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PuraPharm

PURAPHARM CORPORATION LIMITED

培力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1498)

CONNECTED TRANSACTION

**PROPOSED ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE FOR
CAPITALISATION OF THE SHAREHOLDER'S LOAN**

THE LOAN CAPITALISATION

On 12 June 2019 (after trading hours), the Company and Mr. Chan entered into the Loan Capitalisation Agreement, pursuant to which the Company as issuer conditionally agreed to allot and issue and Mr. Chan as the subscriber conditionally agreed to subscribe for 15,544,041 new Shares at the Issue Price of HK\$1.93 per Share for the capitalisation of the outstanding principal amount of the Shareholder's Loan of HK\$30,000,000.

The Capitalisation Shares represent (i) approximately 6.27% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 5.90% of the issued share capital of the Company as enlarged by the allotment and issue of the Capitalisation Shares (assuming there will be no change in the total number of issued Shares of the Company between the date of Completion).

SPECIFIC MANDATE

The Capitalisation Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the EGM. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Capitalisation Shares.

LISTING RULES IMPLICATION

As at the date of this announcement, Mr. Chan is the chairman of the Board, the chief executive officer, and the executive Director of the Company. He is also the controlling Shareholder of the Company, who is interested in 129,975,720 Shares, representing approximately 52.47% of the issued share capital of the Company (without taking into account of the Shares which may be issued upon the exercise of the options granted under the Share Option Scheme and the Shares which were granted but not yet vested under the Share Award Scheme). As such, Mr. Chan is a connected person of the Company. Accordingly, the Loan Capitalisation constitutes a non-exempt connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

Voting at the EGM will be conducted by poll and Mr. Chan and his associates, including his spouse, namely Ms. Man, shall abstain from voting on the proposed resolution(s) to approve the Loan Capitalisation Agreement and the transactions contemplated thereunder at the EGM by the Independent Shareholders.

GENERAL

The EGM will be convened and held for the purpose of considering and, if thought fit, approving the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate). An Independent Board Committee comprising the independent non-executive Directors, 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 advise the Independent Shareholders in relation to the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate).

An independent financial adviser will be appointed to advise the Independent Board Committee and Independent Shareholders regarding, among other things, the terms of the Loan Capitalisation Agreement and transactions contemplated thereunder. A circular containing, among other things, (i) further details of the Loan Capitalisation; (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the independent financial adviser in relation to the Loan Capitalisation Agreement and the transaction contemplated thereunder; (iv) a notice to convene the EGM; and (v) other information as required under the Listing Rules, will be despatched to the Shareholders on or before 4 July 2019 in compliance with the Listing Rules.

INTRODUCTION

On 12 June 2019 (after trading hours), the Company and Mr. Chan entered into the Loan Capitalisation Agreement, pursuant to which the Company as issuer conditionally agreed to allot and issue and Mr. Chan as the subscriber conditionally agreed to subscribe for 15,544,041 new Shares at the Issue Price of HK\$1.93 per Share for the capitalisation of HK\$30,000,000 from the outstanding principal amount of the Shareholder's Loan of HK\$45,000,000.

THE LOAN CAPITALISATION AGREEMENT

The principal terms of the Loan Capitalisation Agreement are set out below:

Date

12 June 2019

Parties

- (i) the Company as issuer; and
- (ii) Mr. Chan, as the subscriber.

Capitalisation Shares

The Company conditionally agreed to allot and issue, and Mr. Chan conditionally agreed to subscribe for, the Capitalisation Shares at the Issue Price for the capitalisation of part of the Shareholder's Loan. The aggregate consideration for the allotment and issue of the Capitalisation Shares of aggregate value of approximately HK\$30,000,000 will be settled by way of setting off against the HK\$30,000,000 from Shareholder's Loan at Completion. As at the date of this announcement, the outstanding principal amount of the Shareholder's Loan is HK\$45,000,000. Upon the allotment and issuance of the Capitalisation Shares in full at the Completion, the obligations of the Company under the Shareholder's Loan to repay HK\$30,000,000 will be discharged and the remaining balance of the Shareholder's Loan of HK\$15,000,000 will remain outstanding.

