THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **PuraPharm Corporation Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

PuraPharm®

PURAPHARM CORPORATION LIMITED

培 力 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1498)

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE TARGET COMPANIES; AND (2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders

ALTUS CAPITAL LIMITED

A letter from the Board is set out on pages 5 to 21 of this circular.

A notice convening the EGM of PuraPharm Corporation Limited to be held at Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Tuesday, 17 January 2017 at 3:00 p.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.purapharm.com). Whether or not you are able to attend the EGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the EGM or any adjournment thereof if they so wish.

30 December 2016

CONTENTS

DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context indicates otherwise:

"Acquisition"	the acquisition of the Sale Shares by the Purchaser from the Vendor pursuant to the Acquisition Agreement
"Acquisition Agreement"	the acquisition agreement dated 9 November 2016 entered into between the Purchaser and the Vendor
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day other than a Saturday, Sunday or public holiday on which commercial banks are open for business in Hong Kong
"BVI"	the British Virgin Islands
"CCMG"	concentrated Chinese medicine granule
"CFDA"	China Food and Drug Administration
"Company"	PuraPharm Corporation Limited, a company incorporated in the Cayman Islands with limited liability whose issued Shares are listed on the main board of the Stock Exchange
"Completion"	completion of the Acquisition
"Completion Date"	within 10 Business Day from the satisfaction of all relevant conditions precedent in the Acquisition Agreement or such later date as determined by the Purchaser
"connected person"	has the meaning ascribed to it under the Listing Rules
"Consideration Shares"	the new Shares to be allotted and issued by the Company to Gold Sparkle and Golden Zenith as designated by the Vendor as part of the consideration for the Acquisition under the Acquisition Agreement
"controlling shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	director(s) of the Company

"EGM"	the extraordinary general meeting to be convened by the Company for the purpose of considering, and if thought fit, approving, the entering of the Acquisition Agreement and the transactions contemplated thereunder, including the allotment and issue of Consideration Shares under the Specific Mandate
"Gold Sparkle"	Gold Sparkle Limited, a company incorporated in the BVI with limited liability and wholly owned by Mr. Chan as at the Latest Practicable Date
"Gold Sparkle CM"	昌昊金煌(貴州)中藥有限公司 (Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd.*), a company established under the laws of the PRC with limited liability and wholly owned by the Vendor
"Gold Sparkle HZ"	黔草堂金煌(貴州)中藥材種植有限公司 (Gold Sparkle (Guizhou) HZ Plantation Co., Ltd.*), a company established under the laws of the PRC with limited liability and wholly-owned by the Vendor
"Golden Zenith"	Golden Zenith Limited, a company incorporated in Samoa with limited liability and is owned as to 40% by Ms. Luo and 60% by Mr. He
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board, comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of, among other things, the terms of the Acquisition Agreement and the transactions contemplated thereunder
"Independent Financial Advisor"	Altus Capital Limited, a licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Independent Shareholders"	Shareholders who are not interested or involved in the Acquisition Agreement and the transactions contemplated thereunder
"Independent Valuer"	Savills Valuation and Professional Services Limited

"Latest Practicable Date"	21 December 2016, being the latest practicable date for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Chan"	Mr. Chan Yu Ling, Abraham, an executive Director and a controlling Shareholder of the Company
"Mr. He"	Mr. He Ding Xiang (賀定翔), an independent third party
"Ms. Luo"	Ms. Luo Lin (羅琳), an independent third party
"PRC"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Legal Adviser"	JunHe LLP, the Company's PRC legal adviser
"Purchaser"	培力(南寧)藥業有限公司(PuraPharm (Nanning) Pharmaceuticals Co. Limited*), a company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	the entire equity interests in each of the Target Companies held by the Vendor
"Share(s)"	share(s) of US$0.1 each in the capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Specific Mandate"	the specific mandate for the allotment and issue of the Consideration Shares, which is subject to the approval by the Independent Shareholders at the EGM
"sq.m."	square meter
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Companies"	Gold Sparkle CM and Gold Sparkle HZ
"TCM"	traditional Chinese medicine
"Valuation Report"	a valuation report in respect of the Target Companies issued by the Independent Valuer, the text of which is set out in Appendix II to this circular

"Vendor"	Gold Sparkle Plantation Company Limited, a company incorporated in Hong Kong and ultimately owned as to 60% by Gold Sparkle and 40% by Golden Zenith
"%"	per cent.

* *The English name is a translation of its Chinese name and is included in this circular for identification purposes only.*

For illustrative purposes, conversion of RMB and HK$ is calculated at the exchange rate of RMB1=HK$1.1448 in this circular.

PURAPHARM CORPORATION LIMITED
培 力 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1498)

Executive Directors:
Mr. Chan Yu Ling, Abraham *(Chairman)*
Dr. Tsoi Kam Biu, Alvin *(Vice-Chairman)*
Mr. Chan Lung Sang
Ms. Man Yee Wai, Viola

Non-executive Director:
Mr. Chan Kin Man, Eddie

Independent Non-executive Directors:
Dr. Chan Kin Keung, Eugene
Mr. Ho Kwok Wah, George
Dr. Leung Lim Kin, Simon
Prof. Tsui Lap Chee

Registered Office:
Offshore Incorporations (Cayman) Limited
Floor 4, Willow House
Cricket Square, P O Box 2804
Grand Cayman KY1-1112
Cayman Islands

Principal Place of Business in Hong Kong:
Suite 4002, Jardine House
1 Connaught Place, Central
Hong Kong

30 December 2016

To the Shareholders

Dear Sir/Madam,

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE TARGET COMPANIES; AND (2) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE

INTRODUCTION

The Board announced that on 9 November 2016, the Purchaser and the Vendor entered into the Acquisition Agreement pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Shares at a total consideration of RMB190,000,000 (equivalent to approximately HK$217,512,000), payable by cash and the issue of 22,717,920 Consideration Shares by the Company to Gold Sparkle and Golden Zenith as designated by the Vendor at the issue price of HK$4.50 per Consideration Share. Upon Completion, each of the Target Companies will become an indirect wholly-owned subsidiary of the Company.

The purpose of this circular is to provide you with, among other things, (i) further details about the Acquisition; (ii) the recommendations of the Independent Board Committee in relation to the Acquisition; (iii) a letter of advice from the Independent Financial Advisor to the Independent Board Committee and Independent Shareholders in relation to the Acquisition; and (iv) the notice convening the EGM.

THE ACQUISITION

The principal terms of the Acquisition Agreement are as follow:

Date:

9 November 2016

Parties:

(1) The Purchaser; and

(2) the Vendor.

As at the Latest Practicable Date, the Vendor is ultimately owned as to 60% by Mr. Chan, an executive Director and a controlling Shareholder of the Company, and hence an associate of a connected person of the Company.

Asset to be acquired

Pursuant to the Acquisition Agreement, the Purchaser agreed to acquire and the Vendor agreed to dispose of the Sale Shares, comprising the entire equity interests in each of the Target Companies held by the Vendor. Upon completion of the Acquisition, each of the Target Companies will become an indirect wholly-owned subsidiary of the Company.

Consideration

The total consideration for the Acquisition is RMB190,000,000 (equivalent to approximately HK$217,512,000).

Pursuant to the Acquisition Agreement, the consideration for the Acquisition is to be satisfied in the following manner:

(i) RMB100,700,000 (equivalent to approximately HK$115,281,360) in cash shall be paid by the Purchaser on the Completion Date; and

(ii) RMB89,300,000 (equivalent to approximately HK$102,230,640) to be satisfied by the Company allotting and issuing 13,050,720 and 9,667,200 Shares credited as fully paid at the price of HK$4.50 per Share to Gold Sparkle and Golden Zenith, respectively as designated by the Vendor, on the Completion Date.

The consideration for the Acquisition (including the issue price of the Consideration Shares) was arrived upon arm's length negotiations between the Purchaser and the Vendor. In determining the consideration, the Directors considered, among other things, (i) the growth potential and prospect of the Target Companies and the TCM decoction pieces business the

Group intends to develop by taking into account that the retail sales value of the PRC traditional Chinese herbal market was approximately RMB196.8 billion in 2014 and is expected to grow at a CAGR of 19.1% from 2015 to 2019. The growth in the PRC traditional Chinese herbal market will partly be fueled by the increase in the PRC government's emphasis on the TCM market due to aging population in the PRC. Pursuant to the "Development Plan of TCM Healthcare Services (2015–2020)" published by the General Office of State Council in May 2015, the seven key jobs to be focused by the PRC government include the development of TCM service for preserving longevity. This will be conducted by supporting TCM healthcare institutions and encouraging the investment in TCM healthcare services by all sources of funding; and (ii) the total valuation of the Target Companies between RMB186.2 million (equivalent to approximately HK$213.2 million) and approximately RMB205.2 million (equivalent to approximately HK$234.9 million) as at 31 August 2016 by the Independent Valuer based on the discounted cash flow approach as disclosed in Appendix II to this circular.

As at the Latest Practicable Date, the Company intends to finance the cash portion of the consideration for the Acquisition by the Group's internal resources or bank borrowings as the Company considers appropriate when the consideration is payable. The Company will not utilise proceeds from its initial public offering in July 2015 to settle the consideration for the Acquisition.

The Issue Price

The issue price of HK$4.50 per Consideration Share represents:

(i) a premium of approximately 11.66% to the closing price of HK$4.03 per Share as quoted on the Stock Exchange on 9 November 2016, being the date of the Acquisition Agreement;

(ii) a premium of approximately 10.84% to the average closing price of approximately HK$4.06 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date of the Acquisition Agreement;

(iii) a premium of approximately 13.35% to the average closing price of approximately HK$3.97 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the date of the Acquisition Agreement; and

(iv) a premium of approximately 12.78% to the closing price of HK$3.99 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Shares represent approximately:

(i) 10.10% of the total number of issued Shares of the Company as at the date of the Acquisition Agreement;

(ii) 10.10% of the total number of issued Shares of the Company as at the Latest Practicable Date; and

(iii) 9.17% of the total number of issued Shares of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming there will be no change in the total number of issued Shares of the Company between the date of the Acquisition Agreement and the issue of the Consideration Shares).

Conditions precedent of the Acquisition

Completion is conditional upon the following conditions being fulfilled:

(i) the Target Companies having obtained all necessary internal approvals as required under relevant laws and regulations, constitutional documents or other internal policies for the Acquisition;

(ii) the Purchaser being satisfied with the results of due diligence on the Target Companies;

(iii) all necessary approvals and consents in relation to the transactions contemplated under the Acquisition Agreement having been obtained from all relevant third parties and the Purchaser having recognised such approvals and consents;

(iv) the representations and warranties made by the Vendor as set out in the Acquisition Agreement remaining true, accurate and complete and there being no breach of the terms of the Acquisition Agreement;

(v) the Independent Shareholders having approved the Acquisition Agreement and the transactions contemplated therein (including the issue of the Consideration Shares) in compliance with the Listing Rules;

(vi) the listing committee of the Stock Exchange having approved the listing of, and permission to deal in, the Consideration Shares;

(vii) the Vendor having fully performed and complied with all the covenants, obligations and undertakings under the Acquisition Agreement;

(viii) each of Gold Sparkle and Golden Zenith having undertaken to the Purchaser that in the period commencing on the Completion Date and ending on the date which is 18 months from the Completion Date, it will not:

(a) offer, lend, pledge, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of (or enter into any agreement to transfer or dispose of or otherwise create any options, interests or encumbrances) (either conditionally or unconditionally, or directly or indirectly, or otherwise) any of such Consideration Shares or any interests therein; or

(b) enter into any swap or other arrangement that transfers, in whole or in part, the economic effect of ownership of such Consideration Shares or any interests therein; or

(c) enter into any such transaction, the economic effect of which is the same as described in (a) or (b) above; or

(d) propose or agree or enter into or announce any intention to enter into or effect any such transaction described in (a) or (b) or (c) above;

(ix) each of Mr. He and Ms. Luo having undertaken to the Purchaser to use their best endeavours to assist Gold Sparkle CM in obtaining the relevant land use right certificate and construction certificates for its TCM plantation center and not to resign as a director of the Target Companies or an employee of the Group until such certificates are obtained; and

(x) each of Gold Sparkle and Golden Zenith having undertaken to the Purchaser that in the event that Gold Sparkle CM fails to obtain the relevant land use right certificate and construction certificates for its TCM plantation center by 31 December 2017 and 30 March 2018, respectively or by such other dates as agreed by the parties in writing, the Purchaser shall have a right to request Gold Sparkle and Golden Zenith to acquire the Target Companies and indemnify the Purchaser of all penalties and losses arising from such failure.

The Purchaser may waive the conditions precedent set out above (save for conditions (i), (v) and (vi) which cannot be waived). As at the Latest Practicable Date, the undertakings mentioned in conditions (viii), (ix) and (x) above have been obtained.

In relation to the Purchaser's right to request Gold Sparkle and Golden Zenith to acquire the Target Companies if the Outstanding Approvals are not obtained by 31 December 2017 and 30 March 2018, respectively, no premium is payable by the Purchaser for such right and the consideration for such transfer has not been determined as at the Latest Practicable Date but, pursuant to the undertakings entered into by Gold Sparkle and Golden Zenith, shall equal the total investment made by the Purchaser to the Target Companies at the time. In the event that the Purchaser requests Gold Sparkle and Golden Zenith to acquire the Target Companies, the relevant parties will, after arm's length negotiation, enter into a definitive agreement setting out the material terms (such as consideration) in respect of the transfer. In such event, the Company will comply with the requirements under the Listing Rules and make further announcement as and when appropriate.

In the event that the Outstanding Approvals are not obtained by 31 December 2017 and 30 March 2018, respectively, the Company will evaluate, with the advice from its PRC counsel, the likelihood and the expected timing of obtaining the Outstanding Approvals. If it is remote that the Outstanding Approvals can be obtained in the near future and the absence of the Outstanding Approvals will materially and adversely affect the operations of the Target Companies, the Purchaser will consider exercising its right to request Gold Sparkle and Golden Zenith to acquire the Target Companies. However, if it is likely that the Outstanding Approvals will be obtained by a reasonable date and no detriment will be caused to the Target Companies during such interim period, the Purchaser will consider not exercising its right to request Gold Sparkle and Golden Zenith to repurchase the Target Companies. The Company will comply with requirements under the Listing Rules if the Company decides not to exercise the right to request Gold Sparkle and Golden Zenith to buy back the Target Companies.

MANDATE TO ISSUE THE CONSIDERATION SHARES AND APPLICATION FOR LISTING

The Consideration Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the EGM.

The Consideration Shares, when allotted, issued and fully paid, will rank pari passu in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Consideration Shares.

An application will be made by the Company to the listing committee of the Stock Exchange for the grant of the approval for the listing of, and permission to deal in, the Consideration Shares.

EFFECT ON THE SHAREHOLDING STRUCTURE

The following table sets out the effect of the issue of the Consideration Shares on the shareholding structure of the Company based on the total number of issued Shares as at the Latest Practicable Date and assuming Completion having taken place, without taking into account any other new Shares, if any, after the Latest Practicable Date and prior to the allotment and issue of the Consideration Shares:

	As at the Latest Practicable Date		**Immediately upon the allotment and issue of the Consideration Shares**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*
Mr. Chan	1,317,500	0.59%	1,317,500	0.53%
Fullgold Development Limited(1)	77,286,000	34.35%	77,286,000	31.20%
PuraPharm Corporation Limited(2)	51,566,500	22.92%	51,566,500	20.82%
Gold Sparkle(1)	—	—	13,050,720	5.27%
Mr. Chan and his associates	**130,170,000**	**57.86%**	**143,220,720**	**57.82%**
Best Revenue Investments Limited(3)	1,562,500	0.69%	1,562,500	0.63%
K.M. Chan & Co. Limited(3)	1,562,500	0.69%	1,562,500	0.63%
Golden Zenith(4)	—	—	9,667,200	3.90%
Public Shareholders	91,705,000	40.76%	91,705,000	37.02%
	225,000,000	100.00%	247,717,920	100.00%

Notes:

(1) Each of Fullgold Development Limited and Gold Sparkle is wholly owned by Mr. Chan. By virtue of the SFO, Mr. Chan is deemed to be interested in the Shares held and to be acquired by Fullgold Development Limited and Gold Sparkle.

(2) PuraPharm Corporation Limited, a company incorporated in the BVI, is a wholly owned subsidiary of Joint Partners Investments Limited. Joint Partners Investments Limited is owned as to 50% by Mr. Chan and 50% by Ms. Man Yee Wai, Viola, an executive Director and the spouse of Mr. Chan. By virtue of the SFO, each of Mr. Chan and Ms. Man Yee Wai, Viola is deemed to be interested in the Shares held by PuraPharm Corporation Limited.

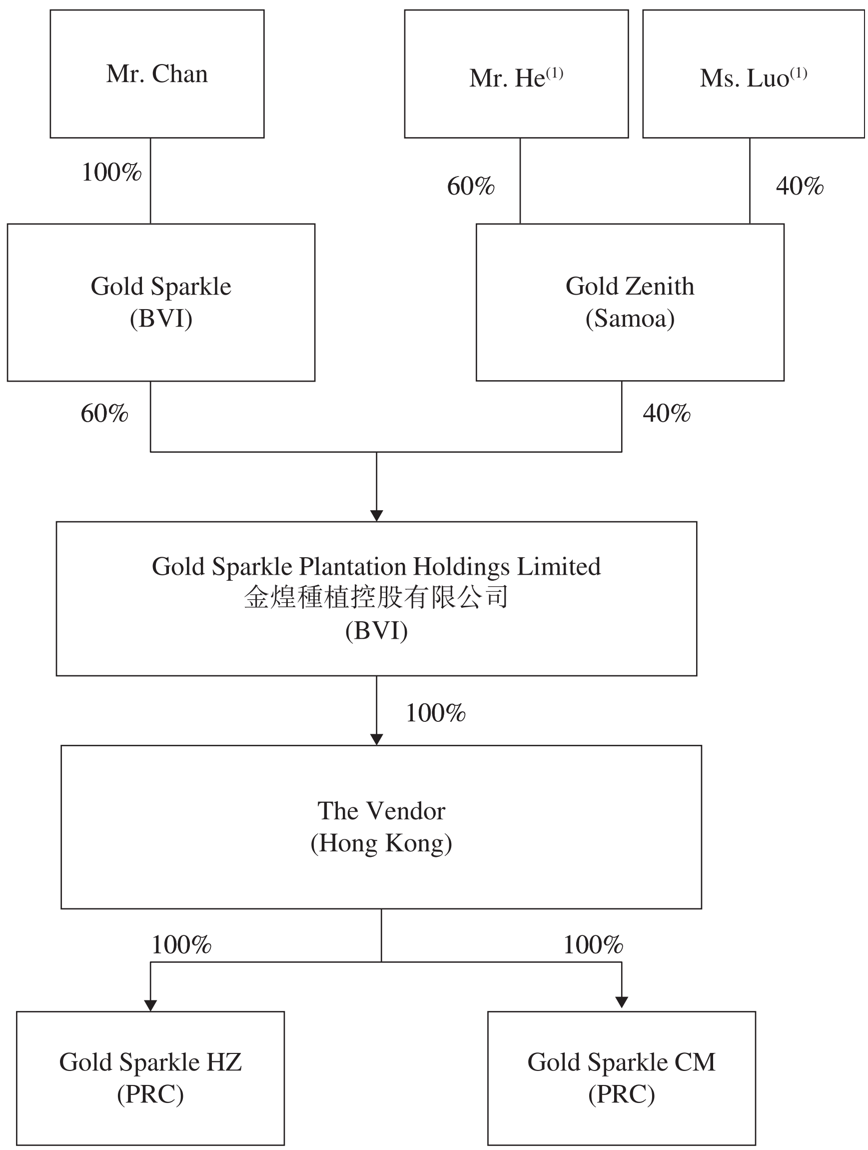
(3) Each of Best Revenue Investments Limited and K.M. Chan & Co. Limited is wholly owned by Mr. Chan Kin Man, Eddie, a non-executive Director. By virtue of the SFO, Mr. Chan Kin Man, Eddie is deemed to be interested in the Shares held by Best Revenue Investments Limited and K.M. Chan & Co. Limited.

(4) Golden Zenith is owned as to 60% by Mr. He. By virtue of the SFO, Mr. He is deemed to be interested in the Shares to be acquired by Golden Zenith.

INFORMATION ON THE TARGET COMPANIES

The Target Companies are principally engaged in plantation and trading of raw Chinese herbs and manufacturing and sale of TCM decoction pieces.

Set out below is the corporate structure of the Target Companies immediately before the Completion:



Note 1:

To the best of the knowledge, information and belief of the Directors, and having made all reasonable enquiry, so far as the Directors are aware, each of Ms. Luo and Mr. He are third parties independent of the Company and connected persons of the Company as at the Latest Practicable Date.

Set out below are selected financial information of Gold Sparkle CM prepared in accordance with Hong Kong Financial Reporting Standards:

	For the period from 13 November 2014 (date of incorporation) to 31 December 2014	For the year ended 31 December 2015	For the eight months ended 31 August 2016
	RMB'000	*RMB'000*	*RMB'000*
Revenue	—	3,485	11,327
Loss after tax	—	(3,729)	(1,249)

	As at 31 December 2014	As at 31 December 2015	As at 31 August 2016
	RMB'000	*RMB'000*	*RMB'000*
Net assets	6,000	21,871	43,022

Set out below are selected financial information of Gold Sparkle HZ prepared in accordance with Hong Kong Financial Reporting Standards:

	For the period from 13 November 2014 (date of incorporation) to 31 December 2014	For the year ended 31 December 2015	For the eight months ended 31 August 2016
	RMB'000	*RMB'000*	*RMB'000*
Revenue	—	—	9,594
Profit/(loss) after tax	—	(464)	2,276

	As at 31 December 2014	As at 31 December 2015	As at 31 August 2016
	RMB'000	*RMB'000*	*RMB'000*
Net assets	—	1,536	21,812

The aggregate original purchase cost of the Target Companies to Gold Sparkle was approximately HK$55.7 million. Such purchase cost to Gold Sparkle has not included the contribution made by Golden Zenith. The total original investment cost of the Target Companies was approximately HK$83.5 million and such investment amount was determined in 2014 as initial capital when the Target Companies were set up. Save for such original investment cost, Gold Sparkle and Golden Zenith have not made other capital contributions to the Target Companies. The Target Companies made minimal profit or were loss making in 2016 as its business was in preliminary stages and its infrastructure was still in the process of being built.

