kong with limited liability and an indirectly wholly-owned subsidiary of the Company.

In this announcement, for the purpose of illustration only, amounts quoted in RMB have been converted into HK\$ at the rate RMB1.00 to HK\$1.2294. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

By Order of the Board of
Dawnrays Pharmaceutical (Holdings) Limited
Li Kei Ling
Chairman

Hong Kong, 26 January 2022

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.

** for identification purpose only*