The 15,544,041 Capitalisation Shares represent:

- (i) approximately 6.27% of the issued share capital of the Company as at the date of this announcement; and
- (ii) approximately 5.90% of the issued share capital of the Company as enlarged by the allotment and issue of the Capitalisation Shares (without taking in to account of the Shares which may be issued upon the exercise of the options under the Share Option Scheme and assuming there will be no change in the total number of issued Shares of the Company between the date of this announcement and the allotment and issue of the Capitalisation Shares).

The Capitalisation Shares are not subject to any lock-up or other disposal restrictions under the Loan Capitalisation Agreement.

Issue Price

The Issue Price of HK\$1.93 per Capitalisation Share represents:

- (i) the closing price per Share of HK\$1.93 as quoted on the Stock Exchange on 12 June 2019, being the date of the Loan Capitalisation Agreement;
- (ii) a premium of approximately 3.42% over the average closing price per Share of HK\$1.864 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Loan Capitalisation Agreement; and
- (iii) a premium of approximately 2.28% over the average closing price per Share of HK\$1.886 as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of the Loan Capitalisation Agreement.

The aggregate nominal value of the Capitalisation Shares (with a par value of US\$0.1 each) is approximately US\$1,554,404.1. The Issue Price was arrived at on an arm's length basis between the Company and Mr. Chan with reference to the recent market price and trading performance of the Shares and the business prospects of the Group. The Directors (other than the independent non-executive Directors, who shall provide their views after considering the advice from the independent financial adviser) consider that the Issue Price and the terms of the Loan Capitalisation Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Conditions Precedent

Completion is conditional upon satisfaction of the following conditions:

- (i) the approval from the Independent Shareholders for entering into of the Loan Capitalisation Agreement and the transactions contemplated thereunder having been obtained in the EGM in accordance with the Listing Rules; and
- (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Capitalisation Shares.

None of the above conditions can be waived. If the above conditions are not fulfilled by 31 December 2019 or such other date as the parties to the Loan Capitalisation Agreement may agree, the Loan Capitalisation Agreement will terminate and all rights and obligations under the Loan Capitalisation Agreement will cease save for any rights and obligations accrued before the termination.

Completion

Completion will take place on the fifth business day after the satisfaction of the last of the conditions, or such other date as may be agreed between the Company and Mr. Chan in writing.

Ranking of the Capitalisation Shares

The Capitalisation Shares, when allotted and issued, shall rank pari passu in all respects with the existing Shares in issue at the date of allotment and issue of the Capitalisation Shares.

EFFECT OF THE CAPITALISATION SHARES ON THE SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after Completion and the issue and allotment of the Capitalisation Shares in full as contemplated under the Loan Capitalisation, without taking into account of the Shares which may be issued upon the exercise of the options granted under the Share Option Scheme and the Shares which were granted but not yet vested under the Share Award Scheme, and assuming there will be no change in the total number of issued Shares of the Company between the date of this announcement and the allotment and issue of the Capitalisation Shares:

Shareholders	As at the date of this announcement <i>(Note 1)</i>		Immediately after the Completion <i>(Note 1)</i>	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Mr. Chan and his associates				
Mr. Chan	3,027,500	1.22	18,571,541	7.05
Purapharm Corporation Limited <i>(Note 2)</i>	51,566,500	20.82	51,566,500	19.59
Fullgold Development Limited <i>(Note 3)</i>	62,286,000	25.14	62,286,000	23.66
Gold Sparkle Limited <i>(Note 4)</i>	13,050,720	5.27	13,050,720	4.95
Ms. Man	45,000	0.02	45,000	0.02
Sub-Total	<u>129,975,720</u>	<u>52.47</u>	<u>145,519,761</u>	<u>55.27</u>
Other Directors				
Mr. Chan Kin Man, Eddie <i>(Note 5)</i>	3,131,000	1.26	3,131,000	1.19
Dr. Tsoi Kam Bui, Alvin	45,000	0.02	45,000	0.02
Mr. Ho Kwok Wah, George	6,000	0.01	6,000	0.01
Dr. Leung Kim Kin, Simon	6,000	0.01	6,000	0.01
Dr. Chan Kin Keung, Eugene	6,000	0.01	6,000	0.01
Prof. Tsui Lap Chee	6,000	0.01	6,000	0.01
Sub-Total	<u>3,200,000</u>	<u>1.29</u>	<u>3,200,000</u>	<u>1.22</u>
Shares held under the Share Award Scheme	2,496,000	1.01	2,496,000	0.95
Other public Shareholders	<u>112,046,200</u>	<u>45.23</u>	<u>112,046,200</u>	<u>42.56</u>
Total	<u>247,717,920</u>	<u>100.00</u>	<u>263,261,961</u>	<u>100.00</u>