Properties

As at the Latest Practicable Date, the Target Companies owned land use rights for four parcels of land with a total site area of approximately 40,147.38 sq.m., held building ownership certificates for buildings with an aggregate gross floor area of 3,232.28 sq.m. and leased certain land as its TCM plantation base with an aggregate site area of approximately 464,202.32 sq.m.. The table below sets forth a summary of the land leased by the Target Companies as at the Latest Practicable Date:

Leasor	**Leasee**	**Total site area** *(sq. m.)*	**Purpose**	**Annual rent**	**Expiry**
Danzhai County, Xingren Town, Xingren Village Committee* (丹寨縣興仁鎮興仁村村委會)	Gold Sparkle CM	400,002.00	Plantation base	RMB450,000	31 December 2034
Hezhang County, Pinshan Town Shuangtang Village Committee* (赫章縣平山鄉雙塘村民委員會)	Gold Sparkle HZ	41,886.88	Plantation base	RMB25,132	1 December 2017
Hezhang County, Pinshan Town Pingshan Village Committee* (赫章縣平山鄉平山村民委員會)	Gold Sparkle HZ	22,313.44	Plantation base	RMB16,735	1 December 2017

In addition to the properties that the Target Companies obtained land use rights for and leased as mentioned above, Gold Sparkle CM occupied a total site area of approximately 181,168.22 sq.m. (the "**Relevant Land**") and erected certain buildings on it for its TCM plantation center of which the relevant land use right certificate and construction certificates (the "**Outstanding Approvals**") as required under the relevant PRC laws have not been obtained. Gold Sparkle CM is in the process of obtaining such land use right and construction certificates.

The buildings of which the relevant construction certificates have not been obtained were initially constructed by Guizhou Changhao Biotech Co., Ltd.* (貴州昌昊生物科技有限公司) ("**Changhao Biotech**"), a company owned as to 20% by Mr. He and 80% by Guizhou Changhao Chinese Medicine Development Co., Ltd.* (貴州昌昊中藥發展有限公司) ("**Guizhou Changhao**"), a company wholly owned by Mr. He, pursuant to a project investment agreement entered into between the Danzhai County People's Government* (丹寨縣人民政府) and Guizhou Changhao on 5 March 2013 (the "**Project Investment Agreement**"). Pursuant to the Project Investment Agreement, the Danzhai County People's Government agreed that a TCM plantation center be constructed at the Relevant Land. Subsequent to the Project Investment Agreement, Guizhou Changhao began to construct the TCM plantation center in 2013.

In November 2014, the Danzhai County People's Government entered into an investment cooperation agreement (the "**Investment Cooperation Agreement**") with Gold Sparkle and Changhao Biotech pursuant to which the Danzhai County People's Government agreed that the TCM plantation center be constructed on the Relevant Land by a joint venture to be established Gold Sparkle and Changhao Biotech. Subsequent to the Investment Cooperation Agreement, Gold Sparkle CM was established and continued the construction of the TCM plantation center. On 22 May 2015, Changhao Biotech entered into an agreement with Gold Sparkle CM to transfer, among others, the land use rights, construction rights and the construction of the TCM plantation made by Changhao Biotech to Gold Sparkle CM.

On 14 October 2016 and at Gold Sparkle CM's request, the Danzhai Lands Bureau (丹寨縣國土資源局) issued a written confirmation bearing the seal of the relevant authorities to confirm that it will issue the relevant land use right certificate for the Relevant Land as soon as possible and that the relevant land use right certificate will be issued before the end of December 2017. On 16 November 2016 and at Gold Sparkle CM's request, the Danzhai Lands Bureau further confirmed in writing bearing the seal of the relevant authority that as the TCM plantation center to be constructed by Gold Sparkle CM is a key investment project that will help alleviate poverty in the local area, Gold Sparkle CM is permitted to continue to construct its TCM plantation center on the Relevant Land before the land use right certificate is issued and the Danzhai Lands Bureau will not impose any penalty on Gold Sparkle CM provided that the construction is in compliance with the relevant local planning requirements. The PRC Legal Adviser is of the view that the Danzhai Lands Bureau is the relevant and competent authority to issue the above confirmations and that the chance of Gold Sparkle CM being unable to use the relevant land in question before obtaining the land use right certificate is remote.

On 12 October 2016 and at Gold Sparkle CM's request, the Danzhai County Housing and Urban Construction Bureau (丹寨縣住房和城鄉建設局) also issued a written confirmation bearing the seal of the relevant authority to confirm that it will issue the relevant construction certificates as soon as possible. The Danzhai County Housing and Urban Construction Bureau also consented to Gold Sparkle CM commencing its construction prior to obtaining the relevant construction certificates and confirmed that it will not impose any penalty on Gold Sparkle CM. The PRC Legal Adviser is of the view that the Danzhai County Housing and Urban Construction Bureau is the relevant and competent authority to issue the above confirmation and the chance of the bureau imposing penalty on Gold Sparkle CM is remote.

Based on the above, the Company is of the view that the absence of the Outstanding Approvals will have minimal impact on Gold Sparkle CM as Gold Sparkle CM will still be able to use the Relevant Land to construct its TCM plantation center despite the Outstanding Approvals have not been obtained.

As advised by the PRC Legal Adviser, the Relevant Land is a collectively-owned land under the relevant PRC laws. In order for the land use right certificate to be issued to Gold Sparkle CM, the Danzhai Lands Bureau will need to complete its internal procedures with the approval issued by the People's Government of Guizhou Province to convert the Relevant Land into state-owned construction land. After the conversion, Gold Sparkle CM will then need to apply through relevant legal requirements to acquire the land use rights directly from the PRC government. After obtaining the land use right certificate, Gold Sparkle CM can then apply for the construction certificates. As at the Latest Practicable Date, the People's Government of Guizhou Province is in the process of completing its internal procedures in converting the Relevant Land from collectively-owned land to state-owned construction land. The PRC Legal Adviser is of the view that (i) subject to the approval of the People's Government of Guizhou Province, there is no legal impediment for Gold Sparkle CM to obtain the relevant land use right certificate; and (ii) subject to the obtaining of the relevant land use right certificate, there is no legal impediment for Gold Sparkle CM to obtain the relevant construction certificates.

In determining the consideration for the Acquisition, the Directors have taken into account (i) the possible impact on the operation of Gold Sparkle CM in view of the absence of the Outstanding Approvals together with the associated risks imposed on the Company as a result of the Acquisition; (ii) the confirmations from the relevant bureaus and the legal opinion from the PRC Legal Adviser that Gold Sparkle CM will be able to continue to use the property and construct the TCM plantation center before the Outstanding Approvals are obtained. As such, the Directors are of the view that the Outstanding Approvals have minimal impact on the operation of Gold Sparkle CM given that Gold Sparkle CM would be able to use the Relevant Land to construct its TCM plantation center despite that the Outstanding Approvals have not been obtained after completion of the Acquisition and that the consideration for the Acquisition is fair and reasonable.

The Company is of the view that the Company's and the Shareholders' interests are protected by an undertaking given in favour of the Purchaser by Gold Sparkle and Golden Zenith as condition precedent under the Acquisition Agreement where Gold Sparkle and Golden Zenith have agreed to indemnify the Purchaser in cash of all penalties and losses arising from the failure to obtain the Outstanding Approvals by 31 December 2017 and 30 March 2018, respectively. The 18-month lock-up undertaking on the Consideration Shares given by Gold Sparkle and Golden Zenith is consistent with the expected timing in which the

Outstanding Approvals will be obtained and is a mechanism designed to ensure that Gold Sparkle and Golden Zenith will have sufficient financial resources to indemnify the Purchaser's penalties and losses through selling its Consideration Shares, if needed. The undertakings given by Mr. He and Ms. Luo not to resign as a director of the Target Companies or an employee of the Group until the Outstanding Approvals are obtained also act as an assurance to protect the interests of the Company and the Shareholders to ensure that Mr. He and Ms. Luo, being directors of the Target Companies who are stationed at the place of business of the Target Companies, will continue to liaise with the relevant local government authority to obtain the Outstanding Approvals.

Subsequent to the signing of the Acquisition Agreement, the Purchaser has obtained the above undertakings from Mr. He, Ms. Luo, Gold Sparkle and Golden Zenith, and the Purchaser has not waived the above conditions precedent.

Foreign investment restrictions in the business activities of the Target Companies

As advised by the PRC Legal Adviser, steaming, frying, burning and calcination of TCM decoction pieces (the "**Restricted Activities**") is subject to foreign investment restrictions under the relevant PRC laws and regulations. The Restricted Activities is one of the processes for the manufacturing process of certain types TCM decoction pieces. As at the Latest Practicable Date, the Target Companies did not engage in the Restricted Activities as the Target Companies are still constructing its manufacturing facilities and have not commenced its business in the manufacturing of TCM decoction pieces. As such, the PRC Legal Adviser is of the view that the Target Companies are not engaged in any business that are subject to foreign investment restrictions under the relevant PRC laws and regulations (including the latest Foreign Investment Industrial Guidance Catalogue (2015 Revision) (《外商投資產業指導目錄(2015修訂稿)》) as at the Latest Practicable Date. The Company confirms that the Group and Target Companies will not engage in the Restricted Activities and any businesses that will contravene foreign investment restrictions under the relevant PRC laws and regulations going forward.

Based on the Company's understanding and with reference to the TCM decoction pieces used in the Group's products, only a limited type of TCM decoction pieces needs to be processed by the Restricted Activities and the Group's production department is able and has the experience to determine which type of TCM decoction pieces needs to be processed by the Restricted Activities. As at the Latest Practicable Date, the Target Companies' business licenses have excluded the Restricted Activities from the permitted business scope of the Target Companies. As such, after Completion and the commencement of the Target Companies' business in the manufacturing of TCM decoction pieces, the Group will outsource the Restricted Activities to other manufacturers if the type of TCM decoction pieces requires to be treated by the Restricted Activities. When selecting contract manufacturers, the Group will obtain a copy of the manufacturer's business license, the drug manufacturer license and the GMP certification to ensure that the manufacturer can engage in the Restricted Activities. The Company is of the view that there are many contract manufacturers available in the market that can perform the Restricted Activities and will engage contract manufacturers on a case-by-case basis as and when needed to maintain flexibility. As advised by the PRC Legal Adviser, the outsourcing of the Restricted Activities will not be in breach of any PRC laws and regulations on foreign investment restrictions (including the latest Foreign Investment Industrial Guidance Catalogue (2015 Revision)).

VALUATION OF THE TARGET COMPANIES

According to the Valuation Report, the market value of the Target Companies as at 31 August 2016 was appraised at between approximately RMB186.2 million (equivalent to approximately HK$213.2 million) and approximately RMB205.2 million (equivalent to approximately HK$234.9 million) by the Independent Valuer. The valuation was made using the discounted cash flow method under the income approach and as such, the valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules and the requirements under Rule 14.62 of the Listing Rules are applicable accordingly.

The principal assumptions upon which the profit forecasts for the Target Companies were made are stated in the Valuation Report, the text of which is set out in Appendix II to this circular. In particular, the Valuation Report was concluded based on the assumption that the temporary absence of the Outstanding Approvals will have minimal impact on Gold Sparkle CM as Gold Sparkle CM will still be able to use the Relevant Land to construct its TCM plantation center despite the Outstanding Approvals have not been obtained as discussed in more detail in the paragraph headed "Information on the Target Companies — Properties" in this letter. The underlying assumptions are made by the Board after due and careful enquiry having been made with the Independent Valuer with reference to the Target Companies' business, operation, prospects, statutory documents, historical financial information and financial projections. To the best of the Directors' knowledge and belief, the underlying assumptions under the valuation provided to the Independent Valuer are fair and reasonable.

In accordance with Rule 14.62 of the Listing Rules, the Company has engaged its auditor, Ernst & Young, as the reporting accountant who has reported to the Directors that nothing has come to their attention that causes them to believe that the underlying discounted cash flows, so far as the arithmetic accuracy of the calculation on the underlying discounted cash flows is concerned, have not been properly compiled in all material respects in accordance with the bases and assumptions made by the Directors. The letters from Ernst & Young and the Board relating to the Valuation Report are set out in Appendix III to this circular.

Given that the consideration for the Acquisition was within the market value of the Target Companies as at 31 August 2016 as appraised by the Independent Valuer, the Directors are of the view that the terms of the Acquisition Agreement are normal commercial terms, fair and reasonable, and in the best interest of the Company and its Shareholders as a whole.

REASONS FOR AND BENEFITS OF THE ACQUISITION

According to the Consultation Paper on Measures for the Administration of Traditional Chinese Medicine Granules (《中藥配方顆粒管理辦法(徵求意見稿)》) (the "**Consultation Paper**") published by the CFDA on 24 December 2015, CCMG manufacturers will be required to improve traceability of the origin of raw Chinese herbs used in manufacturing of CCMG products and therefore CCMG manufacturers are recommended to setup their own, or hold through a joint venture, raw Chinese herbs plantation bases which comply with the PRC

Good Agricultural Practice for Chinese Crude Drugs (中藥材生產質量管理規範). Save for the requirement on setting up its own plantation base, the Group has complied with all proposed requirements as provided in the Consultation Paper.

The Group believes that the Acquisition is necessary for the Group to comply with the CFDA's recommended requirements and to continue its business in manufacturing CCMG products in the long run. Although the requirements proposed under the Consultation Paper are subject to market consultation, the Group believes that a self-owned plantation is necessary to maintain its competitiveness in the industry as the Group's major competitors in the CCMG industry are already engaged in the raw Chinese herbs plantation business. As at the Latest Practicable Date, the Group was the only CCMG manufacturer out of the five qualified CCMG manufacturers in the PRC that does not have its own plantation base. The relevant government authorities have not announced when the requirements under the Consultation Paper will be made into law. In the event that the requirements as provided under the Consultation Paper are implemented with a short notice period, the Acquisition will allow the Group to instantly comply with the requirements and continue to operate its CCMG manufacturing business, the Group's main business segment.

Since the publication of the Consultation Paper on 24 December 2015, in preparation for the implementation of the new requirements under the Consultation Paper, in the first quarter of 2016, the Company began conducting research on the raw Chinese herbs plantation industry and explored the possibility and feasibility in acquiring a raw Chinese herbs plantation. In the second quarter of 2016, the Company began to negotiate with the Vendors on the acquisition of the Target Companies and subsequently began its due diligence work on the Target Companies in the third quarter of 2016.

Furthermore, the Acquisition will allow the Group to vertically integrate the upstream raw Chinese herbs plantation and trading segment into the Group's CCMG business segment for the purpose of ensuring a stable supply of high-quality raw Chinese herbs at a lower cost.

One of the current expansion plans and business strategies of the Group is to expand into the TCM decoction pieces business which is highly complementary to its existing CCMG business. The TCM decoction pieces market in the PRC was RMB196.8 billion in 2014 and is estimated to grow to RMB488.9 billion by 2019. The Acquisition will allow the Group to immediately enter into the TCM decoction pieces industry and the expanded comprehensive product mix of the Group's CCMG, over-the-counter Chinese healthcare products and TCM decoction pieces will highly improve the competitiveness of the Group in the market.

The Group believes it is more cost and time efficient to develop this new business segment through the Acquisition, as compared to a new start up from scratch. The Acquisition presents an excellent opportunity for the Group to leverage on the expertise and resources of the Target Companies to develop its business of TCM decoction pieces.

Based on the foregoing, the Directors (including the independent non-executive Directors) are of the view that the terms of the Acquisition Agreement are normal commercial terms, fair and reasonable, and in the best interest of the Company and its Shareholders as a whole.

MANAGEMENT OF THE TARGET COMPANIES AFTER COMPLETION

Upon Completion, the raw Chinese herbs to be produced by the Target Companies will be supplied to the Group for its use in the manufacturing of CCMG products and/or Chinese healthcare supplements and will also be sold to other customers as part of the Target Companies' raw Chinese herbs trading business. In order to satisfy the Group's demand for raw Chinese herbs, going forward, the Group will have to source raw Chinese herbs from other suppliers as well as from the Target Companies. Pursuant to the Consultation Paper, it is recommended that CCMG manufacturers should setup their own, or hold through a joint venture, raw Chinese herbs plantation but the Consultation Paper does not prevent CCMG manufacturers to source raw Chinese herbs from other suppliers as long as there are measures in place to monitor the quality of the raw Chinese herbs purchased.

Upon Completion, Mr. He and Ms. Luo will remain as directors of the Target Companies and become employees of the Group. Given that the Directors and senior management of the Company are not as experienced as Mr. He and Ms. Luo in the raw Chinese herbs plantation business, the operations of the Target Companies will primarily be managed by Mr. He and Ms. Luo after Completion. The Group will also deploy its employees to operate the businesses of the Target Companies with an aim to allow its employees to gain the relevant experience and skill set for operating a raw Chinese herbs plantation business.

The biographies of Mr. He and Ms. Luo are set out below:

Mr. He Ding Xiang (賀定翔)

Mr. He Ding Xiang has over 18 years of experience in the plantation of raw Chinese herbs industry. In July 2002, Mr. He founded Guizhou Changhao Chinese Medicine Development Co., Ltd.* (貴州昌昊中藥發展有限公司), a company principally engaged in plantation and trading of raw Chinese herbs, and manufacturing and sale of TCM decoction pieces, and has been its general manager since then. Mr. He has obtained several provincial and national research awards. Mr. He is the vice president of the China Natural Resources Institute of Natural Medicines Resources Committee* (中國自然資源學會天然藥物資源專業委員會), the vice president of the China Association of Traditional Chinese Medicine Seeds and Seedlings Professional Committee* (中國中藥協會中藥材種子種苗專業委員會), the vice president of the China Association of Traditional Chinese Medicine Plantation and Breeding Professional Committee* (中國中藥協會中藥材種植養殖專業委員會), the executive director of the Chinese Society of Traditional Chinese Medicine* (中華中醫藥學會中藥資源學會) and the executive director of the Forest Management Committee of China Forestry Management Association* (中國林業經理協會森林藥材專業委員會). Mr. He obtained his bachelor's degree in Chinese medicine from the Guiyang Traditional Chinese Medicine College* (貴陽中醫學院) in 1987.

Ms. Luo Lin (羅琳)

Ms. Luo has over eight years of experience in the plantation of raw Chinese herbs industry. Ms. Luo and Mr. He founded Guizhou Qian Cao Tang Chinese Medicine, Co., Ltd.* (貴州黔草堂中藥有限公司), a company principally engaged in plantation and trading of raw Chinese herbs, and manufacturing and sale of TCM decoction pieces, and has been its general manager since then. Since April 2008, Ms. Luo has been the deputy general manager of Guizhou Changhao Chinese Medicine Development Co., Ltd.* (貴州昌昊中藥發展有限公司), a company principally engaged in plantation and trading of raw Chinese herbs, and manufacturing and sale of TCM decoction pieces. Ms. Luo participated in Guizhou Province's first raw Chinese herbs breeding project and have assisted in obtaining Good Agricultural and Collection Practices (GACP) for several raw Chinese herbs in Japan.

INFORMATION ON THE GROUP, THE PURCHASER AND THE VENDOR

The Group is principally engaged in the research and development, production and sale of CCMG products and Chinese healthcare products, as well as rendering Chinese medical diagnostic services.

The Purchaser, a wholly-owned subsidiary of the Company, is a company established under the laws of the PRC with limited liability which is principally engaged in manufacturing and trading of CCMG products and Chinese healthcare products.

The Vendor is a limited liability company incorporated in Hong Kong and is an investment holding company.

LISTING RULES IMPLICATION

The Acquisition

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition, on an aggregate basis, exceeds 5% but is below 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to reporting and announcement requirements under the Listing Rules. As at the Latest Practicable Date, the Vendor is ultimately owned as to 60% by Mr. Chan, an executive Director and a controlling Shareholder of the Company. As such, the Vendor is an associate of Mr. Chan and hence a connected person of the Company for the purpose of the Listing Rules. Accordingly, the entering into of the Acquisition Agreement and the transactions contemplated thereunder also constitute connected transactions for the Company under the Listing Rules and is also subject to the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The issue of the Consideration Shares

Pursuant to Rule 13.36(1) of the Listing Rules, the Consideration Shares will be issued under a Specific Mandate subject to the approval by the Shareholders.

As set out above, Mr. Chan is a connected person of the Company and is considered as being interested in the Acquisition. Accordingly, Mr. Chan and his associates (including Ms. Man Yee Wai, Viola being Mr. Chan's spouse), together being interested in 57.86% of the total number of issued shares of the Company, shall abstain from voting on the proposed resolution(s) to approve the Acquisition at the EGM. Furthermore, Mr. Chan Kin Man, Eddie, being a non-executive director of each of the Target Companies, and his associates, together being interested in 1.39% of the total number of issued shares of the Company, will also abstain from voting at the EGM. Save for the aforesaid and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries as at the Latest Practicable Date, no other Shareholder is involved or interested in the Acquisition which requires him/her to abstain from voting on the proposed resolution(s) to approve the Acquisition at the EGM.

As set out above, Mr. Chan and Ms. Man Yee Wai, Viola is considered as having a material interest in the transactions contemplated under the Acquisition Agreement and accordingly have abstained from voting on the board resolution for approving the Acquisition Agreement and the transactions contemplated thereunder. Each of Dr. Tsoi Kam Biu, Alvin and Mr. Chan Kin Man, Eddie, being a non-executive director of each of the Target Companies, have also abstained from voting on the board resolution.

