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DAWNRAYS PHARMACEUTICAL (HOLDINGS) LIMITED

東瑞製葯(控股)有限公司*

(Incorporated in Cayman Islands with limited liability)

(Hong Kong Stock Code: 2348)

DISCLOSEABLE TRANSACTION FORMATION OF A JOINT VENTURE COMPANY

On 14 December 2016 (after trading hours), Dawnrays Biotech, a wholly-owned subsidiary of the Company, and Zhongshan KF entered into the JV Agreement, for the purpose of, amongst other things, establishing the JV Co and regulating the funding and management arrangements with respect to the JV Co and the respective rights and obligations of Dawnrays Biotech and Zhongshan KF.

As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of each of (i) the total investment amount of RMB150,000,000 payable by Dawnrays Biotech for the formation of the JV Co; and (ii) possible disposal under the call options in favour of Zhongshan KF to acquire all registered capital of the JV Co from Dawnrays Biotech should it fail to make payments on terms agreed as set out under “Capital contribution” as contemplated under the JV Agreement, is more than 5% but less than 25%, each of the formation of JV Co and the possible disposal under the JV Agreement constitutes a discloseable transaction of the Company pursuant to Chapter 14 of the Listing Rules, and is subject to the reporting and announcement requirements thereunder.

On 14 December 2016 (after trading hours), Dawnrays Biotech, a wholly-owned subsidiary of the Company, and Zhongshan KF entered into the JV Agreement, the principal commercial terms under which are summarised below.

Date: 14 December 2016
The JV Agreement will become effective on the date of establishment of the JV Co.

- Parties:
- (i) Dawnrays Biotech, principally engaged in the investment and development of biotech projects, mainly targeting oncology and cardiovascular diseases; and
 - (ii) Zhongshan KF, principally engaged in the research, development and manufacture of innovative monoclonal antibody drugs primarily applied to treat cancer, autoimmune diseases, inflammation and cardiovascular diseases.

To the best of the Directors' knowledge, information and belief and after making reasonable enquires, Zhongshan KF and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

Scope of business of the JV Co: The JV Co is to be engaged, including but not limited to, in the research and development of products and technologies in relation to biochemistry fields; the production and sale of related products (subject to confirmation from local Administration for Industry & Commerce of PRC).

Term of cooperation: The initial term of operation of the JV Co is 30 years, commencing from the date of establishment of the JV Co.

Capital contribution: The total investment amount of the JV Co is RMB243,470,000, comprising the total registered capital of RMB143,800,000 and the capital reserve of RMB99,670,000. The aggregate investment amount to be contributed by Dawnrays Biotech is RMB150,000,000 in cash and Zhongshan KF will assign the IP Rights to the JV Co as its contribution to the JV Co.

The aggregate registered capital of the JV Co is to be RMB143,800,000, RMB93,470,000 or 65% of which is to be contributed by Zhongshan KF with the IP Rights which are to be assigned to the JV Co within 28 days of the JV Co is established and RMB50,330,000 or 35% of which is to be contributed by Dawnrays Biotech by cash within 21 days after establishment of the JV Co. The JV Co will be held as to 65% by Zhongshan KF and 35% by Dawnrays Biotech, respectively, upon its establishment.

The value of the IP Rights is determined to be fair and reasonable by the Directors based on their many years of experience in the pharmaceutical industry, the potential of the products being developed, the readiness of the IP Rights to be put to clinical trials and published prices for the acquisition of rights of similar type of products. For the avoidance of doubt, parties agree that all intellectual property rights (including but not limited to those which are the subject of applications for patent registration) that may be derived from either the AK102 Project or the AK109 Project will be owned by the JV Co.