Note:

1. The percentage figures included in this table have been subject to rounding adjustments. Accordingly, the total numbers in the table may not be equal to the apparent total of individual items.
2. Mr. Chan and Ms. Man beneficially own 50% and 50%, respectively, of the issued share capital of Joint Partners Investments Limited, which in turn wholly owns the entire issued capital of Purapharm Corporation Limited (“**PuraPharm Corp**”), a limited liability company incorporated in the British Virgin Islands on 5 May 1998. Purapharm Corp owns 51,566,500 Shares.
3. Mr. Chan beneficially owns the entire issued share capital of Fullgold Development Limited, which in turn owns 62,286,000 Shares.
4. Mr. Chan beneficially owns the entire issued share capital of Gold Sparkle Limited, which in turn owns 13,050,720 Shares.
5. Mr. Eddie Chan wholly owns the entire issued share capital of Best Revenue Investments Limited and K.M. Chan & Co. Limited, which in turn owns 1,562,500 Shares and 1,562,500 Shares, respectively, and Mr. Eddie Chan beneficially owns 6,000 Shares.

FUND RAISING EXERCISES IN THE PRIOR 12-MONTH PERIOD

The Company has not carried out any equity fund raising exercise in the 12-month period immediately preceding the date of this announcement.

INFORMATION ON THE COMPANY AND THE SUBSCRIBER

The Company is an exempted company incorporated in the Cayman Islands with limited liability.

The principal activity of the Company is investment holding and its subsidiaries have been principally engaged in the research and development, production and sale of concentrated Chinese medicine granule (CCMG) products and Chinese healthcare products, plantation and trading of raw Chinese herbs, and the manufacture and sale of traditional Chinese medicine (TCM) decoction pieces as well as the rendering of Chinese medical diagnostic services.

As at the date of this announcement, Mr. Chan, as the subscriber, is the chairman of the Board, and the chief executive officer, an executive Director and the controlling Shareholder of the Company, who is interested in 129,975,720 Shares, representing approximately 52.47% of the issued share capital of the Company (without taking into account of the Shares which may be issued upon the exercise of the options granted under the Share Option Scheme and the Shares which were granted but not yet vested under the Share Award Scheme).

REASONS FOR THE LOAN CAPITALISATION

Upon Completion, the gross proceeds of HK\$30,000,000 will be used for setting off against the outstanding principal amount of HK\$45,000,000 under the Shareholder’s Loan at Completion. Capitalisation of the Shareholder’s Loan enables the Group to settle its existing liabilities without utilising existing financial resources of the Company and avoid cash outflows. The Capitalisation of the Shareholder’s Loan reduces the gearing level of the Company and broadens its capital base. The Directors (excluding the independent non-

executive Directors who shall provide their views after considering the advice of the independent financial adviser) consider that the terms of the Loan Capitalisation Agreement are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole.

SPECIFIC MANDATE

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

APPLICATION FOR LISTING

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

LISTING RULES IMPLICATION

As at the date of this announcement, Mr. Chan is the chairman of the Board, the chief executive officer, and an executive Director. He is also the controlling Shareholder of the Company, who is interested in 129,975,720 Shares, representing approximately 52.47% of the issued share capital of the Company. As such, Mr. Chan is a connected person of the Company. Accordingly, the Loan Capitalisation constitutes a non-exempt connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

Voting at the EGM will be conducted by poll and Mr. Chan and his associates, including his spouse, namely Ms. Man, shall abstain from voting on the proposed resolution(s) to approve the Loan Capitalisation Agreement and the transactions contemplated thereunder at the EGM by the Independent Shareholder.

Mr. Chan, being the chairman of the Board, the chief executive officer and an executive Director, and his spouse, Ms. Man, an executive Director, have abstained from voting on the Board resolutions approving the Loan Capitalisation Agreement and the transactions contemplated thereunder. Save as disclosed above, (i) no other Director has a material interest in the Loan Capitalisation Agreement and the transactions contemplated thereunder or is required to abstain from voting on the Board resolutions in relation to the aforesaid matters; (ii) to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has any material interest in the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) and therefore no other Shareholder is required to abstain from voting at the EGM in respect of the resolution(s) approving the aforesaid matters.