RECOMMENDATION

The Directors, including the independent non-executive Directors, are of the view that the terms of the Acquisition Agreement and the transactions contemplated thereunder is fair and reasonable and in the interest of the Group and the Shareholders as a whole. Accordingly, should a resolution be put at a general meeting of the Company for the Shareholders to consider, the Directors would recommend the Shareholders to vote in favour of such resolution.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By Order of the Board
PuraPharm Corporation Limited
Chan Yu Ling, Abraham
Chairman

PURAPHARM CORPORATION LIMITED
培力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1498)

30 December 2016

To the Independent Shareholders

Dear Sir/Madam,

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE TARGET COMPANIES; AND (2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

We refer to the circular dated 30 December 2016 (the "**Circular**") issued by the Company of which this letter forms part. Unless the context otherwise requires, terms and expressions defined in the Circular have the same meanings herein.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on the Acquisition. Altus Capital Limited has been appointed by the Company as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to (i) the letter from the Board set out on pages 5 to 21 of the Circular; (ii) the letter from the Independent Financial Advisor as set out on pages 24 to 55 of the Circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Acquisition as well as the principal factors and reasons considered by the Independent Financial Advisor in arriving at its recommendation; and (iii) the additional information as set out in the appendix to the Circular.

After taking account the factors and reasons considered by the Independent Financial Advisor and its conclusion and advice, we concur with its views and consider that the terms of the Acquisition are fair and reasonable so far as the Company and the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. According, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition.

Yours faithfully
For and on behalf of the
Independent Board Committee

Dr. Chan Kin Keung, Eugene	**Mr. Ho Kwok Wah, George**	**Dr. Leung Lim Kin, Simon**	**Prof. Tsui Lap Chee**

Independent non-executive Directors

The following is the text of a letter of advice from Altus Capital Limited, the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition as contemplated under the Acquisition Agreement, which has been prepared for the purposes of incorporation in this circular.

ALTUS.

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

30 December 2016

To the Independent Board Committee and the Independent Shareholders

PuraPharm Corporation Limited
Suite 4002, Jardine House
1 Connaught Place
Central
Hong Kong

Dear Sir or Madam,

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE TARGET COMPANIES AND (2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition as contemplated under the Acquisition Agreement. Details of the Acquisition are set out in the "Letter from the Board" contained in the circular of the Company dated 30 December 2016 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 9 November 2016, the Purchaser and the Vendor entered into the Acquisition Agreement pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Shares, being the entire equity interests in each of the Target Companies held by the Vendor, at a total consideration of RMB190.0 million (equivalent to approximately HK$217.5 million) payable by cash and the issue of 22,717,920 Consideration Shares by the Company to Gold Sparkle and Golden Zenith as designated by the Vendor at the issue price of HK$4.50 per Consideration Share. Upon Completion, each of the Target Companies will become an indirect wholly-owned subsidiary of the Company.

Each of the Target Companies, being the wholly-owned subsidiary of the Vendor, is a limited liability company incorporated in the PRC and ultimately owned as to 60% by Mr. Chan, an executive Director, and is principally engaged in plantation and trading of raw Chinese herbs and manufacturing and sale of TCM decoction pieces.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition exceeds 5% but is below 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to reporting and announcement requirements under the Listing Rules. Given that the Vendor is ultimately owned as to 60% by Mr. Chan, an executive Director and a controlling shareholder of the Company, the Vendor is an associate of Mr. Chan and hence a connected person of the Company for the purpose of the Listing Rules. Accordingly, the entering into of the Acquisition Agreement and the transactions contemplated thereunder also constitute connected transactions for the Company under the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 13.36(1) of the Listing Rules, the Consideration Shares will be issued under a Specific Mandate subject to the approval by the Shareholders.

Accordingly, the Company will convene an EGM to consider and, if thought fit, to approve, among other matters, the Acquisition and the issue of Consideration Shares under Specific Mandate.

Given that Mr. Chan is a connected person of the Company and is considered as being interested in the Acquisition, Mr. Chan and his associates shall abstain from voting on the proposed resolution(s) to approve the Acquisition and the issue of Consideration Shares under Specific Mandate at the EGM. It is noted that save for the aforesaid and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries as at the Latest Practicable Date, no other Shareholder is involved or interested in the Acquisition which requires him/her to abstain from voting on the proposed resolution(s) to approve the Acquisition and the issue of Consideration Shares under Specific Mandate at the EGM.

THE INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISOR

The Independent Board Committee, comprising all four of the Independent Non-Executive Directors of the Company, namely Dr. Chan Kin Keung, Eugene, Mr. Ho Kwok Wah, George, Dr. Leung Lim Kin, Simon, and Prof. Tsui Lap Chee, has been established to consider the terms of the Acquisition, and to give advice and recommendation to the Independent Shareholders as to (i) whether the Acquisition as contemplated under the Acquisition Agreement was entered into in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) relating to the Acquisition and the issue of Consideration Shares under Specific Mandate to be proposed at the EGM.

As the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the Acquisition as contemplated under the Acquisition Agreement was entered into in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) relating to the Acquisition and the issue of Consideration Shares under Specific Mandate to be proposed at the EGM.

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the "**Management**"). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the EGM. The Independent Shareholders will be informed as soon as practicable when we are aware of any material change in all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading at the time they were made or will be untrue, inaccurate or misleading as at the date of the EGM, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company and the Management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendations, we have taken into account the principal factors and reasons set out below:

1. Background information of the Group

1.1 Principal businesses and information on the Group

The Group is principally engaged in the research and development, production and sale of CCMG products and Chinese healthcare products, as well as rendering of Chinese medical diagnostic services under Nong's (農本方) brand.

Over the past 10 years, the Group has continued to strengthen its market position in the CCMG product market in Hong Kong and significantly expanded its presence in the PRC. According to the Consultation Paper on Measures for the Administration of Traditional Chinese Medicine Granules《中藥配方顆粒管理辦法(徵求意見稿)》published by the CFDA on 24 December 2015 (the "**Recommendation**"), CCMG manufacturers will be required to improve traceability of the origin of raw Chinese herbs used in manufacturing of CCMG products and therefore CCMG manufacturers are recommended to setup up their own, or hold through a joint venture, raw Chinese herbs plantation bases which comply with the PRC Good Agricultural Practice for Chinese Crude Drugs 《中藥材生產質量管理規範》(the "**GAP standards**").

In light of the compliance implications under the Recommendation, the Management believes that the Acquisition is necessary for the Group's long term development of its CCMG products manufacturing business. In addition, in view of increasing demand for CCMG products in Hong Kong and the PRC, and considering the Group's major competitors in the CCMG products have already engaged in raw Chinese herbs plantation business, the Directors consider that by establishing its own Chinese herbs plantation bases in order to secure stable supply of high quality raw Chinese herbs will enable the Group to maintain its competitiveness and leading position in the CCMG products market.

Also according to the Management, the Group believes it is beneficial to expand into the TCM decoction pieces business which is highly complementary to its existing CCMG business.

Furthermore, leveraging on the success of Nong's clinic business model in Hong Kong, which the total number of Nong's clinic substantially increased from 14 clinics as at 30 June 2015 to 40 clinics as at 30 June 2016, the Group is in the process of establishing its Nong's clinic model in the PRC and plans to work with local business partners to set up Nong's clinics in selected regions. Hence, the Directors expect the demand for the Group's concentrated CCMG products, Chinese healthcare products and potentially TCM decoction pieces will continue to increase.

Taking into account the above background and development, the Directors formulate the Group's business strategy of growing its existing businesses while having its own Chinese herbs plantation bases as well as to engage in the manufacture and sale of TCM decoction pieces.

1.2 Historical financial information

Set out below is a summary of the financial results of the Group for the two years ended 31 December 2014 and 2015 and the six months ended 30 June 2015 and 2016 as extracted from the Company's 2015 annual report (the "**2015 Annual Report**") and 2016 interim results (the "**2016 Interim Report**") respectively.

	For the year ended 31 December		For the six months ended 30 June	
	2014	**2015**	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue	366,352	473,900	186,902	212,249
Gross profit	232,111	305,732	119,000	141,608
Profit/(loss) attributable to equity holders	34,463	28,458	(7,596)	8,285
Revenue by segments:				
— China CCMG	175,240	251,580	82,867	87,106
— Hong Kong CCMG	145,234	156,066	72,217	80,329
— Chinese healthcare products	40,069	47,664	26,179	22,653
— Nong's Chinese medicine clinics	5,809	18,590	5,639	22,161
	366,352	473,900	186,902	212,249

	As at 31 December		As at 30 June
	2014	**2015**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	(Audited)	(Unaudited)
Total assets	420,310	697,332	752,752
Total liabilities	284,497	227,622	306,577
Net assets	135,813	469,710	446,175
Current assets	305,606	541,172	571,997
Current liabilities	282,575	225,952	305,521
Net current assets	23,031	315,220	266,476
Cash and bank balances	46,736	232,243	232,544
Pledged time deposits for bank loans	20,633	6,000	11,000

Source: 2015 Annual Report and 2016 Interim Report

For the year ended 31 December 2015

For the year ended 31 December 2015, the Group's revenue amounted to approximately HK$473.9 million, representing an increase of approximately 29.4% as compared to approximately HK$366.4 million in 2014. The growth was driven principally by (i) the increased sales of CCMG products in Hong Kong and the PRC (of which aggregate revenue grew by approximately 27.2% from approximately HK$320.5 million in 2014 to approximately HK$407.6 million in 2015); and (ii) the substantial expansion of Nong's clinics in Hong Kong (of which revenue grew by approximately 220.0% from approximately HK$5.8 million in 2014 to approximately HK$18.6 million in 2015). Considering the positive outlook of the PRC and Hong Kong CCMG product market, the Group has consolidated its distribution network to re-allocate more resources in the PRC in 2014, which led to an increase in sales volume and revenue of CCMG products to both direct sales customers and distributors.

Profit attributable to equity holders of the Company for the year ended 31 December 2015 amounted to approximately HK$28.5 million, representing a decrease of approximately 17.4% as compared to a net profit of approximately HK$34.5 million in 2014. The decrease in profit attributable to equity holders was mainly due to the rising administrative expenses and selling and distribution expenses in 2015. The increased expenses were mainly attributable to (i) increased marketing and staff costs to promote and strengthen the Group's business development; (ii) increased clinic management fee and rental expenses in relation to the expansion of the Group's Nong's Chinese medicine clinics; and (iii) one-off listing expenses of approximately HK$19.0 million recorded in the first half year of 2015.

As at 31 December 2015, total assets of the Group were approximately HK$697.3 million, representing an increase of approximately 65.9% as compared to the balance of approximately HK$420.3 million as at 31 December 2014. As at 31 December 2015, cash and bank balances of the Group (without taking into account the pledged time deposits for bank loans of approximately HK$6.0 million) amounted to approximately HK$232.2 million (as at 31 December 2014: HK$46.7 million). The substantial increment in cash position was due to net cash inflow from financing activities of approximately HK$267.8 million for the year ended 31 December 2015, which was mainly attributable to the proceeds raised of approximately HK$336.4 million from the Company's successful listing on the Stock Exchange in July 2015. The increment was offset by (i) net cash used in operating activities of approximately HK$12.6 million for the year ended 31 December 2015, which was primarily attributable to the one-off payment for listing expenses of approximately HK$20.5 million and the increase in trade and bills receivables of approximately HK$59.3 million; and (ii) a net cash of approximately HK$44.8 million used in investing activities during the period ended 31 December 2015, which primarily included payment for the acquisition of a land parcel in Nanning and the expansion of the Group's existing production facilities and Nong's Chinese medicine clinics in Hong Kong.

As at 31 December 2015, total liabilities of the Group were approximately HK$227.6 million, representing a decrease of approximately 20.0% as compared to the balance of approximately HK$284.5 million as at 31 December 2014. As at 31 December 2015, the interest-bearing bank borrowings reduced to approximately HK$125.4 million (with interest rates ranging from 2.7% to 7.8% per annum) from approximately HK$182.7 million as at 31 December 2014, representing a decrease of approximately 31.3%.

As at 31 December 2015, the net assets of the Group amounted to approximately HK$469.7 million, representing a substantial increase of approximately 245.9% from approximately HK$135.8 million recorded as at 31 December 2014 with the receipt of proceeds following the successful listing of the Company on the Stock Exchange in July 2015.

For the six months ended 30 June 2016

For the six months ended 30 June 2016, the Group's revenue amounted to approximately HK$212.2 million, representing an increase of approximately 13.6% as compared to approximately HK$186.9 million recorded for the corresponding period in 2015. The growth was driven principally by (i) the increased sales of CCMG products in Hong Kong and the PRC (of which aggregate revenue grew by approximately 8.0% from approximately HK$155.1 million for the six months ended 30 June 2015 to approximately HK$167.4 million for the six months ended 30 June 2016); and (ii) the continued expansion of Nong's clinics in Hong Kong (of which revenue grew by approximately 293.0% from approximately HK$5.6 million for the six months ended 30 June 2015 to approximately HK$22.2 million for the six months ended 30 June 2016).

For the six months ended 30 June 2016, profit attributable to equity holders amounted to approximately HK$8.3 million as compared to a loss attributable to equity holders of approximately HK$7.6 million for the corresponding period in 2015. The loss incurred in the previous year was principally due to the expenses incurred for the listing exercise aforementioned.

As at 30 June 2016, total assets of the Group were approximately HK$752.8 million, representing an increase of approximately 7.9% as compared to the balance of approximately HK$697.3 million as at 31 December 2015. As at 30 June 2016, the cash and bank balances of the Group (without taking into account the pledged bank deposits for bank loans of approximately HK$11.0 million) amounted to approximately HK$232.5 million, which remained at a similar level to the cash and bank balances of approximately HK$232.2 million as at 31 December 2015.

As at 30 June 2016, total liabilities of the Group were approximately HK$306.6 million, representing an increase of approximately 34.7% as compared to the balance of approximately HK$227.6 million as at 31 December 2015. The increase was mainly attributable to higher interest-bearing bank borrowings (with interest rates ranging from 2.3% to 6.0% per annum), which amounted to approximately HK$237.4 million, representing an increase of approximately 89.2% as compared to the borrowings of approximately HK$125.4 million as at 31 December 2015. The increase in bank borrowings was principally used to support the working capital of the Group and in line with its business expansion.

As at 30 June 2016, the net assets of the Group amounted to approximately HK$446.2 million, representing a decrease of approximately 5.0% compared to the net assets of approximately HK$469.7 million as at 31 December 2015 mainly attributable to the distribution of 2015 final dividends of approximately HK$20.0 million.

1.3 Prospects

As described in the 2016 Interim Report, the Group will continue to strengthen its leading position in the CCMG product market in Hong Kong and significantly expand its presence in the PRC. Given its strong brand recognition in Hong Kong as well as its competitive strengths including product quality, safety and operational expertise, the Group will be able to replicate its successful business model in the CCMG market in the PRC. Furthermore, the strategic partnership with provincial distributors, who have strong and experienced teams to sell and distribute TCM throughout the PRC, will also help to expand the Group's geographical reach into the new target cities to capture more opportunities.

In light of the government's policy as described in the paragraph headed "1.1. Principal businesses and information on the Group" above, the Directors anticipate that the promulgation of such policies helps to enhance the standards of the CFDA-licensed CCMG product manufactures and induce strong competition in the CCMG product market. In addition, as the Group is one of the five CFDA-licensed CCMG product manufacturers in the PRC, the Directors believe such policies will further enhance the Group's overall competitiveness through improving its production capabilities as well as to extend its market share.

1.4 Section summary

Taking into account the above, the Directors believe and we concur that the Acquisition is necessary for the Group's long term development of its CCMG products manufacturing business in light of the compliance implications under the Recommendation. In addition, the Acquisition offers an opportunity for the Group to secure stable supply of high quality Chinese herbs through vertical integration of the upstream raw Chinese herbs plantation and to expand to the TCM decoction pieces business and we are of the view that the Acquisition adheres to the stated business strategies of the Group.

2. Background information and future development of the Target Companies

2.1 Principal businesses and information on the Target Companies

The Target Companies are strategically located in Guizhou Province, which is one of the largest raw Chinese herbs resources provinces in the PRC. Both Target Companies are permitted under their business licences to engage in TCM businesses, such as plantation and trading of raw Chinese herbs and manufacturing and sale of TCM decoction pieces in the PRC. Their holding company, Gold Sparkle Plantation Holdings Limited, is incorporated in the BVI and ultimately owned as to 60% by Gold Sparkle and as to 40% by Golden Zenith. Details of the corporate structure of the Target Companies before the Completion are set out in the "Letter from the Board" of the Circular.

As at the Latest Practicable Date, the Target Companies owned land use rights for four parcels of land with a total site area of approximately 40,147.38 sq.m., held building ownership certificates for buildings with an aggregate gross floor area of 3,232.28 sq.m. and leased certain level as its TCM plantation base with an aggregate site area of approximately 464,202.32 sq.m. for their operations, such as plantation greenhouses and TCM processing facilities. As at the Latest Practicable Date, one of the Target Companies, namely Gold Sparkle CM, has not obtained the relevant land use right certificate and construction certificates for certain lands and buildings it occupied for its TCM plantation center of which the relevant land use right certificate and construction certificates (the "**Outstanding Approvals**") are required under the relevant PRC laws; Gold Sparkle CM is still in the process of obtaining such land use right and construction certificates, subject to the current situation that the People's Government of Guizhou Province is in the process of completing its internal procedures in converting relevant land from collectively-owned land to state-owned construction land. The PRC Legal Adviser is of the view that (i) subject to the approval of the People's Government of Guizhou Province, there is no legal impediment for Gold Sparkle CM to obtain the relevant land use right certificate; and (ii) subject to the obtaining of the relevant land use right certificate, there is no legal impediment for Gold Sparkle CM to obtain the relevant construction certificates.

As described in the "Letter from the Board" of the Circular and our review of the information provided by the Management (including the legal opinions issued by the PRC Legal Adviser), we noted that (i) Gold Sparkle CM has obtained written confirmation from the Danzhai Lands Bureau that it will issue the relevant land use right certificate for the lands it occupied for its TCM plantation center as soon as possible and that the relevant land use right certificate will be issued before 31 December 2017; and (ii) the PRC legal adviser is of the view that Danzhai Lands Bureau is the relevant and competent authority to issue the abovementioned written confirmation and the chance of Gold Sparkle CM being unable to use the relevant land in question before obtaining the land use right certificate is remote. Notwithstanding the above, the Management is of the view that the absence of the Outstanding Approvals has minimal impact on Gold Sparkle CM's ability to use the relevant property to construct its TCM plantation center, in particular, (i) when Gold Sparkle CM had obtained written confirmation from the Danzhai County Housing and Urban Construction Bureau that it can continue to construct the TCM plantation center prior to obtaining the construction certificates; (ii) when Gold Sparkle CM has already complied with and/or fulfilled all the requirements and conditions imposed by the relevant government authorities with regards to the application of the land use right certificate and/or the construction certificates; and (iii) it is only a matter of time to allow the relevant governmental authorities to complete the regulatory procedures/ process to grant the Outstanding Approvals. Accordingly, the Management is confident that the Group will be able to obtain the Outstanding Approvals.

Taking into account (i) the feedback/written confirmations obtained by the Management from the relevant government authorities in relation to the Outstanding Approvals; (ii) the opinion provided by the PRC Legal Adviser; and (iii) the representation/confirmation by the Vendors, the Purchaser and the Vendors (after arm's length negotiation) agreed that the Purchaser shall have a right to request Gold Sparkle and Golden Zenith to acquire the Target Companies and indemnify the Purchaser of all penalties and losses arising from failure to obtain the Outstanding Approvals before 31 December 2017 (for the relevant land use right certificate for the lands it occupied for its TCM plantation center) and 30 March 2018 (for construction certificates regarding the construction of the TCM plantation center) respectively, for which the consideration for the buy-back of the Target Companies (which is to be determined) shall equal the total investment made by the Purchaser to the Target Companies at the time.

Given that (i) the Management is confident that the Group will be able to obtain the Outstanding Approvals (as mentioned above); (ii) the absence of the Outstanding Approvals has minimal impact on Gold Sparkle CM to use the relevant property to construct its TCM plantation base (as mentioned above); (iii) the indemnification clause is reached upon commercial negotiation between the Vendor and the Purchaser; and (iv) the proposed periods (i.e. on or before 31 December 2017 (for the relevant land use right certificate for the lands it occupied for its TCM plantation center) and on or before 30 March 2018 (for construction certificates regarding the construction of the TCM plantation center) respectively) are to allow the relevant governmental authorities to complete the regulatory procedures/process to grant the Outstanding Approvals, the Management believes and we concur that the indemnity set out in the conditions precedent of the Acquisition (for which the materials terms such as consideration shall be further negotiated but, pursuant to the undertakings entered into by Gold Sparkle and Golden Zenith, shall equal the total investment made by the Purchaser to the Target Companies at the time) will serve as a safeguard measure on top of the confirmations of obtaining the Outstanding Approvals, and provide additional comfort for the Group to continue to develop its business on the sites.

Given that the indemnity is intended to cover all penalties and losses arising from failure to obtain the Outstanding Approvals (i.e. shall equal the total investment made by the Purchaser to the Target Companies at the time), we are of the view that this arrangement is sufficient to safeguard the interests of the Company and the Shareholders as a whole.

Pursuant to the requirements under the Good Manufacturing Practice for Pharmaceutical Products《藥品生產質量管理規範》, a manufacturer of pharmaceutical products and pharmaceutical materials, including the TCM decoction pieces and CCMG products, must obtain GMP certification to produce pharmaceutical products and pharmaceutical materials in China. Hence the Target Companies are required to satisfy such requirement.

According to the Management and the senior management of the Target Companies, which we have also interviewed, Gold Sparkle CM is in the course of constructing the TCM decoction pieces production facilities according to the GMP standard which is expected to be completed by May 2017. Upon completion of the construction of the production facilities, Gold Sparkle CM will commence the application procedures for GMP certification, including the trial production of TCM decoction pieces for testing under the GMP certification process, and expect to obtain GMP certification by July 2017, enabling it to commence the business of manufacturing and sale of TCM decoction in the second half of 2017.

As described in the paragraph headed "2.2 Financial information of the Target Companies" below, the revenue of the Target Companies in the past was entirely generated from trading of raw Chinese herbs in the PRC. According to the Management and the senior management of the Target Companies, which we have also interviewed, it is expected that following the completion of the construction of the production facilities and obtaining GMP certification, one of the key revenue drivers of the Target Companies in the future will be the manufacture and sale of TCM decoction pieces.