The aggregate investment amount to be contributed by Dawnrays Biotech is RMB150,000,000 comprising registered capital and capital reserve to be payable in the following three stages:

- (i) as to RMB50,330,000 towards the registered capital of the JV Co within 21 days after establishment of the JV Co;
- (ii) as to RMB59,670,000 towards the capital reserve of the JV Co within 28 days after completion of the Phase I clinical trials with respect to either the AK102 Project or the AK109 Project and obtaining all approvals and permits from the relevant authorities and the hospital for the commencement of the Phase II clinical trials with respect to that project; and
- (iii) as to RMB40,000,000 towards the capital reserve of the JV Co within 28 days after completion of the Phase II clinical trials with respect to either the AK102 Project or the AK109 Project and obtaining all approvals and permits from the relevant authorities and the hospital for the commencement of the Phase III clinical trials with respect to that project.

If Dawnrays Biotech fails to satisfy its payment obligation within 50 days after the due date set out under paragraphs (ii) and (iii) above, Zhongshan KF is entitled to acquire all registered capital of the JV Co in the name of Dawnrays Biotech at the relevant time for a consideration of RMB1.0.

The board of directors of the JV Co may by unanimous consent approve additional equity financing for the JV Co after the commencement of the Phase II clinical trials (provided all relevant approvals or permits have been obtained) and before the Phase III clinical trials of either the AK102 Project or the AK109 Project. If the additional equity financing is so approved, Dawnrays Biotech will be required to satisfy all its payment obligation within 21 days after the date of the relevant board approval, notwithstanding its payment obligation in paragraph (ii) and (iii) above. If Dawnrays Biotech fails to meet the accelerated due date, Zhongshan KF is entitled to acquire all registered capital of the JV Co in the name of Dawnrays Biotech at the relevant time for a consideration of RMB1.0.

Composition of the board of directors and supervisor of the JV Co:

The board of directors of the JV Co will comprise five directors for an initial term of three years commencing from the date of issue of the business licence of the JV Co. Zhongshan KF is entitled to appoint three directors, including the chief executive officer and the general manager who will also act as the legal representative of the JV Co and Dawnrays Biotech is entitled to appoint the remaining two directors, including the chairman of the board of directors of the JV Co.

Zhongshan KF is also entitled to appoint the sole supervisor who must not be a director or senior management of the JV Co.

Transfer of shares in JV Co:

Neither Zhongshan KF nor Dawnrays Biotech may dispose of any or all of the registered capital in its name to a third party that is an indirect or direct competitor of the JV Co.

Subject to the foregoing, both parties are entitled to the right of first refusal and the tag-along right in the case of disposal by either of them of their registered capital to a third party in accordance with the terms of the JV Agreement.

Early termination of the JV Agreement:

Either party may terminate the JV Agreement before the expiry of the term of the JV Co in the following circumstances or any other circumstances set out in the JV Agreement:

- (i) the occurrence of a material breach of the JV Agreement, force majeure event or deadlock in the board of directors of the JV Co as set out in the JV Agreement;
- (ii) the JV Co, Dawnrays Biotech or Zhongshan KF is subject to winding-up, liquidation or dissolution proceedings, or ceases its operation or becomes insolvent;
- (iii) revocation, cancellation or failure to renew the business licence of the JV Co and such revocation, cancellation or failure is not rectified within 180 days;
- (iv) all or substantially all of the assets or revenue of the JV Co are confiscated; or
- (v) the competent government authorities certify in writing that the intangible assets of the JV Co are incapable of passing through the clinical trials.

If parties decide to dissolve the JV Co following the occurrence of any of the event above, either party may acquire the interest in the JV Co held by the other party at a price mutually agreed by the parties or as determined through a third party valuation process set out in the JV Agreement.

REASONS FOR AND BENEFITS OF ENTERING INTO OF THE JV AGREEMENT

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

Based on their many years of experience in the pharmaceutical industry and their reading of the trend, the Directors believe that innovative monoclonal antibody drug is expected to play an important part in the pharmaceutical industry in China.