GENERAL

The EGM will be convened and held for the purpose of considering and, if thought fit, approving the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate). An Independent Board Committee comprising the independent non-executive Directors, namely Dr. Chan Kin Keung, Eugene, Mr. Ho Kwok Wah, George, Dr. Leung Lim Kin, Simon and Professor Tsui Lap Chee, has been

established to advise the Independent Shareholders in relation to the Loan Capitalisation Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate).

An independent financial adviser will be appointed to advise the Independent Board Committee and Independent Shareholders regarding, among other things, the terms of the Loan Capitalisation Agreement and transactions contemplated thereunder. A circular containing, amongst other things, (i) further details of the Loan Capitalisation; (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the independent financial adviser in relation to the Loan Capitalisation Agreement and the transaction contemplated thereunder; (iv) a notice to convene the EGM; and (v) other information as required under the Listing Rules, will be despatched to the Shareholders on or before 4 July 2019 in compliance with the Listing Rules.

DEFINITIONS

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

“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (excluding Saturdays and Sundays) on which commercial banks in Hong Kong are generally open for business in Hong Kong
“Capitalisation Shares”	15,544,041 new Shares to be allotted and issued by the Company to Mr. Chan
“Company”	Purapharm Corporation Limited, an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are traded on the main board of the Stock Exchange (stock code: 1498)
“Completion”	completion of the Loan Capitalisation in accordance with the terms and conditions of the Loan Capitalisation Agreement
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“connected transaction”	has the meaning ascribed to it in the Listing Rules
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	director(s) of the Company

“EGM”	the extraordinary general meeting of the Company to be convened to consider, if thought fit, to approve the Loan Capitalisation Agreement, grant of Specific Mandate for the issue of the Capitalisation Shares and the transaction contemplated thereunder
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors, namely, Dr. Chan Kin Keung, Eugene, Mr. Ho Kwok Wah, George, Dr. Leung Lim Kin, Simon and Professor Tsui Lap Chee, which has been established to make recommendations to the Independent Shareholders in respect of the Loan Capitalisation Agreement, the grant of Specific Mandate and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholder(s) who are not required to abstain under the Listing Rules from voting at the EGM for the resolution(s) approving the Loan Capitalisation Agreement, grant of Specific Mandate and the transactions contemplated thereunder
“Issue Price”	HK\$1.93 per Capitalisation Share
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Capitalisation”	capitalisation of HK\$30,000,000 from the outstanding principal amount of the Shareholder’s Loan by way of the allotment and issue of the Capitalisation Shares to Mr. Chan pursuant to the terms of the Loan Capitalisation Agreement
“Loan Capitalisation Agreement”	the loan capitalisation agreement dated 12 June 2019 entered into between Mr. Chan and the Company for the Loan Capitalisation
“Mr. Chan”	Mr. Chan Yu Ling, Abraham, the chairman of the Board, chief executive officer, the executive Director and a controlling Shareholder of the Company, and the spouse of Ms. Man
“Ms. Man”	Ms. Man Yee Wai, Viola, the executive Director of the Company, and the spouse of Mr. Chan

“Share(s)”	ordinary Share(s) of US\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Shareholder’s Loan”	an interest bearing loan up to HK\$50,000,000 made available to the Company by Mr. Chan by a loan agreement dated 14 March 2018. As at the date of this announcement, the total outstanding principal amount is HK\$45,000,000.
“Share Award Scheme”	the share award scheme adopted by the Company on 22 February 2016
“Share Option Scheme”	the share option scheme adopted by the Company on 12 June 2015
“Specific Mandate”	the specific mandate proposed to be granted to the Board to allot and issue the Capitalisation Shares to Mr. Chan at the Issue Price
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States Dollar, the lawful currency of the United States of America
“%”	per cent

By order of the Board
PuraPharm Corporation Limited
Chan Yu Ling, Abraham
Chairman

Hong Kong, 12 June 2019

As at the date of this announcement, the executive directors of the Company are Mr. Chan Yu Ling, Abraham, Dr. Tsoi Kam Biu, Alvin, Mr. Chan Kin Man, Eddie, and Ms. Man Yee Wai, Viola; non-executive director of the Company is Mr. Chow, Stanley 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.