Taking into account the above, the Directors believe and we concur that the Acquisition offers an opportunity for the Group to secure stable supply of high quality Chinese herbs at a lower cost through vertical integration of the upstream raw Chinese herbs plantation and to expand to the TCM decoction pieces business, and we are of the view that the Acquisition allows the Group to implement its stated business strategies.

In consideration of the above, the Directors believe and we concur that the existing circumstances of the Target Companies suit the business strategy and expansion plan of the Group, in particular, on the basis of cost efficiency and lesser time required to develop a new plantation and production facilities from scratch. Taking into account the principal activities of the Group as described in the paragraph headed "1.1 Principal businesses and information on the Group" above, though the act of the Acquisition (i.e. the sell and purchase of assets or business operations/entities) is not in the usual and ordinary course of business of the Group, we are of the view that the Acquisition is justifiable, reasonable and in the interests of the Company and the Shareholders as a whole.

2.2 *Financial information of the Target Companies*

Set out below are the financial highlights of the Target Companies for each of the period/year from 13 November 2014 (date of incorporation) to 31 December 2014, the year ended 31 December 2015, and the eight months ended 31 August 2016 as extracted from the reports provided by the Management.

2.2.1 Gold Sparkle HZ

	Period from 13 November 2014 (date of incorporation) to 31 December	Year ended 31 December	Eight months ended 31 August	
	2014	2015	2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	—	—	—	9,594
Gross profit	—	—	—	713
Other income and gains	—	—	—	3,294
Administrative expenses	—	(619)	(335)	(1,838)
Finance cost	—	—	—	(232)
(Loss)/profit and total comprehensive (loss)/income for the period/year	—	(464)	(251)	2,276

	As at 31 December		As at 31 August
	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	—	5,882	17,714
Current assets	—	1,002	33,643
Current liabilities	—	(5,348)	(29,545)
Net assets	—	1,536	21,812

Since incorporation in November 2014, Gold Sparkle HZ did not engage in any substantial business operation until 2016. Accordingly, for the eight months ended 31 August 2016, Gold Sparkle HZ recorded a revenue of approximately RMB9.6 million from the sale of raw Chinese herbs. During this period, Gold Sparkle HZ recorded a gross profit of approximately RMB0.7 million, representing a gross profit margin of approximately 7.4%. For the eight months ended 31 August 2016, Gold Sparkle HZ also recorded other income and gains of approximately RMB3.3 million due to the unrealised gain on fair value changes of biological assets. As the business operation built up gradually together with additional administrative expenses and finance cost, a profit of approximately RMB2.3 million was recorded for the eight months ended 31 August 2016.

It is noted that sales to three customers (all independent third parties) of Gold Sparkle HZ for the eight months ended 31 August 2016 amounted to approximately RMB8.9 million, representing approximately 92.8%.

As at 31 August 2016, total assets of Gold Sparkle HZ were approximately RMB51.4 million, representing approximately 7.5 times of the total assets recorded as at 31 December 2015 of approximately RMB6.9 million. Such substantial increase was mainly due to the additions during the eight months ended 31 August 2016, namely (i) buildings, machinery and equipment amounting to approximately RMB11.8 million as at 31 August 2016 (approximately RMB0.2 million as at 31 December 2015); (ii) inventory amounting to approximately RMB16.4 million as at 31 August 2016 (nil as at 31 December 2015); (iii) trade receivables amounting to approximately RMB9.5 million as at 31 August 2016 (nil as at 31 December 2015); and (iv) biological assets amounting to approximately RMB4.8 million as at 31 August 2016 (approximately RMB0.7 million as at 31 December 2015).

As at 31 August 2016, total current liabilities of Gold Sparkle HZ were approximately RMB29.5 million, representing approximately 5.5 times of the total liabilities recorded as at 31 December 2015 of approximately RMB5.3 million. The substantial increase was mainly attributable to the additions during the eight months ended 31 August 2016, namely (i) loans from related parties amounting to approximately RMB14.2 million (nil as at 31 December 2015); (ii) trade payables amounting to approximately RMB8.3 million (nil as at 31 December 2015); and (iii) other payables and accruals amounting to approximately RMB7.0 million (RMB5.3 million as at 31 December 2015). Save for current liabilities, Gold Sparkle HZ did not record any non-current liabilities as at 31 December 2015 or 31 August 2016.

Due to the reasons explained above, as at 31 August 2016, net assets of Gold Sparkle HZ were approximately RMB21.8 million, representing approximately 14.2 times of the net assets recorded as at 31 December 2015 of approximately RMB1.5 million.

2.2.2 Gold Sparkle CM

	Period from 13 November 2014 (date of incorporation) to 31 December 2014	Year ended 31 December 2015	Eight months ended 31 August 2015	
			2015	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	—	3,485	484	11,327
Gross profit	—	536	214	1,690
Other income and gains	—	3	2	1,415
Selling and distribution expenses	—	(148)	(81)	(270)
Administrative expenses	—	(5,273)	(3,798)	(4,705)
Other expenses	—	(15)	(15)	(2)
Loss and total comprehensive loss for the period/year	—	(3,729)	(2,820)	(1,249)

	As at 31 December		As at 31 August
	2014	2015	2016
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	5,000	33,050	41,666
Current assets	1,000	4,577	21,764
Current liabilities	—	(15,756)	(20,408)
Net assets	6,000	21,871	43,022

Since incorporation in November 2014, Gold Sparkle CM engaged in construction, and also began to engage in business operation in trading of raw Chinese herbs in 2015. Accordingly, for the year ended 31 December 2015 and for the eight months ended 31 August 2016, Gold Sparkle CM recorded a revenue of approximately RMB3.5 million and RMB11.3 million respectively from the sale of raw Chinese herbs. During the year ended 31 December 2015 and for the eight months ended 31 August 2016, Gold Sparkle CM recorded a gross profit of approximately RMB0.5 million and RMB1.7 million respectively, representing a gross profit margin of approximately 15.4% and 14.9% respectively. As the scale of business operation was in the process of growing while it necessitated incurrence of certain fixed administrative expenses, Gold Sparkle CM recorded a loss of approximately RMB3.7 million for the year ended 31 December 2015 and a loss of approximately RMB1.2 million for the eight months ended 31 August 2016 respectively.

It is noted that Gold Sparkle CM sold approximately RMB2.8 million of raw Chinese herbs (representing approximately 81.4% of the total revenue) to the Purchaser during the year ended 31 December 2015. For the eight months ended 31

August 2016, Gold Sparkle CM's sales to three major customers amounted to approximately RMB10.0 million, representing approximately 88.1% of the total revenue (of which sales to the Purchaser amounted to approximately RMB5.4 million or 47.2% of the total revenue).

As at 31 August 2016, total assets of Gold Sparkle CM were approximately RMB63.4 million, representing an increase of approximately 68.6% as compared to the amount of approximately RMB37.6 million as at 31 December 2015. Such substantial increase was mainly due to the additions during the eight months ended 31 August 2016, namely (i) buildings, machinery and equipment amounting to approximately RMB33.8 million as at 31 August 2016 (approximately RMB26.7 million as at 31 December 2015); (ii) biological assets amounting to approximately RMB6.1 million as at 31 August 2016 (approximately RMB1.7 million as at 31 December 2015); (iii) trade receivables amounting to approximately RMB6.2 million as at 31 August 2016 (approximately RMB0.9 million as at 31 December 2015); and (iv) inventory amounting to approximately RMB7.0 million as at 31 August 2016 (approximately RMB0.1 million as at 31 December 2015).

As at 31 August 2016, total current liabilities of Gold Sparkle CM were approximately RMB20.4 million, representing an increase of approximately 29.5% as compared to the amount of approximately RMB15.8 million as at 31 December 2015. The increase was mainly attributable to the additions during the eight months ended 31 August 2016, namely (i) trade payables of approximately RMB5.5 million (approximately RMB2.2 million as at 31 December 2015); and (ii) other payables and accruals of approximately RMB14.9 million (approximately RMB13.6 million as at 31 December 2015). Saved for current liabilities, Gold Sparkle CM did not record any non-current liabilities as at 31 December 2015 or 31 August 2016.

Due to the reasons explained above, as at 31 August 2016, net assets of Gold Sparkle CM were approximately RMB43.0 million, representing an increase of approximately 96.7% as compared to the net assets of approximately RMB21.9 million as at 31 December 2015.

3. Background to and reasons for the Acquisition

In considering whether the Acquisition is fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the reasons for the Acquisition set out below:

3.1 There is a growing potential for traditional Chinese herbal medicine market in the PRC

According to the Management, the total retail sales value of the traditional Chinese herbal medicine market in the PRC was approximately RMB196.8 billion in 2014 and is estimated to increase to approximately RMB488.9 billion by 2019, representing approximately 148.4% increase in the projected retail sales value. The compound average growth rate ("**CAGR**") for the period from 2015 to 2019 is expected to be approximately 19.1%.

The PRC government has placed increasing attention to the development and growth of TCM industry in view of the aging population in the PRC. Pursuant to the "Development Plan of TCM Healthcare Services (2015–2020)" published by the General Office of State Council in May 2015, the seven key jobs to be focused by the PRC government include the development of TCM service for preserving longevity. This will be conducted by supporting TCM healthcare institutions and encouraging the investment in TCM healthcare services by all sources of funding. The Directors believe that such government policy would continue to support the development of the TCM industry in the PRC.

With the increasing awareness of the benefits of Chinese herbal medicine in the PRC and the implementation of "Development Plan of TCM Healthcare Services (2015–2020)" by the PRC government, it is reasonable to expect continued growth in demand for traditional Chinese herbal medicine in the PRC.

3.2 There is intensification of market competition and potential tightening of regulations in the Group's CCMG business

As at the Latest Practicable Date, there were only five CFDA-licensed CCMG product manufacturers in the CCMG market.

According to the Recommendation, CCMG manufacturers will be required to improve traceability of the origin of raw Chinese herbs used in manufacturing of CCMG products and therefore CCMG manufacturers are recommended to setup up their own, or hold through a joint venture, raw Chinese herbs plantation bases which comply with the GAP standards. Per our discussion with the Management, in light of the compliance implications under the Recommendation, the Group believes the relevant regulations regarding CCMG manufacturers will be tightened in the near future, and it is expedient for CCMG manufacturers such as the Group to ensure their ability to comply as soon as practicable.

As the Group's major competitors in the CCMG products have already engaged in raw Chinese herbs plantation business, the Group will need to own its plantation and to comply with the GAP standards to maintain its leading position and competitiveness in the CCMG business in the PRC.

Since the Target Companies already owned the plantations and were engaged in the raw Chinese herbs plantation business as well as being managed in accordance with the GAP standards, the Acquisition will enable the Group to own its plantation and to comply with the GAP standards and to continue its business in the manufacturing of CCMG products. It will serve the objective of maintaining the Group's leading position and competitiveness in the CCMG industry.

As advised by the Management, the Group, as at the Latest Practicable Date, was the only CCMG manufacturer out of the five qualified CCMG manufacturers in the PRC that does not have its own plantation base. Considering the relevant regulations regarding the CCMG manufacturers are likely to be tightened in the near future, in the event that when the requirements as provided under the Recommendation have come into effect with a short period notice, the Acquisition will allow the Group to instantly comply with the requirements and continue to operate its CCMG manufacturing business.

The Acquisition will also allow the Group to vertically integrate the upstream raw Chinese herbs plantation and trading segment into the Group's CCMG business segment for the purpose of guaranteeing a stable supply of high-quality raw Chinese herbs at a lower cost. We noted from the Management that the Target Companies are currently selling raw Chinese herbs to the Group at a mark-up price and hence, the Group will be able to save costs if the Target Companies are acquired by it.

In terms of timing of the Acquisition, the Management has also considered the factor that the purchase consideration will change as the businesses of the Target Companies become more developed and mature. Having weighed the costs and benefits, the Management believes that this is an opportune time to conduct the Acquisition.

3.3 The Group also plans to expand the TCM decoction pieces business which is highly complementary to its existing CCMG business

The Target Companies, their production facilities and production process are under construction or built in accordance with the PRC GMP for Drugs《藥品生產質量管理規範》which, upon completion of the construction and obtaining GMP certification, will enable TCM decoction pieces products to be manufactured in the GMP-certified facilities of the Target Companies in accordance with relevant product quality and safety standards.

The Acquisition therefore presents an opportunity for the Group to leverage on the expertise and resources of the Target Companies to develop its business of TCM decoction pieces. According to the Management and the senior management of the Target Companies, which we have also interviewed, the key personnel of the Target Companies have in aggregate over 20 years of experience in the management of plantation, trading and production of Chinese herbs, Chinese herbal seeds and seedlings and TCM decoction pieces.

The Acquisition will allow the Group to immediately enter the TCM decoction pieces business and to have the benefit of an expanded comprehensive product mix comprising CCMG products, over-the-counter Chinese healthcare products and TCM decoction pieces, which will highly improve the competitiveness of the Group in the market.

3.4 Section summary

Taking into account the above factors and reasons, we concur with the Directors' view that the Acquisition is beneficial to the Company and in the interests of the Company and the Shareholders as a whole. In particular, notwithstanding that the scale of the Target Companies are still relatively small and under development as well as their earnings were minimal/negative during their short operating history due to the reasons mentioned in the paragraph headed "2.2 Financial information of the Target Companies" above, we have discussed with the Management and are of the view that the benefits of the Acquisition will, in the long run, (i) enable the Group to continue to secure its leading position in the CCMG products and TCM decoction pieces business in the PRC upon Completion; (ii) enhance the competitiveness of the enlarged Group; and (iii) create a long term sustainable platform for the future growth of the enlarged Group. We are also of the view that the Acquisition is in line with the strategy of the Group despite the fact that it is not in its ordinary and usual course of business of the Group.

4. Principal terms of the Acquisition

To assess its fairness and reasonableness, we have considered the following terms of the Acquisition.

4.1 The Consideration and its basis of determination

The Consideration shall be RMB190.0 million and shall be satisfied in the following manner:

(i) RMB100.7 million in cash shall be paid by the Company on the Completion Date; and

(ii) RMB89.3 million to be satisfied by the Company allotting and issuing 13,050,720 Shares and 9,667,200 Shares credited as fully paid at the issue price of HK$4.50 per Share to Gold Sparkle and Golden Zenith, as designated by the Vendor, on the Completion Date, respectively.

As described in the "Letter from the Board" of the Circular, the Consideration for the Acquisition (including the issue price of the Consideration Shares) was arrived upon after arm's length negotiation between the Vendor and the Company with reference to (i) the growth potential and prospect of the Target Companies and the TCM decoction pieces business the Group intends to develop; and (ii) the total valuation of the Target Companies between RMB186.2 million (equivalent to approximately HK$213.2 million) and approximately RMB205.2 million (equivalent to approximately HK$234.9 million) as at 31 August 2016 by the Independent Valuer based on the discounted cash flow approach.

Taking into account (i) the basis of determining the Consideration as mentioned above; and (ii) the valuation of the Target Companies which takes into consideration the future economic benefits (as further elaborated in the following section), we are of the view that the Consideration is reasonable.

Based on our discussions with the Management and the Independent Valuer, given that (i) each of the Target Companies has a short operating history; (ii) the Target Companies are currently engaged principally in the sale of raw Chinese herbs (the scale of which is constrained by the availability of financial resources); (iii) the Target Companies and its facilities (some parts are currently still under construction) as well as production process have yet to be GMP certified; and (iv) the plantation and TCM decoction pieces businesses have yet to be launched, the earnings of the Target Companies were minimal/ negative and the net assets as at 31 December 2015 and 31 August 2016 were not substantial (as described in paragraph headed "2.2 Financial information of the Target Companies" above). The Management and the Independent Valuer are of the view that valuation multiples such as the price-to-earnings ratio and price-to-net-asset-value ratio are not applicable for assessing the value of the Target Companies. On the other hand, the Independent Valuer considered that it is more appropriate to assess the value of the Target Companies by reference to the valuation using the income approach (i.e. discounted cash flow method), particularly as the major reason for and benefit of the Acquisition focuses on the future economic benefits that can be generated by the Target Companies.

Based on our discussions with the Independent Valuer, we also noted that alternative valuation methodologies such as the market approach is considered to be inappropriate by the Independent Valuer since sustainable and major income has not yet been generated from TCM decoction pieces business and therefore there is no positive profit related valuation parameters such as revenue, EBIT, net income, etc being recorded. In addition, according to the Independent Valuer, given the uniqueness of the plantation and TCM decoction pieces businesses, there is also no publicly announced transaction related to companies specialising in such businesses in the PRC. As such, there is no sufficient information to conclude an appraisal using the market approach.

Also, according to our discussions with the Independent Valuer, although the cost approach often serves as a valuation floor to value a liquidated business, it cannot be the case for the Target Companies as they are newly established with short operating history, the enterprise value of the Target Companies should principally be attributable to the future economic benefits to be brought rather than the cost to reproduce or replace the current situation.

By adopting the abovementioned valuation approach, we noted that the Independent Valuer appraised the entire equity interest in the Target Companies to be between approximately RMB186.2 million (equivalent to approximately HK$213.2) million and approximately RMB205.2 million (equivalent to approximately HK$234.9 million) as at 31 August 2016. Please refer to the following section for our analysis on the valuation.

In summary, taking into account the above and having considered the valuation of the Target Companies, which takes into consideration the future economic benefits (as further elaborated in the following section), we concur with the Directors that the basis to determine the Consideration is fair and reasonable.

4.2 Valuation of the Target Companies

The valuation of the Target Companies ranged between approximately RMB186.2 million (equivalent to approximately HK$213.2 million) and approximately RMB205.2 million (equivalent to approximately HK$234.9 million) as at 31 August 2016 as valued by the Independent Valuer on the basis of the nature of its business, the operations and prospects of the Target Companies, the statutory documents, the historical financial information and the financial projections from 1 September 2016 to 31 December 2025 (the "**Financial Projections**"), their underlying assumptions (the "**Projection Assumptions**") as well as other relevant documents provided by the Management and management of the Target Companies respectively. According to the Management, the Consideration of RMB190.0 million is based on the reference of the above mentioned range of the valuation after taking into account the issues of the Outstanding Approvals.

From interviews with the Independent Valuer regarding its expertise, we have come to an understanding that the Independent Valuer is an independent professional valuer with a number of completed assignments acting for listed companies on the Stock Exchange, with an established track record in valuing business enterprises. We understand that the relevant members of the team of the Independent Valuer have more than an aggregate of 30 years of experience in the field of business valuations and were supported by a team of business valuers.

The Independent Valuer has confirmed that it is an independent third party to the parties involved in the Acquisition and their respective connected persons. Furthermore, we have reviewed the terms of the Independent Valuer's engagement letter and noted that the scope of work was appropriate for arriving at the opinion of a valuation for the Target Companies. We are unaware of any limitations on the relevant scope of work. Furthermore, nothing has come to our attention that parties to the Acquisition had made formal or informal representation to the Independent Valuer that contravenes our understanding of the information, to a material extent, as set out in this letter. In the course of our review, we have discussed with the Independent Valuer the methodologies, bases and assumptions adopted in the valuation.

We understand from the Independent Valuer that it has relied on certain information made available to it by the Company, including but not limited to the Financial Projections. Based on our respective discussions with the Independent Valuer and the Management, we noted that such representations made by the Company to the Independent Valuer are generally consistent with the information contained in the Circular.

Taking into account our discussions with the Independent Valuer, the documents we have obtained from the Independent Valuer and our consideration of their work done, we confirmed that we had complied with the requirements under Rule 13.80(2)(b) Notes 1(d) of the Listing Rules.

4.2.1 Methodology and assumptions used in the valuation

In performing the valuation of the equity interest in the Target Companies, we noted that the Independent Valuer considered three valuation approaches, namely the cost approach, market approach and income approach. We concur with the Independent Valuer that the cost approach is inappropriate for the valuation since the cost approach neglects the future economic benefits generated from the assets of the Target Companies. We also concur with the Independent Valuer that the market approach is inappropriate for the valuation as there has been no public information regarding the sale and purchase of business transactions that are similar to the Target Companies in the PRC. The income approach, which measures the income generating ability of the Target Companies by calculating the present value of future economic benefits, was considered by the Independent Valuer to be the most suitable approach for the valuation. Given that the Financial Projections can be reasonably derived by the Management (as elaborated in the following section) and future economic benefits generated from the assets of the Target Companies are the major driving element of the value of the Target Companies, we concur with the Independent Valuer that the income approach is most appropriate for assessing the market value of entire equity interest of the Target Companies.

Under the income approach, the discounted cash flow method was adopted to derive the market value of the Target Companies whereby the future free cash flows to be generated by the Target Companies, including revenues, operating costs, capital expenditures and the movement in working capital of the Target Companies, are discounted at a relevant required rate of return to arrive at its present value. Further analysis is set out in the paragraph headed "Discount rate" below.

The estimates of the future economic benefits and risk-adjusted discount rates are critical bases that form the foundation of this method. During the planning stage of the valuation, we understand from the Independent Valuer that it has reviewed the projected business performance as provided by the Management and management of the Target Companies respectively as well as the future earnings potential of the Target Companies. The Independent Valuer then conducted discussions with the Management and management of the Target Companies respectively to validate the future economic benefits (including terminal value) as estimated by the Management. The future economic benefits are mainly represented by a year-by-year projection of the free cashflows of the Target Companies for a period starting from 1 September 2016 to 31 December 2025. Thereafter, the Independent Valuer assumed that the free cashflows of the Target Companies will stop in its entirety.

4.2.2 Financial Projections

In preparing the valuation, the Independent Valuer relied on the future free cashflows generated from the expected operation of the Target Companies. The revenue is based on the sales of three types of products, namely Chinese herbs, TCM decoction pieces and herbal seeds and seedlings, estimated by the Management over the forecast period. In this regard, we have obtained and reviewed the calculation spreadsheet of the Financial Projections prepared by the Independent Valuer and discussed with the Independent Valuer and the Management respectively on the key Projection Assumptions (including (i) the growth rate of TCM products in the PRC market; (ii) the composition of product types; and (iii) progress of obtaining GMP certification), as adopted in the valuation.