AK102 is a cholesterol-lowering drug under development while AK109 is a drug under development that can be used to treat primarily gastric cancer, lung cancer and rectal cancer. As of the date of this announcement, (i) PRC patent application for AK102 composition of matter patent has passed the initial examination and is undergoing formal examination. International PCT application with respect to AK102 has also been made and such International PCT application has been published; and (ii) PRC patent application for AK109 composition of matter patent is in the initial examination stage. So far as the Directors are aware, there are very few PRC produced pharmaceutical products in the market that have the same mechanism of actions as AK102 and AK109 to address the relevant diseases. Based on the market research conducted by the Group, the Directors believe that the demand for these drugs may be considerable in China in the future.

In addition, apart from the medicine for treating hepatitis B virus, the Group is focusing on the manufacture and sale of cardiovascular drugs and these two products are expected to add to the product diversity of the Group and hence foster synergy, in terms of product recognition, sales network and marketing efforts, with the existing product lines of the Group. Having considered the expertise and experience of Zhongshan KF in research, development and manufacture of innovative monoclonal antibody drug and the deferred payment arrangement which allows the Group to make contribution to the JV Co according to the progress of the clinical trials of AK102 and/or AK109, the Directors are of the view that the terms of the JV Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of each of (i) the total investment amount of RMB150,000,000 payable by Dawnrays Biotech for the formation of the JV Co; and (ii) possible disposal under the call options in favour of Zhongshan KF to acquire all registered capital of the JV Co from Dawnrays Biotech should it fail to make payments on terms agreed as set out above under “Capital contribution” as contemplated under the JV Agreement, is more than 5% but less than 25%, each of the formation of JV Co and the possible disposal under the JV Agreement constitutes a discloseable transaction of the Company pursuant to Chapter 14 of the Listing Rules, and is subject to the reporting and announcement requirements thereunder.

DEFINITIONS

“AK102 Project” the research and development and (after passing clinical trials and obtaining all relevant approvals) manufacture and sale of AK102, which is a monoclonal antibody drug for lowering cholesterol level

“AK109 Project”	the research and development and (after passing clinical trials and obtaining all relevant approvals) manufacture and sale of AK109, which is a monoclonal antibody drug for treating primarily gastric cancer, lung cancer and rectal cancer
“Board”	the board of Director(s)
“Company”	Dawnrays Pharmaceutical (Holdings) Limited, a company incorporated in Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
“Dawnrays Biotech”	Dawnrays Biotechnology Capital (Asia) Limited (東瑞生物投資發展(亞洲)有限公司), a company incorporated in Hong Kong
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“International PCT”	the Patent Cooperation Treaty which is an international patent system that assists applicants in seeking patent protection internationally for their inventions
“IP Rights”	all relevant intellectual property rights (whether registered or not) owned by Zhongshan KF, including concepts, techniques, knowhow, data, processes, systems that are specific to AK102 and AK109, as well as those subject to the patent applications made by Zhongshan KF in relation to AK102 and AK109 as set out in the JV Agreement
“JV Agreement”	the agreement dated 14 December 2016 entered into between Dawnrays Biotech and Zhongshan KF in relation to the formation of the JV Co

“JV Co”	康瑞和（廣東）醫藥有限公司 (AD Pharmaceuticals Co., Ltd.) (name to be confirmed by the local Administration for Industry & Commerce of PRC), the company to be incorporated in the PRC by Dawnrays Biotech and Zhongshan KF pursuant to the terms of the JV Agreement
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of PRC
“Shareholder(s)”	the holder(s) of the ordinary shares of HK\$0.1 each in the share capital of the Company
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Zhongshan KF”	中山康方生物醫藥有限公司 (Akeso Biopharma Inc.), a company incorporated in the PRC in March 2012

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

14 December 2016

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. Li Tung Ming; two non-executive directors, namely Mr. Leung Hong Man and Mr. Ede, Ronald Hao Xi; three independent non-executive directors, namely Mr. Pan Xue Tian, Mr. Choi Tat Ying Jacky and Mr. Lo Tung Sing Tony.

** for identification purpose only*