(i) The growth rate of TCM products in the PRC market

The TCM market is expected to grow on account of increasing consumer preferences for TCM treatment. Per our discussions with the Independent Valuer and the Management, the Management expects (and the Independent Valuer concurs) a continuous growth of demand in the PRC traditional Chinese herbal market. In particular, the Management expects that each of the Target Companies' revenue segment including sale of Chinese herbs, sale of TCM herbal decoction pieces and sale of herbal seeds and seedlings will experience an annual growth rate from approximately 10.0% to approximately 30.0% over the forecast period due to the fact that the Target Companies are still in development phase and there is sufficient market demand for TCM in the market. As disclosed under the section headed "Industry overview" of the Company's prospectus dated 25 June 2015 and further confirmed by the Management, with respect to the PRC traditional Chinese herbal market, the CAGR for 2010 to 2014 was approximately 35.2% and the expected CAGR for 2015 to 2019 is approximately 19.1%. Based on the above, we concur with the Independent Valuer and the Management that the expected annual growth rate for each of the revenue segment is generally in line with the market and is fair and reasonable.

(ii) The composition of product types

The revenue of the Target Companies is expected to be generated principally from the sales of three types of products, namely:

(a) Raw Chinese herbs

The Target Companies are engaged in the sale of raw Chinese herbs including self-grown herbs as well as those bought from the local farmers. The annual growth rate is expected to be between 10.0% and 15.0% over the forecast period. Due to the fact that the Target Companies are still in development phase, the current sales volume is relatively low attributable to the limited production capacity and working capital constraints at the moment. Since the Target Companies are expected to further expand their business in the sale of raw Chinese herbs, the Management is confident that the sales volume of Chinese herbs will gradually increase. Regarding self-grown herbs segment, plantation areas and processing capacity are expected to increase as the Target Companies gradually develop. For traded herbs segment which is still in early phase, its scale and size can be expected to expand in line with the growth of the TCM market in the PRC. The Target Companies are expected to achieve a larger scale where they can handle more orders from key customers.

Share of revenue generated from sale of raw Chinese herbs is expected to gradually decrease from approximately 95.6% of the total expected revenue generated in the last quarter of 2016 to approximately 41.7% of the total expected revenue generated in 2025. Notwithstanding that the monetary value of the sales over the years is not expected to decrease, the decrease in the percentage share of the total expected revenue over the forecast period is mainly due to Group's strategy in focusing more on TCM decoction pieces business in later years. Regarding the expected annual growth rate of the sale of raw Chinese herbs, we have made reference to the CAGR of revenue over the past five years of the Purchaser, which is principally engaged in manufacturing and trading of CCMG products and Chinese healthcare products in the PRC, and we noted that the CAGR of the Purchaser's revenue over the past five years was approximately 26.2%.

Given that the current market demand for raw Chinese herbs is stronger than supply as supported by (i) the growth of the TCM market in the PRC as described in the paragraph headed "(i) The growth rate of TCM products in the PRC market" above; and (ii) the recent promulgation of the Recommendation, which is likely to reduce production of low quality raw Chinese herbs, the Management is of the view that currently, the Target Companies are only fulfilling a small portion of its customers' total purchase orders each year as constrained by the Target Companies' limited working capital. Based on the above, the Management believes the Target Companies will be able to achieve similar profit levels regardless of whether it receives orders from the Group as it can (i) fulfil more orders from its other customers; or (ii) seek orders from new customers in the TCM market. As such, the Management is of the view and we concur that the profit level of the Target Companies can remain the same.

In light of above, the Management believes and we concur, that whether the Target Companies will be selling raw Chinese herbs to the Group or not, there will not be a material impact on the valuation of the Target Companies. Hence, the Management believes and we concur that, the valuation is fair and reasonable. Due to the fact that the Target Companies are already engaged in the sale of raw Chinese herbs and the Group will focus more on developing TCM decoction pieces business in later years, we concur with the Independent Valuer and the Management that the adoption of a more conservative expected annual growth rate for raw Chinese herbs is fair and reasonable.

(b) TCM decoction pieces

With a view to expand the business in the TCM decoction pieces sector, the Management expects that significant amount of the revenue will be generated from the sale of both top grade and regular grade of herbal decoction pieces over the forecast period. Top grade TCM decoction pieces are expected to contribute from nil in 2017 to approximately 33.8% in 2025 of the total expected revenue over the forecast period, whereas regular grade TCM decoction pieces are expected to contribute approximately 21.2% in 2017 to approximately 22.5% in 2025 of the total expected revenue over the forecast period.

According to the our discussion with the Management, the product mix between top grade and regular grade TCM decoction pieces will gradually shift from regular grade TCM decoction pieces at the early stage of the forecast period to top grade TCM decoction pieces at the later stage of the forecast period per the Group's business strategy as the Group expects PRC consumers to be increasingly more willing to spend on high grade products. Apart from product mix, the types of the TCM decoction pieces sold over the forecast period are also expected to increase from 80 types in 2017 to 635 types in 2020. Per our discussion with the

Management, the increase in the range of herbal decoction pieces sold is mainly due to the fact that the Target Companies can be expected to accumulate industry experience over the years, and there will be an increase in manufacturing capacity. Distribution channel and customer relationships will also be more established with the Group's experience and presence to be gained over the forecast period.

The annual growth rate of the revenue generated from TCM decoction pieces is expected to be between 20.0% and 30.0% over the forecast period. With reference to the comparable company which has significant amount of revenue generated from TCM decoction pieces, namely Kangmei Pharmaceutical Co which is listed on the Shanghai Stock Exchange, the CAGR of its revenue generated from TCM decoction pieces was approximately 30.9% over the past three years. Due to the fact that the Target Companies' business in TCM decoction pieces segment is still in development phase and the expected annual growth rate over the forecast period is in line with the CAGR of the comparable company, we concur with the Independent Valuer and the Management that the expected annual growth rate of revenue generated from TCM decoction pieces is fair and reasonable.

(c) Herbal seeds and seedlings

The Target Companies will also engage in the sale of herbal seeds and seedlings to local farmers for their plantation business which will contribute approximately 2.0% to 4.4% of the total expected revenue during the forecast period. The annual growth rate is expected to be between 10.0% and 15.0% over the forecast period. Given that there is a significant growth in the market demand for TCM in the PRC, it is reasonable to believe that the demand for herbal seeds and seedlings for raw Chinese herbs will correspondingly increase to meet the market growth of TCM in the PRC. Regarding the expected annual growth rate of the sale of herbal seeds and seedlings, we have made reference to the CAGR of revenue over the past five years of the Purchaser, which is principally engaged in manufacturing and trading of CCMG products and Chinese healthcare products in the PRC, and we noted that the CAGR of the Purchaser's revenue over the past five years was approximately 26.2%. With reference to the CAGR of the Purchaser's revenue over the past five years, the Management expects that demand for herbal seeds and seedlings for raw Chinese herbs will increase due to the fact that they are the primary sources for growing the herbs which in turn are processed into TCM products for sales. In particular, since the Target Companies are still in development phase, the Management is confident that there is room for the sales volume of herbal seeds and seedlings to gradually increase. Based on the above, we concur with the Independent Valuer and the Management that the adoption of such more conservative expected annual growth rate of herbal seeds and seedlings is fair and reasonable.

(iii) GMP certification

As mentioned in paragraph headed "2.1 Principal businesses and information on the Target Companies" above, pursuant to the requirements under the《藥品生產質量管理規範》, all TCM, including the TCM decoction pieces and CCMG products, are required to be manufactured in GMP-certified facilities in accordance with relevant product quality and safety standards. Hence the Target Companies are required to comply with such requirements.

Per our discussions with the Independent Valuer and the Management and management of the Target Companies respectively, one of the Target Companies, namely Gold Sparkle CM, is in the process of obtaining GMP certification by establishing processing facilities which fulfill GMP standards for its TCM decoction pieces business. The GMP certification is expected to be obtained by July 2017, and sale of TCM decoction pieces will commence immediately thereafter.

Other than the TCM decoction pieces business, no particular licensing arrangement is required for sale of Chinese herbs and sale of herbal seeds and seedlings. Nevertheless, the Group strives to maintain its high standard for the production of CCMG products, the Group will impose and the Target Companies have already followed the GAP standards to manage its planting bases for raw Chinese herbs. We have obtained and reviewed the documents regarding (i) the Target Companies' policy to fulfill the GAP standards; (ii) the Target Companies' timetable and procedures in obtaining GMP certification; and (iii) the construction plan and timetable of the production facilities, and we noted that (i) the policy to fulfill the GAP standards is already in place and been carried out; (ii) the construction of the production facilities is on schedule; and (iii) the progress of the application for GMP certification is as planned. Based on the above, we are of the view that the assumption of obtaining GMP certification by July 2017 is fair and reasonable.

4.2.3 Discount rate

When applying the discounted cash flow method to estimate the present value of the Financial Projections, it is necessary to determine an appropriate discount rate for the Target Companies. We noted that the Independent Valuer has used weighted average cost of capital ("**WACC**") to estimate the required rate of return of the Target Companies, which we understand from our discussion with the Independent Valuer, is widely adopted for the purpose of estimating the required rate of return of a company.

In deriving the WACC, the Independent Valuer has taken into account various factors including (i) debt-to-equity ratio; (ii) cost of debt; (iii) risk-free rate; (iv) equity risk premium; (v) specific risk premium of the Target Companies; and (vi) the corporate tax rate in the PRC.

We have discussed with the Independent Valuer regarding the aforementioned factors and reviewed valuation(s) of other companies within the TCM industry in the PRC. We noted that it is a market practice for valuer to take into account the risk-free rate, the equity risk premium as well as the company specific risk premium adopted in the valuation. In determining the risk-free rate, we noted that the Independent Valuer has adopted PRC's ten-year government bond yield as the risk-free rate as at the appraisal date. Given that the Target Companies are operating and incorporated in the PRC, we believe that it is fair and reasonable to adopt the equity risk premium of the PRC market as the equity risk premium of the Target Companies.

The equity risk premium of the PRC is determined with reference to the long term equity risk premium for PRC in the equity risk premium research published in January 2016 by Aswath Damodaran, a finance professor of the Stern School of Business at New York University whose work in equity risk premium is widely adopted internationally in the valuation industry.

Various listed companies in the PRC with business scope and operations similar to those of the Target Companies were also selected as comparable companies as part of the valuation. Having discussed with the Independent Valuer regarding the selection criteria of ten comparable companies, we understand that these comparable companies are all (i) companies listed on either the Shanghai Stock Exchange or the Shenzhen Stock Exchange (with publicly available information); (ii) principally engaged in the TCM businesses; and (iii) operating in the PRC.

We are of the view that the selection criteria of comparable companies and the list of comparable companies is fair and reasonable. In view of the above, we consider the calculation of WACC as well as using WACC as the discount rate are fair and reasonable.

*4.2.4 Discount for lack of marketability ("**DLOM**")*

Marketability is defined as the ability to convert an investment into cash quickly at a known price with minimal transaction costs. DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability and is the valuation adjustment with the largest monetary impact on the final determination of value. It is noted that the Independent Valuer adopted a DLOM of 16.1% to adjust the equity value of the Target Companies based on their understanding of the liquidity of the stock with reference to the range indicated in related research regarding marketability discount across different industries.

Based on the above, we consider the DLOM being used is fair and reasonable.

4.2.5 Section conclusion

In assessing the accuracy and completeness of the information relied upon by the Independent Valuer, we had held discussions with the Management, the management of the Target Companies and the personnel assisting in seeking the GMP certification, to ascertain the reliability and reasonableness of the information and representations made to the Independent Valuer. Based on these discussions, we are of the view that the basis, assumptions and methodology adopted by the Independent Valuer for the valuation are appropriate. However, we understand that such assumptions and factors, which by their nature are subjective and uncertain, may materially differ from the actual circumstance. In particular, the Independent Shareholders are reminded that any delay in the construction or obtaining the GMP certification may have an adverse impact on the launch of the TCM decoction pieces business, which in turn, may have an adverse impact on the valuation.

As nothing material has come to our attention that such assumptions and factors have changed as at the Latest Practicable Date, we maintain our opinion that the valuation is an appropriate reference for determining the value of the Target Companies.

4.3 Payment method of the consideration

As mentioned above, the Consideration (equivalent to approximately HK$217.5 million) shall be satisfied partly by cash (approximately 53.0% of the total consideration) and partly by issuing Consideration Shares (approximately 47.0% of the total consideration).

The cash element of the Consideration will be financed by internal resources. As mentioned in the paragraph headed "1.2 Historical financial information" above, as at 30 June 2016, the cash and bank balances of the Group (without taking into account the pledged bank deposits for bank loans of approximately HK$11.0 million) amounted to approximately HK$232.5 million. Notwithstanding the Group's cash resources can satisfy the entire Consideration, the Directors believe and we concur that by issuing Consideration Shares (to settle approximately 47.0% of the total consideration) to parties designated by the Vendor helps to preserve some cash resources of the Group for other business opportunities as and when it arises and for its capital expenditures for further expansion. In addition, the issuance of the Consideration Shares can help retain the key management of the Target Companies (being Mr. He and Ms. Luo who will be receiving such Consideration Shares) and induce them to delegate their efforts towards continuing the development of the enlarged Group in the future.

Based on the above, the Management is of the view, and we concur, that the combination of cash and Consideration Shares as the Consideration is in the interest of the Company as a whole.

4.3.1 Issue Price of the Consideration Shares

Regarding the Consideration Shares, the Company will issue 22,717,920 Consideration Shares at the Issue Price of HK$4.50 per Share as part of the Consideration under the Agreement. The Consideration Shares will be allotted and issued under the Specific Mandate proposed to be granted by the Independent Shareholders at the EGM.

The Issue Price represents:

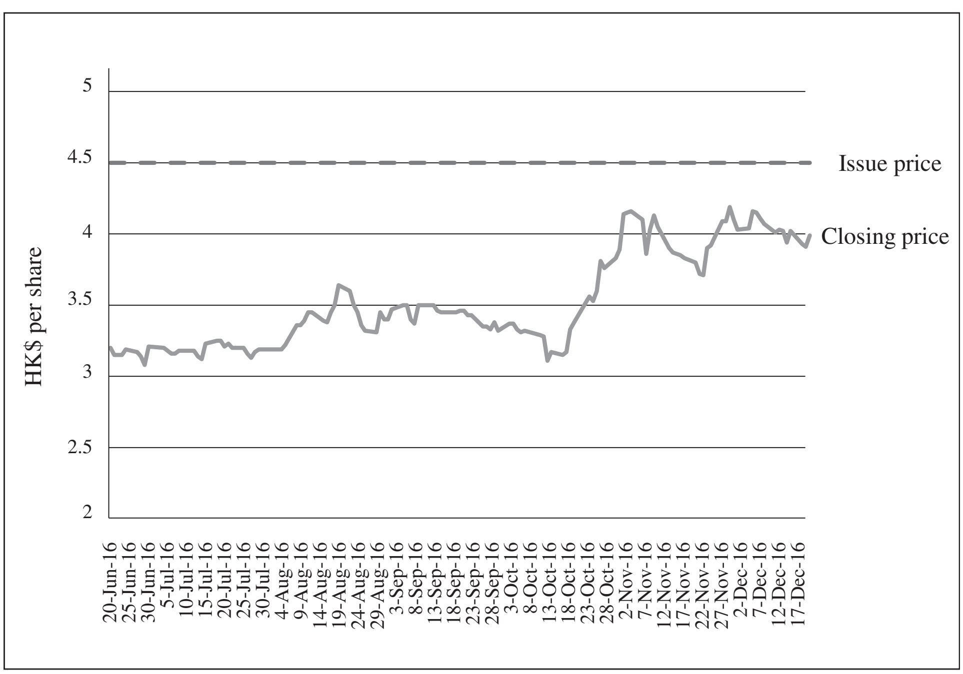
a. a premium of approximately 127.27% to the unaudited net asset value per Share as at 30 June 2016 of HK$1.98;

b. a premium of approximately 11.66% to the closing price of HK$4.03 per Share as quoted on the Stock Exchange on the date of the Agreement;

c. a premium of approximately 32.74% to the average of the Share price for the six months up to and including the date of the Agreement of approximately HK$3.39; and

d. a premium of approximately 12.78% to the closing price of HK$3.99 per Share as quoted on the Stock Exchange at Latest Practicable Date.

Closing price over the past six months up to the Latest Practicable Date



Source: website of the Stock Exchange

We noted that during the period between 20 June 2016 and the Latest Practicable Date, the Share price had been trading from HK$3.08 to HK$4.19 per Share with an average price per Share of approximately HK$3.52 per Share. It is noted that the prices of Shares increased in late October 2016 reaching a high of HK$4.19 per Share on 30 November 2016.

Having considered that the Issue Price of the Consideration Shares represents premiums to the prevailing market prices of Shares, including a substantial premium to the unaudited net asset value per Share as at 30 June 2016; and a premium of approximately 32.74% to the average of the Share price for the six months up to and including the date of the Acquisition Agreement, we are of the view that the issuance of the Consideration Shares at the Issue Price is fair and reasonable to the Independent Shareholders.

4.3.2 Effect of dilution on Independent Shareholders

Set out in the table below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) upon completion of the Acquisition.

Shareholders	**As at the Latest Practicable Date**		**Upon completion of the Acquisition (including the issue of the Consideration Shares by the Specific Mandate)**	
	No. of Shares	*Approximate percentage (%)*	*No. of Shares*	*Approximate percentage (%)*
Mr. Chan	1,317,500	0.59	1,317,500	0.53
Fullgold Development Limited *(Note 1)*	77,286,000	34.35	77,286,000	31.20
PuraPharm Corporation Limited *(Note 2)*	51,566,500	22.92	51,566,500	20.82
Gold Sparkle *(Note 1)*	—	—	13,050,720	5.27
Best Revenue Investments Limited *(Note 3)*	1,562,500	0.69	1,562,500	0.63
K.M. Chan & Co. Limited *(Note 3)*	1,562,500	0.69	1,562,500	0.63
Mr. Chan and his associates	130,170,000	57.86	143,220,720	57.82
Golden Zenith *(Note 4)*	—	—	9,667,200	3.90
Public Shareholders	91,705,000	40.76	91,705,000	37.02
Total	225,000,000	100.00	247,717,920	100.00

Notes:

1. Each of Fullgold Development Limited and Gold Sparkle is wholly owned by Mr. Chan. By virtue of the SFO, Mr. Chan is deemed to be interested in the Shares held and to be acquired by Fullgold Development Limited and Gold Sparkle.

2. PuraPharm Corporation Limited, a company incorporated in the BVI, is a wholly owned subsidiary of Joint Partners Investment Limited. Joint Partners Investments Limited is owned as to 50% by Mr. Chan and 50% by Ms. Man Tee Wai, Viola, an executive Director and the spouse of Mr. Chan. By virtue of the SFO, each of Mr. Chan and Ms. Man Yee Wai, Viola is deemed to be interested in the Shares held by PuraPharm Corporation Limited.

3. Each of Best Revenue Investments Limited and K.M. Chan & Co. Limited is wholly owned by Mr. Chan Kin Man, Eddie, a non-executive Director. By virtue of the SFO, Mr. Chan Kin Man, Eddie is deemed to be interested in the Shares held by Best Revenue Investments Limited and K. M. Chan & Co. Limited.

4. Golden Zenith is owned as to 60% by Mr. He. By virtue of the SFO, Mr. He is deemed to be interested in the Shares to be acquired by Golden Zenith.

As illustrated in the above shareholding table, upon Completion, a total of 22,717,920 Consideration Shares will be issued to Gold Sparkle and Golden Zenith as designated by the Vendor as a part of the Consideration pursuant to the Acquisition Agreement. As a result, the issued Shares will be enlarged by approximately 10.10% upon completion of the Acquisition. The aggregate shareholding of the existing public Shareholders will then be diluted from 40.76% to 37.02%, representing a dilution of approximately 3.74%.

We noted that the above action will result in a dilution effect for the public Shareholders. Nonetheless, taking into account that (i) the Issue Price of the Consideration Shares is at a premium of approximately 127.27% to the unaudited net asset value per Share as at 30 June 2016; (ii) the Issue Price is at various levels of premium to prevailing market prices as elaborated above; (iii) the positive financial impact to the Group and its Shareholders as a result of the Acquisition (as further described in the section below); and (iv) the benefits of the Acquisition as disclosed under the paragraph headed "3. Background to and reasons for the Acquisition" above, we are of the view that the positive impact/effects arising from the Acquisition outweigh the dilution effect to the existing public Shareholders. We are therefore of the view that the level of dilution is acceptable and fair and reasonable.

5. Possible financial effects of the Acquisition

5.1 Structure of the Acquisition

Upon completion of the Acquisition, each of the Target Companies will become an indirect wholly-owned subsidiary of the Company and its results will be consolidated into the Group's consolidated financial statements.

5.2 Potential financial impacts to the Group as enlarged by the Acquisition

(a) Earnings

After the Acquisition, the results of the Target Companies will be consolidated into the consolidated financial statements of the Company. Taking into account the growth potential of the business of the Target Companies where they are expected to be profitable in the future, it is expected that the Acquisition will enhance the earnings of the enlarged Group.

(b) Net asset value

Upon completion of the Acquisition, it is expected that the net asset value of the enlarged Group will increase as the issuance of Consideration Shares will increase the share capital of the enlarged Group. Notwithstanding that part of the Consideration will be settled by cash by the Group, the net assets of the Target Companies will be consolidated into the enlarged Group's financial statements. Accordingly, the Acquisition will have a positive impact on the total net asset value to the enlarged Group. It is also expected that the net asset value per Share of the enlarged Group will be enhanced due to the fact that the increase in net asset value will outweigh the increase in the share capital of the enlarged Group.

(c) Gearing

The Group will not be using debt or borrowings to finance the Acquisition. After the Acquisition, the net assets of the Target Companies together with the goodwill generated through the Acquisition will be consolidated into the financial statements of the enlarged Group. The consolidation will then have a positive effect on the financial position of the enlarged Group. The gearing ratio (calculated as total debt divided by total assets) of the enlarge Group is expected to improve after the Acquisition.

6. Risk factors

Shareholders are urged to pay attention the fact that the success of the Target Companies depends on the progress to source sufficient raw Chinese herbs and to launch of the TCM decoction pieces business, which in turn, depends on a number of factors, including those generally affecting TCM products, as well as, the completion of the construction of the production facilities of the Target Companies by May 2017, the Target Companies obtaining GMP certification by July 2017 and the Target Companies achieving the respective expected levels of sales of the products. Any delay or failure of any of the above factors may materially affect the valuation.

RECOMMENDATION

Having considered the above principal factors, we are of the view that (i) the Acquisition as contemplated under the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, despite the Acquisition not being in the ordinary and usual course of business of the Group.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution(s) approving the Acquisition and the issue of Consideration Shares under Specific Mandate to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited
Chang Sean Pey
Executive Director

Mr. Chang Sean Pey ("Mr. Chang") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities); Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 15 years of experience in banking, corporate finance and advisory, and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial advisor in various corporate finance advisory transactions.

Pursuant to Rule 13.84 of the Listing Rules, Altus Capital Limited is independent of the Group. Altus Capital Limited has not acted as an independent financial advisor for other transactions of the Group in the last two years from the date of the Circular.

The following is the text of a letter, summary of values and valuation certificate prepared for the purpose of incorporation in this circular received from Savills Valuation and Professional Services Limited, an independent property valuer, in connection with their opinion of values of the properties to be acquired by the Group as at 30 September 2016.

The Directors
PuraPharm Corporation Limited
Suite 4002, Jardine House
1 Connaught Place
Central
Hong Kong

Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

T : (852) 2801 6100
F : (852) 2530 0756

EA Licence: C-023750
savills.com

30 December 2016

Dear Sirs,

Re: Various properties located in the People's Republic of China (the "Properties")

INSTRUCTIONS

In accordance with your instructions for us to value the properties located in the People's Republic of China (the "PRC") which are held by Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd. (the "Target Companies") and to be acquired by PuraPharm Corporation Limited (the "Company") or its subsidiaries (collectively referred to as the "Group"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of the properties as at 30 September 2016 (the "Valuation Date") for incorporation in a circular issued by the Company.

BASIS OF VALUATION

Our valuation is our opinion of the market value of the property concerned which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regarding to the costs of sale and purchase (or transaction) and without offset for any associated taxes or potential taxes.

Our valuation is prepared in compliance with the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in accordance with The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

PROPERTY CATEGORISATION AND VALUATION METHODOLOGY

In valuing Property No. 1, which is held by the Target Companies for owner-occupation in the PRC, due to the nature of the buildings and structures that were constructed, there are no readily identifiable market comparables, and the buildings and structures cannot be valued on the basis of direct comparison. Therefore, we have adopted the Depreciated Replacement Cost ("DRC") Approach to value this property. DRC Approach is based on an estimate of the market value for the existing use of the land plus the current replacement costs of the buildings and structures, from which deductions are then made to allow for physical deterioration and all relevant forms of obsolescence and optimization. The DRC Approach is subject to adequate potential profitability of the concerned business. Our valuation applies to the whole of the complex or development as a unique interest and no piecemeal transaction of the complex or development is assessed.

Property No. 2 is held by the Target Companies under development in the PRC. In valuing Property No. 2, we have only assigned value to portion of the land of the property with a site area of approximately 5,499.38 sq.m. which has title document. In undertaking our valuation, we have adopted the direct comparison approach by making reference to comparable land transactions as available in the market. We have assigned no commercial value to the remaining portion of the land of the property and the buildings being constructed on the property because the Target Companies have not obtained the title documents and the requisite permits for the construction of the said buildings.

In valuing Property Nos. 3 to 9, which are leased or to be leased by the Target Companies in the PRC, we have assigned no commercial values to these properties due to the prohibition against assignment or sub-letting or otherwise due to the lack of profit rent and/or the short term nature of the leases.

TITLE INVESTIGATION

We have been provided with copies of title documents relating to the properties. However, we have not searched the original documents to verify ownership or to ascertain the existence of any amendments which may not appear on the copies provided to us. We have relied to a very considerable extent on the information given by the Group and its PRC legal adviser, JunHe LLP (君合律師事務所), regarding the titles to the properties.

VALUATION CONSIDERATION AND ASSUMPTIONS

In valuing the properties in the PRC, we have assumed that transferable land use rights in respect of the properties for their respective specific terms at nominal land use fees have been granted and that all requisite land premium payable has been fully paid. We have also assumed that the owners of the properties have legal titles to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

In the course of our valuation, we have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, development proposal, construction cost incurred, site and floor areas and all relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on the information provided to us and are therefore only approximations. No on-site measurements have been taken. We have no reason to doubt the truth and accuracy of the information provided to us by the Group, which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

SITE INSPECTION

We have inspected the exterior and, where possible, the interior of the properties. Site inspections were carried out during the period from 30 August 2016 to 1 September 2016 by our Mr. Denghui Qi (Manager). During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report that whether the properties are free from rot, infestation or any other defects. No tests were carried out on any of the services. We have also not carried out investigations on site to determine the suitability of the ground conditions and the services for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

REMARKS

Unless otherwise stated, all monetary amounts stated are in Renminbi ("RMB").

We enclose herewith our summary of values and valuation certificate.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Anthony C.K. Lau
MRICS MHKIS RPS(GP)
Director

Note: Mr. Anthony C K Lau is an estate surveyor and has over 23 years' post-qualification experience of valuing properties in both the PRC and Hong Kong.

SUMMARY OF VALUES

No.	Property	Market value in existing state as at 30 September 2016 *(RMB)*
Group I — Property held by the Target Companies for owner-occupation in the PRC		
1.	An industrial complex erected on two parcels of land (Land Nos. 2014–CR–19 and 2014–CR–20) located in Shanjiao Village, Yemachuan Town, Hezhang County, Bijie Area, Guizhou Province, PRC	16,600,000
	Sub-total:	16,600,000
Group II — Property held by the Target Companies under development in the PRC		
2.	An industrial complex being erected on two parcels of land (Land Nos. 2015–15 and 2015–16) and the adjoining land, Xinren Village, Xinren Town, Danzhai County, Qiandongnan Zhou, Guizhou Province, PRC	700,000
	Sub-total:	700,000
Group III — Properties leased by the Target Companies in the PRC		
3.	No. 40 of Siheyuan Agricultural Products Trading Market, Yemachuan Town, Hezhang County, Bijie Area, Guizhou Province, PRC	No commercial value

No.	Property	Market value in existing state as at 30 September 2016 *(RMB)*
4.	Portion of a dormitory and storage building located at Xiamaojie Village, Yemachuan Town, Hezhang County, Bijie Area, Guizhou Province, PRC	No commercial value
5.	A dormitory located at Xianghe Street, Yemachuan Town, Hezhang County, Bijie Area, Guizhou Province, PRC	No commercial value
6.	Room Nos. 601 and 602 Agricultural Products Trading Market, Yemachuan Town, Hezhang County, Bijie Area, Guizhou Province, PRC	No commercial value
7.	A parcel of land located at Xinren Village, Xinren Town, Danzhai County, Qiandongnan Zhou, Guizhou Province, PRC	No commercial value
	Sub-total:	Nil

Group IV — Properties to be leased by the Target Companies in the PRC

8.	A parcel of land located in Shuangtang Village, Pinshan Town, Hezhang County, Bijie Area, Guizhou Province, PRC	No commercial value

No.	Property	Market value in existing state as at 30 September 2016 *(RMB)*
9.	A parcel of land located in Pinshan Village, Pinshan Town, Hezhang County, Bijie Area, Guizhou Province, PRC	No commercial value
	Sub-total:	Nil
	Total:	**17,300,000**

VALUATION CERTIFICATE

Group I — Property held by the Target Companies for owner-occupation in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2016
1.	An industrial complex erected on two parcels of land (Land Nos. 2014–CR–19 and 2014–CR–20) located in Shanjiao Village, Yemachuan Town, Hezhang County, Bijie Area, Guizhou Province, PRC	The property comprise an industrial complex erected on 2 parcels of land with a total site area of approximately 34,648.00 sq.m. (372,951 sq.ft.). It was completed in 2012. The property is located in Shanjiao Village of Yemachuan Town. The vicinity is dominated by low rise buildings of various uses. It takes approximately a 20-minute drive from the property to the centre of Hezheng County. As advised by the Group, the property comprises various buildings with a total gross floor area of approximately 3,232.28 sq.m. (34,792 sq.ft.). The land use rights of the property have been granted for a term due to expire on 4 December 2064 for industrial use.	The property is occupied by the Target Companies for industrial and ancillary use.	RMB16,600,000

Notes:

1. Pursuant to two State-owned Land Use Rights Grant Contracts — Nos. 2014-CR-19 and 2014-CR-20 both dated 3 December 2014, the land use rights of two parcel of land with a total site area of approximately 34,648 sq.m. have been granted to Gold Sparkle (Guizhou) HZ Plantation Co., Ltd. (黔草堂金煌(貴州)中藥材種植有限公司) ("Gold Sparkle HZ") for a term of 50 years for industrial use at a total land grant fee of RMB5,510,000.

2. Pursuant to the following Land Use Rights Certificates, the land use rights of the property with a total site area of approximately 34,648 sq.m. have been granted to Gold Sparkle HZ. Details of the said certificates are as follows:

	Certificate No.	**Site Area** *(sq.m.)*	**Land Use Term Expiry Date**	**Land Use**
i	He Guo Yong (2015) Di D3	16,614.00	4 December 2064	Industrial
ii	He Guo Yong (2015) Di D4	18,034.00	4 December 2064	Industrial
	Total	**34,648.00**		

3. Pursuant to seven Building Ownership Certificates, the building ownership of 7 buildings with a total gross floor area of 3,232.28 sq.m. is vested in Gold Sparkle HZ. Details of the said certificates are as follows:

No.	**Certificate No.**	**GFA** *(sq.m.)*	**Use**	**Issuance Date**
i	He Fang Quan Zheng Ye Ma Chuan Zhen Zi Di 16013358	218.65	Ancillary office	24 March 2016
ii	He Fang Quan Zheng Ye Ma Chuan Zhen Zi Di 16013356	624.78	Manufacturing	24 March 2016
iii	He Fang Quan Zheng Ye Ma Chuan Zhen Zi Di 16013352	1,016.86	Manufacturing	24 March 2016
iv	He Fang Quan Zheng Ye Ma Chuan Zhen Zi Di 16013354	978.30	Storage	24 March 2016
v	He Fang Quan Zheng Ye Ma Chuan Zhen Zi Di 16013355	255.47	Manufacturing	24 March 2016
vi	He Fang Quan Zheng Ye Ma Chuan Zhen Zi Di 16013353	113.82	Others	24 March 2016
vii	He Fang Quan Zheng Ye Ma Chuan Zhen Zi Di 16013357	24.40	Others	24 March 2016
		3,232.28		

4. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

   i. Gold Sparkle HZ is the sole legal owner of the property;

   ii. Gold Sparkle HZ is entitled to occupy, use, mortgage, lease, transfer or by other means to dispose of the property; and

   iii. the property is free from any mortgages.

Group II — Property held by the Target Companies under development in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2016
2.	An industrial complex being erected on two parcels of land (Land Nos. 2015–15, 2015–16) and the adjoining land, Xinren Village, Xinren Town, Danzhai County, Qiandongnan Zhou, Guizhou Province, PRC	The property comprises various parcels of lands with a total site area of approximately 186,667.60 sq.m. (2,009,290 sq.ft.) on which an industrial complex is being constructed. The property is located in Xinren Village of Xinren Town. The vicinity is dominated by low rise industrial buildings. It takes approximately a 15-minute drive from the property to the centre of Xinren town. According to the information provided by the Group, an industrial complex is proposed to be built on the property. Upon completion, the property will comprise 7 blocks of building and a structure with a total gross floor area of approximately 17,342.60 sq.m. (186,676 sq.ft.). As advised by the Group, the proposed development is scheduled to be completed by 2017. The land use rights of portion of the property with a site area of approximately 5,499.38 sq.m. (59,195 sq.ft.) have been granted for a term due to expire on 23 September 2065 for industrial use.	The property is under construction.	RMB700,000 (Please refer to Notes 4 and 7)

Notes:

1. Pursuant to two State-owned Land Use Rights Grant Contracts — Nos. 522636-2015-DZ-0013 and 522636-2015-DZ-0014 both dated 23 September 2015, the land use rights of two parcel of land with a total site area of approximately 5,499.38 sq.m. have been granted to Gold Sparkle (Guizhou) Chinese Medicine Plantation Co., Ltd. (昌昊金煌(貴州)中藥材種植有限公司) ("Gold Sparkle CM Plantation") for a term of 50 years for industrial use at a total land grant fee of RMB570,000. The said contracts contain, inter alia, the salient conditions as follows:

	Land No.	**Site Area** *(sq.m.)*	**Usage**	**Land Use Term Expiry Date**	**Land Grant Fee** *(RMB)*	**Permissible Gross Floor Area** *(sq.m.)*	**Building Density**
i.	2015–15	1,104.02	Industrial	23 September 2065	120,000	772.81	30%
ii.	2015–16	4,395.36	Industrial	23 September 2065	450,000	3,076.75	30%
	Total	**5,499.38**			**570,000**	**3,849.56**	

According to the said contracts, the construction works are required to commence on or before 31 December 2015 and to be completed on or before 31 December 2017.

2. Pursuant to the following Land Use Rights Certificates, the land use rights of the property with a total site area of approximately 5,499.38 sq.m. have been granted to Gold Sparkle CM Plantation. Details of the said certificates are as follows:

	Certificate No.	**Site Area** *(sq.m.)*	**Land Use Term Expiry Date**	**Land Use**
i.	Dan Guo Yong (2015) Di 1317	1,104.02	23 September 2065	Industrial
ii.	Dan Guo Yong (2015) Di 1318	4,395.36	23 September 2065	Industrial
	Total	**5,499.38**		

3. Pursuant to an Approval Letter of Change in Name (准予變更登記通知書) No. (dh01) Deng Ji Nei Wen Bian Zi [2016] Di No. 0497 dated 12 May 2016, Gold Sparkle CM Plantation is approved to change its name to Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. (昌昊金煌(貴州)中藥有限公司) (Gold Sparkle CM").

4. As advised by the Group, the construction cost incurred as at the Valuation Date was approximately RMB30,600,000, which has been taken into account in our valuation.

5. As advised by the Group, the estimated outstanding construction cost for completion of the property as at the Valuation Date was approximately RMB3,300,000.

6. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

   i. Gold Sparkle CM is the sole legal owner of the land use rights of two parcels of land with a total site area of approximately 5,499.38 sq.m.. Gold Sparkle CM is entitled to occupy, use, lease, transfer or by other means to dispose of the said land use rights;

   ii. the land use rights of two parcels of land as mentioned in Note 6(i) above are free from any mortgages;

iii. Gold Sparkle CM has not obtained the Land Use Rights Certificate for portion of the property with a site area of approximately 181,168.22 sq.m.;

iv. Gold Sparkle CM has not obtained any requisite permits for the construction of the buildings of the property;

v. as the property is an invited investment by Danzhai County, the possibility that Gold Sparkle CM will be penalised due to no valid construction permits and title documents as mentioned in Notes 6(iii) and 6(iv) above is minimal;

vi. portion of the property is mortgaged to 丹寨縣扶貧開發有限公司 (Danzhai County Poverty Alleviation and Development Co., Ltd) at a loan amount of RMB30,000,000 for the period from 9 September 2016 to 8 September 2021; and

vii. subject to the approval of the People's Government of Guizhou Province, there is no legal impediment for Gold Sparkle CM to obtain relevant land use rights certificate and the requisite permits.

7. Based on the legal opinion in Note 6 above, we have assigned no commercial value to the buildings being erected on the property and portion of the land of the property with a site area of approximately 181,168.22 sq.m. because no valid construction permits and title documents were obtained as at the Valuation Date. For reference purpose, the depreciated replacement cost of the aforementioned buildings was in the region of RMB29,200,000.

8. As advised by the Company, the loan amount of RMB30,000,000 as mentioned in Note 6(vi) above is used as a working capital for the purpose of developing the property. We are also advised the said loan amount will not be released prior to the completion of the acquisition in order to sustain the development and production.

Group III — Properties leased by Target Companies in the PRC

No.	Property	Description and tenancy details	Particulars of occupancy	Market value in existing state as at 30 September 2016
3.	No. 40 of Siheyuan Agricultural Products Trading Market, Yemachuan Town, Hezhang County, Bijie Area, Guizhou Province, PRC	The property comprises a residential unit of a 4-storey composite building completed in 2008. As advised by the Group, the gross floor area of the property is approximately 155 sq.m. (1,669 sq.ft.). The property is leased to Gold Sparkle HZ, from 石德艷 (Shi De Yan) (the "lessor"), an independent third party, for a term of one year commencing on 10 January 2016 and expiring on 10 January 2017.	The property is occupied by the Target Companies for dormitory use.	No commercial value

Notes:

1. The property is leased to Gold Sparkle HZ for a term of one year commencing on 10 January 2016 and expiring on 10 January 2017 at a total annual rental of RMB7,000.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

   i. the tenancy is effective and legally binding.

No.	Property	Description and tenancy details	Particulars of occupancy	Market value in existing state as at 30 September 2016
4.	Portion of a dormitory and storage building located at Xiamaojie Village, Yemachuan Town, Hezhang County, Bijie Area, Guizhou Province, PRC	The property comprises portion of the basement of a 5-storey dormitory and storage building completed in 2016. As advised by the Group, the gross floor area of the property is approximately 200 sq.m. (2,153 sq.ft.). The property is leased to Gold Sparkle HZ, from 劉江 (Liu Jiang) (the "lessor"), an independent third party, for a term of one year commencing on 22 August 2016 and expiring on 21 August 2017.	The property is occupied by the Target Companies for dormitory use.	No commercial value

Notes:

1. The property is leased to Gold Sparkle HZ for a term of one year commencing on 22 August 2016 and expiring on 21 August 2017 at a total annual rental of RMB5,260.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

   i. the tenancy is effective and legally binding.

No.	Property	Description and tenancy details	Particulars of occupancy	Market value in existing state as at 30 September 2016
5.	A dormitory located at Xianghe Street, Yemachuan Town, Hezhang County, Bijie Area, Guizhou Province, PRC	The property comprises a residential unit of a 7-storey composite building completed in 2007. As advised by the Group, the gross floor area of the property is approximately 165 sq.m. (1,776 sq.ft.). The property is leased to Gold Sparkle HZ, from 陳衛侯 (Chen Wei Hou) (the "lessor"), an independent third party, for a term of one year commencing on 31 August 2016 and expiring on 31 August 2017.	The property is occupied by the Target Companies for dormitory use.	No commercial value

Notes:

1. The property is leased to Gold Sparkle HZ for a term of one year commencing on 31 August 2016 and expiring on 31 August 2017 at a total annual rental of RMB5,000.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

   i. the tenancy is effective and legally binding.

No.	Property	Description and tenancy details	Particulars of occupancy	Market value in existing state as at 30 September 2016
6.	Room Nos. 601 and 602, Agricultural Products Trading Market, Yemachuan Town, Hezhang County, Bijie Area, Guizhou Province, PRC	The property comprises a residential unit of an 8-storey composite building completed in 2008. As advised by the Group, the gross floor area of the property is approximately 300 sq.m. (3,229 sq.ft.). The property is leased to Gold Sparkle HZ, from 李遠明 (Li Yuan Ming) (the "lessor"), an independent third party, for a term of one year commencing on 9 August 2016 and expiring on 9 August 2017.	The property is occupied by the Target Companies for dormitory use.	No commercial value

Notes:

1. The property is leased to Gold Sparkle HZ for a term of one year commencing on 9 August 2016 and expiring on 9 August 2017 at a total annual rental of RMB10,000.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

   i. the tenancy is effective and legally binding.

No.	Property	Description and tenancy details	Particulars of occupancy	Market value in existing state as at 30 September 2016
7.	A parcel of land located at Xinren Village, Xinren Town, Danzhai County, Qiandongnan Zhou, Guizhou Province, PRC	The property comprises a parcel of land with a total site area of approximately 600 mu (400,002.00 sq.m. or 4,305,622 sq.ft.). The property is leased to Gold Sparkle CM, from 丹寨縣興仁鎮興仁村村委會 (Danzhai County, Xinren Town, Xinren Village Committee) (the ''lessor''), an independent third party, for a term of twenty years commencing on 1 January 2015 and expiring on 31 December 2034.	The property is occupied by the Target Companies for plantation use.	No commercial value

Notes:

1. The property is leased to Gold Sparkle CM for a term of twenty years commencing on 1 January 2015 and expiring on 31 December 2034. The total annual rental for the year 2016 is RMB409,947.96.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

   i. the tenancy is effective and legally binding.

Group IV — Properties to be leased by the Target Companies in the PRC

No.	Property	Description and tenancy details	Particulars of occupancy	Market value in existing state as at 30 September 2016
8.	A parcel of land located in Shuangtang Village, Pinshan Town Hezhang County, Bijie Area, Guizhou Province, PRC	The property comprises a parcel of land with a total site area of approximately 62.83 mu (41,886.88 sq.m. or 450,870 sq.ft.). The property is leased to Gold Sparkle HZ, from 赫章縣平山鄉雙塘村民委員會 (Hezhang County, Pinsham Town, Shuangtong Village Committee) (the "lessor"), an independent third party, for a term of one year commencing on 1 December 2016 and expiring on 1 December 2017.	The property is occupied by the the Target Companies for plantation base use.	No commercial value

Notes:

1. The property is leased to Gold Sparkle HZ for a term of one year commencing on 1 December 2016 and expiring on 1 December 2017 at a total annual rental of RMB400/mu.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

   i. the tenancy is effective and legally binding.

No.	Property	Description and tenancy details	Particulars of occupancy	Market value in existing state as at 30 September 2016
9.	A parcel of land located in Pinshan Village, Pinshan Town Hezhang County, Bijie Area, Guizhou Province, PRC	The property comprises a parcel of land with a total site area of approximately 33.47 mu (22,313.44 sq.m. or 240,182 sq.ft.). The property is leased to Gold Sparkle HZ, from 赫章縣平山鄉平山村民委員會 (Hezhang County, Pinsham Town, Pinsham Village Committee) (the "lessor"), an independent third party, for a term of one year commencing on 1 December 2016 and expiring on 1 December 2017.	The property is occupied by the Target Companies for plantation base use.	No commercial value

Notes:

1. The property is leased to Gold Sparkle HZ for a term of one year commencing on 1 December 2016 and expiring on 1 December 2017 at a total annual rental of RMB500/mu.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

   i. the tenancy is effective and legally binding.

The following is the text of a letter prepared for the purpose of incorporation in this circular received from Savills Valuation and Professional Services Limited, an independent valuer, with their opinion of values of the Target Companies to be acquired by the Group as at 31 August 2016.

The Directors
PuraPharm (Nanning) Pharmaceuticals Company Limited
No. 46, Keyuan Road
Nanning New & High-Tech Industrial
Development Zone,
Nanning,
Guangxi,
The People's Republic of China

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30 December 2016

Dear Sirs,

Re: Valuation analysis on 100% Equity stake in Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd.

In accordance with instructions from PuraPharm (Nanning) Pharmaceuticals Company Limited (the "Purchaser", "PuraPharm Nanning" or "you"), Savills Valuation and Professional Service Limited ("Savills" or "we") has undertaken a valuation analysis on the combined value of 100% equity stake in Gold Sparkle (Guizhou) Chinese Medicine Co., Ltd. ("Gold Sparkle CM") and Gold Sparkle (Guizhou) HZ Plantation Co., Ltd. ("Gold Sparkle HZ") (collectively, the "Targets") as at 31 August 2016 (the "Valuation Date") and prepared a Valuation Report (the "Report") to summarize our appraisal and analysis result.

This report states the purpose of valuation, scope of work, economic overview, industry overview, overview of the Targets, valuation methodology, investigation and analysis, remarks, opinion of value, specific assumptions, general assumptions, limiting conditions and management confirmation and facts.

1. PURPOSE OF VALUATION

This report is to express an independent opinion of the Fair Value (defined below) of the Targets as at the Valuation Date stated above in accordance with International Financial Reporting Standard 13. We acknowledge that this report will be made available to the Company for public documentation purpose and included in the Company's circular for the proposed acquisition of the Targets (the "Proposed Acquisition") only.

According to International Financial Reporting Standard, Fair Value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

The Proposed Acquisition, if materialized, and the corresponding transaction price would be the result of negotiations between the Purchaser and the shareholders of the Targets. The management of the Purchaser should be solely responsible for determining the consideration of the Proposed Acquisition, in which we were not involved in the negotiation and have no comment on the agreed consideration.

2. SCOPE OF WORK

Our scope of work includes the followings:

- Read and understand the financial information of the Targets provided to us;
- Obtain financial projection prepared by the management of the Targets (the "Management");
- Discuss with you and/or the Management to obtain an understanding on the key business assumptions underlying the projections. We have relied on the inputs of the Management with regards to the viability of the projections;
- Perform the valuation analysis based on the financial projection prepared by the Management; and
- Conduct market research for the discount rate and other related information from publicly available sources.

We have no reason to believe that any material facts have been withheld from us. However, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

Because events and circumstances frequently do not occur as expected, there will usually be differences between predicted and actual results, and those differences may be material. We do not express an opinion as to whether the actual results of the business operation of the Targets will approximate those projected because assumptions regarding future events by their nature are inherently uncertain and not capable of independent substantiation.

By its very nature, valuation work cannot be regarded as an exact science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgement. There is, therefore, no indisputable single value and we normally express our valuation opinions which in our opinion reasonable and defensible, other parties may have a different opinion.

We understand that you will conduct your own due diligence in the process of making any investment or business decisions regarding the Proposed Acquisition. You will not rely solely on our report, and your use of the results of our report shall not supplant other analyses and inquiries which you should conduct. We are not required to make specific purchase or sale recommendations. You acknowledge that when considering likely future profitability and cash flows, it is your responsibility to consider our comments and make your own decision based on the information available to you.

Our report will be prepared solely for the Purchaser for the purpose as described under the section "Purpose of Valuation" of our report. Other than the Purchaser and its ultimate parent, the report should not be distributed to any other parties, reproduced in whole or in part, or used for any other purpose without our prior written consent. Savills will not accept any responsibility or liability to any third party to whom the report may be shown or into whose hands it may come.

3. OVERVIEW OF THE TARGETS

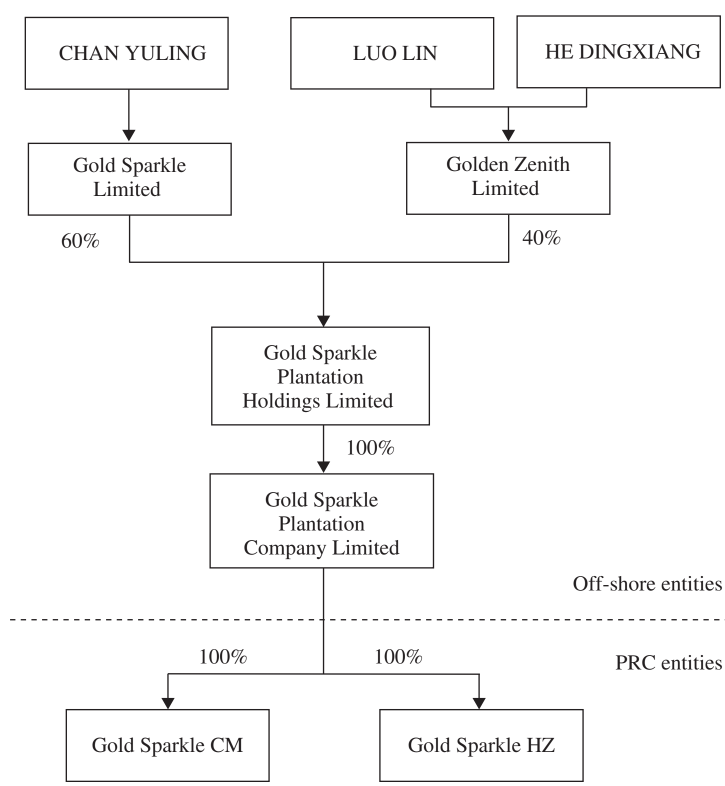
3.1 Transaction Background

The Purchaser proposes to acquire 100% equity stake in Gold Sparkle CM and Gold Sparkle HZ from Gold Sparkle Plantation Company Limited (the "Vendor")

The Purchaser is a wholly-owned subsidiary of PuraPharm Corporation Limited, a Cayman Islands registered, and Hong Kong listed company (the "Company").

The Vendor, through layers of holding companies, is ultimately owned by three individual shareholders (the "Existing Shareholders"). Two of the Existing Shareholders, namely Luo Lin ("Ms. Luo") and He Di Xiang ("Mr. He") hold key management position in Gold Sparkle CM and Gold Sparkle HZ.

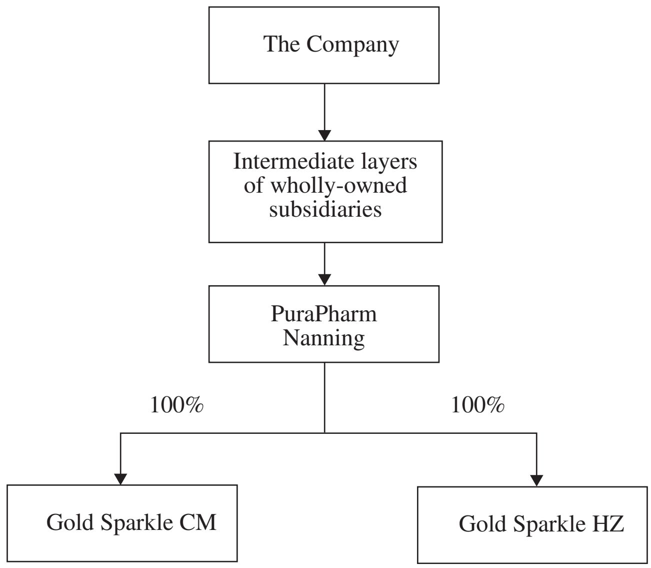
The pre-transaction structure is shown as follows:



Source: the Company

The Purchaser and other subsidiary companies belonging to the Company, form the PuraPharm Group. The PuraPharm Group is in the business of researching, developing, manufacturing and selling Chinese healthcare products for retail customers and Concentrated Chinese Medicine Granules (CCMG) products for professional use by Chinese Medical Practitioners.

The Targets are in the business of planting, processing and trading of Chinese herbal products. The post-transaction structure is shown as follows:



Source: the Purchaser

3.2 Business Background

The Targets are upstream suppliers in the Chinese medicine value chain. Unlike the big players in the market who focus on the manufacturing and sales of traditional Chinese patent medicine (the end product of the value chain), the Targets supply raw materials to these companies. The business of Gold Sparkle CM and Gold Sparkle HZ are pricipally engaged in plantation and trading of raw Chinese herbs and manufacturing and sale of TCM decoction pieces.

3.2.1 Trading of Raw Chinese Herbs

The major products of raw Chinese herbs sold by Gold Sparkle CM are poriacocos (茯苓), uncariar hynchophylla (鈎藤), polygonum multiflorum (何首烏), pseudo stellariaheterophylla (太子參). On the other hand, Gold Sparkle HZ sells solely pinelliaternata (半夏) to its clients.

Gold Sparkle CM and Gold Sparkle HZ have overlapping clients. The two operating subsidiaries jointly have seven key customers: PuraPharm Nanning, Tsumura&Co (津村), Tianfangjian (Chinese) Pharmaceutical Company Limited (天方健), Jiangyin Tianjiang Pharmaceutical Company Limited (江陰天江), Huadong Medicine Company Limited (華

東), Guangzhou Pharmaceuticals Corporation (廣藥), Beijing Tcmages Pharmaceutical Company Limited (康仁堂) and Wanxi Pharmaceutical Company Limited (宛西), which together comprise 91% of the projected total revenue arising from the sale of raw Chinese herbs during the forecast period of 4M2016.

3.2.2 Manufacturing and Sale of TCM Decoction Pieces

Upon harvest, fresh herbs can be processed through a series of steps including selection, cleaning, drying and slicing, into TCM decoction pieces.

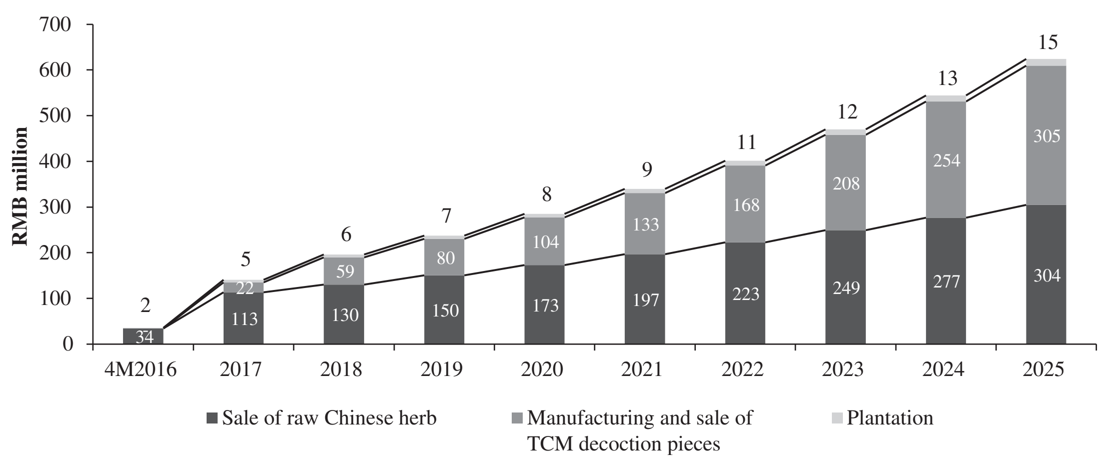
This is a new business segment which will start operation in 2017. Gold Sparkle CM intends to manufacture and sell herbal decoction pieces of both the premium grade and the regular grade to the market.

3.2.3 Plantation

This business segment represents a small proportion of the Targets' total revenue, around 4.4% of total sales in the last 4 months of FY2016.

The chart below shows the total sales estimate and breakdown by segments from 4M2016 to 2025.

Forecast of Segment Revenue from 4M2016 to 2025



Source: the Management

4. VALUATION METHODOLOGY

There are generally three accepted approaches to calculate the Fair Value of the Targets, namely the Market Approach, Income Approach and Cost Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. The selection of a particular approach will be determined by the most appropriate practice in valuing business entities that are similar in nature and the information available for analysis.

4.1 Market Approach

The Market Approach values a business entity based on prices at which other business entities in a similar nature transacted between market participants. The underlying theory of this approach is that one would not pay more than the market price for an equivalent alternative available in the market. To implement this approach, there should exist sufficiently comparable companies or transactions with available pricing data and relevant metrics for valuation purposes.

4.2 Income Approach

The Income Approach values a business entity based on the present value of the economic benefits, typically free cash flow, generated by the business entity. The underlying theory of this approach is that one would not pay more than the present worth of the economic benefits to be received overthe useful life of the business entity. To implement this approach, there should exist a set of reasonable and supportable financial projections for the estimate of the future economic benefits and market data for the calculation of discount rate to appropriately discount them to present values reflecting the risks associated with achieving those benefits.

4.3 Cost Approach

The Cost Approach values a business entity based on the current cost to replicate the existing assets and liabilities of the business entity in similar conditions. The underlying theory of this approach is that one would not pay more than the current replication cost of the existing assets and liabilities of the business entity if replication is possible. To implement this approach, one would have to calculate the replication cost of all existing assets and liabilities, including any internally generated intangible assets that may not be recognized under relevant financial reporting standards, with allowance for any physical, functional or economical obsolescence. The value of a business entity under this approach typically represents the "floor" value of a profitable business as the current replication cost of each asset and liability may not necessarily reflect the profit potential of those assets and liabilities when being put together into use. Some intangible assets such as goodwill cannot be valued under cost approach as they do not have a replacement or reproduction cost.

4.4 Valuation Approach Selected and Detailed Analysis

In selecting the valuation approach appropriate for the Targets, we have considered the most appropriate practice in valuing business entities that are similar in nature and the information available for our analysis. Market approach is not adopted as there lacks public information sufficient for valuation purposes regarding the sale and purchase of business entities that are closely similar to the Targets in the People Republic of China ("PRC"). Cost approach is not adopted as it cannot reflect the future economic benefits generated by the Targets in their expansion plan. Income approach is adopted as the Management can provide a set of long term financial projections of the Targets with supporting analysis and that the value of the Targets is primarily driven by the expected future economic benefit to be generated. Below sets out the detailed analysis under the income approach.

4.4.1 Discounted Cash Flow

Under the Income Approach, we have adopted the discounted cash flow ("DCF") method, which values the business entity by discounting all future cash flows to present terms. The free cash flow to firm for each year is calculated as follows:

Free Cash Flow to Firm = Net Profit + Depreciation and Amortization + After-Tax Interest Expense – Change in Net Working Capital – Capital Expenditure

The present value of the free cash flows is calculated as follows:

$$PVCF = CF_1/(1+r) + CF_2/(1+r)^2 + \cdots + CF_n/(1+r)^n + TV/(1+r)^n$$

Where:

$PVCF$ = *Present value of the free cash flows;*
CF_n = *Free cash flow in the nth year;*
r = *Discount rate;*
n = *Number of years for explicit cash flow; and*
TV = *Terminal value.*

Terminal value is commonly adopted in a DCF calculation to reflect the ongoing value of the business beyond the period of explicit cash flow projection. The Gordon Growth model is typically adopted to estimate the terminal value with reference to a long-term growth rate based on the local expected long-term inflation rate or a lower rate for the particular industry. The Gordon Growth model is calculated approximately as follows:

$$TV = NCF_n(1+g)/(r-g)$$

Where:

TV= Terminal value;
NCF_n *= Normalized free cash flow in the nth year;*
r = Discount rate;
n = Number of years for explicit cash flow; and
g = Terminal growth rate

We have adopted a terminal growth rate of 2.5% to calculate the terminal value of the Targets.

4.4.2 Discount Rate

In estimating an appropriate discount rate for the Targets, we have used the Capital Asset Pricing Model (the "CAPM") to estimate the cost of equity and then calculated the Weighted Average Cost of Capital ("WACC").

Under CAPM, the cost of equity is the sum of the risk-free rate and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the cost of equity of a business entity may be subject to other firm specific risk factors (e.g. size premium) that are independent from the general market. The discount rate is determined by the then prevailing risk-free rate, required market return, estimated beta of the Targets and specific risk factors prevailing as at the valuation date by the formula stated below:

$$WACC = K_e \times \frac{E}{(D+E)} + K_d \times (1-T) \times \frac{D}{(D+E)}$$

Where:

K_e *= Cost of equity*
E = Market value of equity
K_d *= Cost of debt*
D = Market value of debt
T = Corporate tax rate

4.4.2.1 Cost of Debt

In estimating the cost of debt for WACC calculation, the objective is to arrive at an overall estimate of the weighted average cost of debt finance for the target company as if it was refinancing all of its debt at the Valuation Date, consistent with the gearing assumption being used in the WACC calculation. The pre-tax cost of debt is multiplied by the interest tax shield (1–t) to determine the after-tax cost of debt.

$$\text{After tax cost of debt} = K_d \times (1-t)$$

4.4.2.2 Cost of Equity

The cost of equity is estimated using the Capital Asset Pricing Model (CAPM), in which the cost of equity is equal to the return on risk-free securities plus the Equity Risk Premium (ERP) adjusted for the systematic risk (Beta), plus additional premiums for the asset-specific risks. The general formula for the cost of equity is presented below:

$$K_e = R_f + \beta \times ERP + \alpha$$

Where:

R_f = *Risk free rate*
ERP = Equity risk premium, being the average risk premium above the risk free rate that a "market" portfolio of assets is earning
β = Beta factor, being the measure of the systematic risk of a particular asset relative to the risk of a market portfolio
α = Company specific risk premium, including size premium

4.4.2.3 WACC

Through our market research, we observed that there is no listed company that operates solely the same market segment (i.e. an upstream supplier in the Chinese medicine value chain) and in the same stage of business as the Targets. We have therefore expanded the search and identified a set of reference companies based on similarity of nature of business of the Targets which was discussed and agreed with management of the Purchaser and the Targets. In calculating the WACC for the Targets, we adopted an industrial median debt-to-equity ratio based on the agreed reference companies. The reference companies were selected mainly with reference to the following selection criteria:

- The companies are principally engaged in Chinese medicine industry;
- The companies have sufficient listing and operating history;
- The companies have major operating segments in China; and

- The financial information of the companies is published in the public domain regularly.

Details of the reference companies and parameters adopted are set out below.

Company Name	Stock Code	Listing Location	Business Description
Kangmei Pharmaceutical Company Limited	600518 CH	China	Kangmei Pharmaceutical Company Limited develops, produces, and sells medicines that are used for the treatment of high blood pressure and cold. The Company also pr oduces antibiotic drugs and health care products. Kangmei also sells other manufacturers' medical products through its wholesale and retail chain.
HenanTaloph Pharmaceutical Stock Company	600222 CH	China	Henan Taloph Pharmaceutical Stock Company Limited develops and manufactures prepared traditional Chinese medicines and western medicines.
Xiangxue Pharmaceutical Company Limited	300147 CH	China	Xiangxue Pharmaceutical Company Limited produces and sells modern Chinese medicine. The Company's main products include anti-viral oral supplements and Banlangen capsules.
Guangdong Taiantang Pharmaceut	002433 CH	China	Guangdong Taiantang Pharmaceutical Company Limited develops, manufactures and sells Chinese pharmaceuticals. The Company's products include skin type ointments and pills, and cardiovascular drugs.
Zhejiang Zhenyuan Company Limited	000705 CH	China	Zhejiang Zhenyuan CompanyLimited wholesales and retails traditional Chinese medicines, Chinese medicine materials, chemical preparations, and healthcare products. Through its subsidiaries, the Company also manufactures pharmaceuticals.
Shijiazhuang Yiling Pharmaceut	002603 CH	China	Shijiangzhuang Yiling Pharmaceutical Company Limited develops, produces and sells Chinese patent medicine. The Company's major products include Tongxinluo capsules, Shensongyangxin capsules, Lotus Qingwen capsules, Qili Qiangxin capsules and Bazi Bushen capsules.
Guangdong Zhongsheng Pharmaceu	002317 CH	China	Guangdong Zhongsheng Pharmaceutical Company Limited manufactures pharmaceuticals from traditional Chinese medicinal ingredients.
Shanxi Zhendong Pharmaceutical	300158 CH	China	Shanxi Zhendong Pharmaceutical Company Limited develops, produces and sells traditional Chinese medicine preparations and drug agents. The Company's main product is the Yanshu injection fluid, an adjuvant drug for cancer therapy. The Company, through its subsidiaries, also produces and sells cardiovascular drugs, antibiotics, OTC drugs and Chinese medicine in traditional dosage forms.
Zhejiang Jolly Pharmaceutical	300181 CH	China	Zhejiang Jolly Pharmaceutical Company Limited develops, produces and sells Chinese medicine. The Company's main products are Wuling powder and Wuling capsules.

Company Name	Stock Code	Listing Location	Business Description
Guizhou Bailing Group Pharmace	002424 CH	China	Guizhou Bailing Group Pharmaceutical Company Limited is a pharmaceutical company. The Company's products include tablets, capsules, syrup, soft capsules, granules, pills, and powder.

Source: Bloomberg

WACC SUMMARY

Items	Value	Note
Risk free rate(R_f)	2.79%	China 10 year government bond conventional yield from Bloomberg
Unlevered Beta (β_a)	1.02	Median of reference companies' 3-year weekly beta
Debt-to-equity ratio	5.11%	Median of reference companies D/E ratio
Target Gearing	4.87%	D/(D+E)
Levered Beta (β_e)	1.07	Hamada formula: $\beta_e = \beta_a \times 1 + (1 - \text{Tax Rate}) \times D/E$
Equity risk premium (ERP)	6.90%	Based on Aswath Damodaran data updated on January 2016
Size premium (α_1)	5.60%	10th decile based on 2016 Valuation Handbook — Guide to Cost of Capital published by Duff & Phelps, LLC
Company specific risk premium (α_2)	3.00%	Subjective judgment from valuer for uncertainty of the forecast specific to the Targets on top of size premium
Cost of equity (K_e)	18.80%	$K_e = R_f + \beta_e \times ERP + \alpha_1 + \alpha_2$
Tax rate (T)	4.60%	Long term effective tax rate for the Targets
Cost of debt (pre-tax) (K_d)	4.90%	5 year+ lending rate in China for the year as at the Valuation Date
Cost of debt (post-tax)	4.67%	Pre-tax Cost of Debt × (1 – Tax Rate)
Post-tax WACC	18.11%	Post-tax WACC = $K_e \times (1 - \text{Target Gearing}) + K_d \times (1-T) \times$ Target Gearing
WACC adopted	**18.00%**	**Rounded WACC**

Source: Savills analysis, Bloomberg, Damodaran Online

4.4.3 Assumptions on Discount for Lack of Marketability ("DLOM")

Marketability is defined as the ability to convert an investment into cash quickly at a known price with minimum transaction cost. Given two identical business interests, a higher price will usually be paid by investors in the market for the asset that can be converted to cash most rapidly, with lower risk of loss in value during the search for a buyer. The difference between these two prices is the DLOM. DLOM is typically applied in the valuation of equity interest in non-publicly traded companies in order to adjust the valuation basis to a non-marketable basis.

With reference to the medium DLOM reported in the 2016 edition of the FMV Restricted Stock Study Companion Guide published in the United States by FMV Opinion, Inc., an American valuation advisory company whose restricted stock study is often quoted as the reference for DLOM by valuation practitioners, a marketability discount of 16.11% was adopted in arriving at the fair value of the Targets as at the Valuation Date due to the absence of equivalent study in Hong Kong, China or Asia.

4.4.4 Sensitivity Analysis

To determine how the different values of an independent variable would impact a particular dependent variable under a given set of assumptions, we carried out sensitivity analyses on the fair value of the Targets in respect of 1% deviation in the discount rates from the base case. The results of the sensitivity analyses were as follows:

Absolute Change in Discount Rate	**Applied Discount Rate**	**Fair Value of the Targets** *(RMB'000)*
+1%	19%	186,236
0	18%	195,115
-1%	17%	205,218

4.4.5 Scenario Analysis

As part of our scenario analysis, we tested the impact on the Targets' combined equity value by assuming the Targets entering a stable stage of cash flow (i.e. terminal year) earlier than projected at different forecasted period (i.e. nominal growth only after reaching stable stage). The results are shown in the table below.

Year of stable stage	**Fair Value of the Targets** *(RMB'000)*
FY2025	195,115
FY2024	159,904
FY2023	127,377
FY2022	94,014
FY2021	61,959

The above scenario analysis illustrated that the level of stable stage earning has a significant impact to the Fair Value of the Targets. The earlier the Targets stop the projected high growth and enter into the stable stage, the lower is the Fair Value of the Targets.

5. INVESTIGATION AND ANALYSIS

Our investigation included discussions with members of the Management in relation to the development, operations and other relevant information of the Targets. In addition, we have made relevant inquiries and obtained further information and data regarding the Chinese economy and Chinese medicine industry in China considered relevant for the purpose of the valuation.

As part of our analysis, we have reviewed such financial information and other pertinent data concerning the Targets provided to us by the Management. We also performed site visits to Guizhou and had meetings with the Management in September 2016.

For the purpose of this valuation exercise, we have relied entirely on the financial forecast provided to us by the Management based on the information available and presently prevailing operating conditions of the business. The financial forecast also takes into consideration of other pertinent factors which generally include, but are not limited to, the following:

- The market and the business risks of the Targets business operation;
- The general economic outlook as well as specific investment environment for the Targets business operation;
- The market expectation for similar business operation; and
- The assumptions as stated in the Specific and General Assumptions of this report.

6. GENERAL ASSUMPTIONS

Notwithstanding the incorporation of foreseeable changes in our valuation, a number of assumptions have been made in the preparation of the reported assessed figures. The assumptions are:

- There will be no major changes in existing political, legal, tax, fiscal or economic conditions in the country or district where the business is in operation;
- The inflation rate, interest rates and currency exchange rate will not differ materially from those then prevailing;
- The Targets will retain their key management and technical personnel to maintain their ongoing operations;
- There will be no major business disruptions through international crisis, industrial disputes, industrial accidents or severe weather conditions that will affect the existing business;
- The Targets will remain free from claims and litigation against the business or its customers that will have a material impact on value;

- The Targets is unaffected by any statutory notice and the operation of the business gives, or will give, no rise to a contravention of any statutory requirements;

- The businesses of the Targets are not subject to any unusual or onerous restrictions or encumbrances; and

- The potential bad debt of the Targets will not materially affect their business operations.

7. LIMITING CONDITION

Our work has relied to a considerable extent on the information provided by the Management. We are not in a position to, nor have been instructed to, comment on the lawfulness of the businesses and the Targets' possession of the assets. In the course of our valuation, we have assumed that the assets have obtained all required registration and are freely transferable in the market without any significant obstacles.

While we have exercised our professional knowledge and cautions in adopting assumptions and other relevant key factors in our valuation, those factors and assumptions are still vulnerable to the change of the business, economic environment, competitive uncertainties or any other abrupt alternations of external factors.

We must emphasise that the realisation of any prospective financial information set out within our report is dependent on the continuing validity of the assumptions on which it is based. We accept no responsibility for the realisation of any prospective financial information. Actual results are likely to be different from those shown in the prospective financial information because events and circumstances frequently do not occur as expected, and the differences may be material.

Details of our principal information sources are set out in the report and we have satisfied ourselves, so far as possible, that the information presented in our report is consistent with other information which was made available to us in the course of our work. We however cannot guarantee the reliability or accuracy of the information sources.

We shall be under no obligation to update our report in respect of events or information which comes to our attention subsequent to the date of this report. Notwithstanding this, we reserve the right, should we consider it necessary, to revise our valuation in light of any information which existed at the Valuation Date but which becomes known to us subsequent to the date of this report.

8. MANAGEMENT CONFIRMATION OF FACTS

A draft of this report and our calculation has been sent to the Management. They have reviewed and orally confirmed the facts stated in this report and calculation are accurate in all material respects and that they are not aware of any material matters relevant to our engagement which have been excluded.

9. REMARKS

Unless otherwise stated, all monetary amounts are stated in Renminbi.

We have been provided with extracts of relevant documents and financial information relating to the Targets. We have relied upon the aforesaid information and data from various public sources in forming our opinion of the Fair Value. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. Our work does not constitute an audit and no assurance is given by us to the information supplied to us. We have no responsibility to doubt the truthfulness and accuracy of the said information which is material to the valuation. We have also been confirmed by the Company that no material facts related to this valuation have been omitted from the information provided. We have also made relevant inquiries and obtained further information as required for the purpose of this valuation.

We hereby confirm that we have neither present nor prospective interests in the Targets, the Company and its respective holding companies, subsidiaries and associated companies, or the value reported herein.

This report is issued subject to our Assumptions and Limiting Conditions as attached.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Furthermore, the assumptions adopted are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and us.

Any actual transactions involving the subject asset(s) being valued might be concluded at a higher or lower value that our conclusion of value, depending upon the circumstances of the transaction, the knowledge and motivation of the buyers and sellers at that time.

10. OPINION OF VALUE

Based on the analysis stated above and on the method employed, we are of the opinion that the Fair Value of the Targets as at 31 August2016 is between **RMB186,236,000 (RENMINBI ONE HUNDRED EIGHTY SIX MILLION TWO HUNDRED AND THIRTY SIX THOUSAND)** and **RMB205,218,000 (RENMINBI TWO HUNDRED FIVE MILLION TWO HUNDRED AND EIGHTEEN THOUSAND).**

Your attention is drawn to the fact that the construction of the processing plant, a critical milestone to the launch of the sale of herbal decoction pieces, is still on going as at the Date of this Report. However, the relevant land use rights certificate and requisite permits for the construction are not yet obtained. Any significant delay in the completion of the construction process will affect the value of the Targets significantly.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited

Anthony C.K. Lau	**Wiley W.F. Pun**
MRICS MHKIS RPS(GP)	*HKICPA CICPA (non-practising) PRM*
Director	*Associate Director*

Notes:

(a) Mr. Anthony C.K. Lau is a Registered Professional Surveyor and Registered Business Valuer of the Hong Kong Business Valuation Forum (HKBVF) and has extensive experience in valuation of properties and businesses in Hong Kong and the PRC.

(b) Mr. Wiley W.F. Pun is a member of the Hong Kong Institute of Certified Public Accountants, a non-practising member of the Chinese Institute of Certified Public Accountants and a Professional Risk Manager (PRM) designation holder issued by the Professional Risk Managers' International Association (PRMIA). He has extensive experience in valuation of businesses in Hong Kong, the PRC and Europe.

A. LETTER FROM THE REPORTING ACCOUNTANT IN RELATION TO THE VALUATION REPORT

The following is the text of a report received from Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

EY 安永

REPORT FROM REPORTING ACCOUNTANT ON DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATIONS OF THE GOLD SPARKLE CM AND GOLD SPARKLE HZ

To The Board of Directors of PuraPharm Corporation Limited

We have been engaged to report on the arithmetic accuracy of calculations on the discounted future estimated cash flows (the "**Underlying Discounted Cash Flows**") on which the valuations (the "**Valuations**") prepared by Savills Valuation and Professional Service Limited in respect of the appraisal of the fair values of the Gold Sparkle CM and Gold Sparkle HZ (the "**Target Companies**") as at 31 August 2016 as disclosed in the circular of PuraPharm Corporation Limited (the "**Company**") dated 30 December 2016 (the "**Circular**") are based. The Valuations, prepared in connection with the proposed acquisition of Target Companies, are set out in Appendix II of the Circular. The Valuations which are based on the Underlying Discounted Cash Flows are regarded as profit forecasts under Rule 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 Target Companies (the "**Directors**") are solely responsible for the preparation of the Underlying Discounted Cash Flows. The Underlying Discounted Cash Flows have been prepared using a set of bases and assumptions (the "**Assumptions**") determined by the Directors, the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the paragraph headed "6. General assumptions" in Appendix II to the Circular.

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 Underlying Discounted Cash Flows based on our work. The Underlying Discounted Cash Flows 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 Underlying Discounted Cash Flows in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Underlying Discounted Cash Flows 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 Underlying Discounted Cash Flows are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target Companies. The Assumptions used in the preparation of the Underlying Discounted Cash Flows 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 Underlying Discounted Cash Flows 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 Underlying Discounted Cash Flows is concerned, the Underlying Discounted Cash Flows 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

30 December 2016

B. LETTER FROM THE BOARD IN RELATION TO THE VALUATION REPORT

The following is the text of a letter from the Board to the Stock Exchange for inclusion in this circular.

PURAPHARM CORPORATION LIMITED

培力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1498)

30 December 2016

The Stock Exchange of Hong Kong Limited
11th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Dear Sirs

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE TARGET COMPANIES; AND (2) ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

We refer to the circular issued by the Company on 30 December 2016 (the "**Circular**"), of which this letters forms part. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We refer to the valuation report dated 30 December 2016 (the "**Valuation Report**") prepared by Savills Valuation and Professional Services Limited (the "**Independent Valuer**") in relation to the Target Companies, which is contained in Appendix II to the Circular. The valuation set out in the Valuation Report prepared by the Independent Valuer, for which the Independent Valuer and the Company are responsible, constitutes a profit forecast under Rule 14.61 of the Listing Rules.

We have reviewed and discussed the Valuation Report, including the bases and assumptions based upon which the valuation of the Target Companies has been prepared. Pursuant to Rule 14.62 of the Listing Rules, we have engaged Ernst & Yong, the Company's auditor, to report on whether, so far as the calculations are concerned, the discounted future cash flows of the Target Companies have been properly compiled in accordance with the bases and assumptions adopted in the Valuation Report, and considered such letter issued by Ernst & Yong.

On the basis of the foregoing, we are of the opinion that the valuation prepared by the Independent Valuer in the Valuation Report has been made after due and careful enquiry.

Yours faithfully,
By Order of the Board
PuraPharm Corporation Limited
Chan Yu Ling, Abraham
Chairman

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in the compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document 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 document misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately after the issue of the Consideration Shares will be, as follows:

Authorised:		
		US$
50,000,000,000	Shares as at the Latest Practicable Date	5,000,000,000.00
Issued and fully paid:		
225,000,000	Shares in issue as at the Latest Practicable Date	22,500,000.00
22,717,920	Number of Consideration Shares to be issued	2,271,792.00
247,717,920	Shares	24,771,792.00

All the existing Shares in issue are fully paid and rank pari passu in all respects including all rights as to voting, dividends and interests in capital. The Consideration Shares to be issued will rank pari passu in all respects with all other Shares in issue as at the date of allotment and issue of the Consideration Shares.

As at the Latest Practicable Date, the Company did not have any outstanding options, warrants, derivatives or securities convertible into Shares.

3. DISCLOSURE OF INTERESTS

(a) Directors' interests in Shares

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which the Directors and chief executive were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(i) Interest in Shares of the Company

Name of Director	Nature of interest	Number of shares held or interested [1]	Percentage of the Company's issued share capital
Mr. Chan	Interest of controlled corporations	128,852,500 (L)[2][3]	57.27%
	Beneficial owner	1,317,500 (L)	0.59%
	Interest of spouse	51,566,500 (L)[4]	22.92%
Ms. Man Yee Wai, Viola ("**Ms. Viola Man**")	Interest of a controlled corporation	51,566,500 (L)[5]	22.92%
	Interest of spouse	130,170,000 (L)[6]	57.86%
Mr. Chan Kin Man, Eddie ("**Mr. Eddie Chan**")	Interest of controlled corporations	3,125,000 (L)[7]	1.39%

Notes:

1. The letter "L" denotes the person's long position in such securities.

2. Mr. Chan beneficially owns 50% of the issued share capital of Joint Partners Investments Limited ("**Joint Partners**"), which in turn wholly owns the entire issued capital of Purapharm Corporation Limited ("**PuraPharm Corp**"), a limited liability company incorporated in the BVI on 5 May 1998. Purapharm Corp owns 51,566,500 Shares. By virtue of the SFO, Mr. Chan is deemed to be interested in the Shares held by PuraPharm Corp.

3. Mr. Chan beneficially owns the entire issued share capital of Fullgold Development Limited ("**Fullgold Development**"), which in turn owns 77,286,000 Shares. By virtue of the SFO, Mr. Chan is deemed to be interested in the Shares held by Fullgold Development.

4. Mr. Chan is the spouse of Ms. Viola Man. By virtue of the SFO, Mr. Chan is deemed to be interested in the Shares held by Ms. Viola Man.

5. Ms. Viola Man beneficially owns 50% of the issued share capital of Joint Partners, which in turn wholly owns the entire issued capital of PuraPharm Corp. Purapharm Corp owns 51,566,500 Shares. By virtue of the SFO, Ms. Viola Man is deemed to be interested in the Shares held by PuraPharm Corp.

6. Ms. Viola Man is the spouse of Mr. Chan. By virtue of the SFO, Ms. Viola Man is deemed to be interested in the Shares held by Mr. Chan.

7. Mr. Eddie Chan wholly owns the entire issued share capital of Best Revenue Investments Limited ("**Best Revenue**") and K.M. Chan & Co. Limited ("**KM Chan**"), which in turn owns 1,562,500 Shares and 1,562,500 Shares, respectively. By virtue of the SFO, Mr. Eddie Chan is deemed to be interested in the Shares held by Best Revenue and KM Chan.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company, had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which the Directors and chief executive were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company, or were required, pursuant to the Model Code of the Listing Rules to be notified to the Company and the Stock Exchange.

(b) Directors' service contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group or any associated company of the Company (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation).

(c) Interests in assets

On 23 March 2016, Nong's Company Limited and Herbminers Informatics Limited entered into a sale and purchase agreement pursuant to which Nong's Company Limited acquired certain intellectual property rights to two Chinese medicine management softwares for an aggregate consideration of HK$8,561,000. Nong's Company Limited is a wholly-owned subsidiary of the Company and Herbminers Informatics Limited is ultimately owned as to 80% by Mr. Chan. Please refer to the announcement of the Company dated 23 March 2016 for further details.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries.

(d) Interests in contract or arrangement

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

(e) Directors' interests in competing businesses

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register kept by the Company under section 336 of the SFO, the persons other than a Director or chief executive of the Company who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Long positions in the Shares of the Company

Name of entity	Nature of interest	Number of shares held or interested(1)	Percentage of the Company's issued share capital
PuraPharm Corp	Beneficial owner	51,566,500 (L)	22.92%
Joint Partners	Interest of a controlled corporation	51,566,500 (L)(2)	22.92%
Fullgold Development	Beneficial owner	77,286,000 (L)	34.35%

Notes:

1. The letter "L" denotes the person's long position in such securities.
2. PuraPharm Corp is wholly owned by Joint Partners. By virtue of the SFO, Joint Partners is deemed to be interested in the Shares held by PuraPharm Corp

Save as disclosed above, the Directors and the chief executive of the Company were not aware that there was any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group or had any share options in respect of such capital.

As at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, being the date to which the latest published audited financial statements of the Group were made up.

7. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given its opinions or advices which are contained in this circular:

Name	**Qualification**
Savills Valuation and Professional Services Limited	an independent professional property valuer
JunHe LLP	PRC Legal Adviser
Altus Capital Limited	a licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Ernst & Young	Certified Public Accountants

As at the Latest Practicable Date, the experts above did not have any direct or indirect interest in any asset which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 December 2015, the date to which the latest audited financial statements of the Group was made up; and was not beneficially interested in the share capital of any member of the Group and did not have 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 the experts above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

8. MISCELLANEOUS

(a) The registered office of the Company is Offshore Incorporations (Cayman) Limited, Floor 4, Willow House Cricket Square, P O Box 2804 Grand Cayman KY1-1112 Cayman Islands and the principal place of business of the Company in Hong Kong is at Suite 4002, Jardine House, 1 Connaught Place, Central, Hong Kong.

(b) The Company's Hong Kong branch share registrar and transfer office is Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) The company secretary of the Company is Mr. Cheng Hok Kai, Frederick, a chartered secretary and a fellow member of each of The Hong Kong Institute of Certified Public Accountants and CPA Australia, an associate member of the Institute of Charted Secretaries and Administrators and a member of the Governance Institute of Australia.

(d) The English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong during normal business hours on any weekdays during the period of 14 days from the date of this circular:

(a) the Acquisition Agreement;

(b) the memorandum and articles of association of the Company;

(c) the written consent referred to in the paragraph headed "Expert's qualification and consent" in this Appendix;

(d) the letter from the Independent Board Committee, the text of which is set out on pages 22 to 23 to this circular;

(e) the letter from the Independent Financial Advisor to the Independent Board Committee and Independent Shareholders, the text of which is set out on pages 24 to 55 to this circular;

(f) the property valuation report issued by the Independent Valuer as set out in Appendix I to this circular;

(g) the Valuation Report from the Independent Valuer, the text of which is set out in Appendix II to this circular;

(h) the letter in relation to the Valuation Report issued by Ernst & Young, the text of which is set out in Appendix III to this circular;

(i) the letter from the Board relating to the Valuation Report, the text of which is set out in Appendix III to this circular;

(j) the legal opinion issued by JunHe LLP, the Company's PRC legal adviser, in relation to the Target Companies; and

(k) this circular.

PURAPHARM CORPORATION LIMITED
培力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1498)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of PuraPharm Corporation Limited (the "**Company**") will be held at Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Tuesday, 17 January 2017 at 3:00 p.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**

   (a) the Acquisition Agreement (as defined and described in the circular of the Company dated 30 December 2016 (the "**Circular**")), a copy of which is tabled at the meeting and marked "A" and signed by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

   (b) any one director of the Company be and is hereby authorised to, on behalf of the Company, do all such acts and sign, seal, execute and deliver all such documents and take all such actions as he/she may consider necessary or desirable for the purpose of or in connection with or to give effect to the Acquisition Agreement and the transactions contemplated thereunder."

2. "**THAT**

   (a) the allotment and issue of the Consideration Shares (as defined and described in the Circular) in the principal amount of RMB89,300,000 at the issue price of HK$4.50 per Consideration Share to Gold Sparkle (as defined in the Circular) and Golden Zenith (as defined in the Circular), as designated by the Vendor (as defined in the Circular) be and are hereby approved;

   (b) subject to the listing committee of The Stock Exchange of Hong Kong Limited having granted the listing of, and permission to deal in the Consideration Shares, the Directors be and are hereby granted the specific mandate (the "**Specific Mandate**") which shall entitle the directors of the Company to exercise all the powers of the Company to allot, issue and credited as fully paid, the Consideration Shares, on and subject to the terms and conditions of the Acquisition Agreement, providing that the Specific Mandate shall be in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution; and

(c) any one director of the Company be and is hereby authorised to, on behalf of the Company, do all such acts and sign, seal, execute and deliver all such documents and take all such actions as he/she may consider necessary or desirable for the purpose of or in connection with or to give effect to the allotment and issue of the Consideration Shares."

Yours faithfully,
By Order of the Board
PuraPharm Corporation Limited
Chan Yu Ling, Abraham
Chairman

Hong Kong, 30 December 2016

Notes:

1. Every member entitled to attend and vote at the extraordinary general meeting is entitled to appoint one or more persons as his proxy to attend and vote on behalf of himself. A proxy need not be a member of the Company.

2. A form of proxy for the extraordinary general meeting is enclosed. To be valid, a form of proxy, together with the power of attorney or other document of authority, if any, under which the form is signed, or a certified copy thereof, must be deposited with the Company's Hong Kong branch registrar in Hong Kong at Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the extraordinary general meeting or any adjournment thereof.

3. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting or any adjourned meeting or upon the poll concerned if Shareholders so wish. In such event, the instrument appointing the proxy shall be deemed to be revoked.

As at the date of this notice, the executive directors of the Company are Mr. Chan Yu Ling, Abraham, Dr. Tsoi Kam Biu, Alvin, Mr. Chan Lung Sang and Ms. Man Yee Wai, Viola; the non-executive director of the Company is Mr. Chan Kin Man, Eddie; and the independent non-executive directors of the Company are Dr. Chan Kin Keung, Eugene, Mr. Ho Kwok Wah, George, Dr. Leung Lim Kin, Simon and Prof. Tsui Lap Chee.