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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 SALE OF ASSETS

SALE OF ASSETS

The Board is pleased to announce that on 8 October 2020 (after trading hours), PuraPharm Nanning (a wholly-owned subsidiary of the Company) entered into the Asset Sale Agreement with BAGI pursuant to which PuraPharm Nanning has agreed to sell, and BAGI has agreed to purchase, the Assets at a consideration of HK\$12,500,000.

LISTING RULES IMPLICATIONS

PuraPharm Nanning is an indirect wholly owned subsidiary of the Company. BAGI is a company indirectly and wholly owned by Mr. Chan, the executive Director, chairman, chief executive officer, and one of the Controlling Shareholders of the Company. Therefore, BAGI is a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Asset Sale Agreement will constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under Rule 14A.07 of the Listing Rules) in respect of the transactions contemplated under the Asset Sale Agreement is more than 0.1% but less than 5%, the transactions contemplated thereunder are only subject to the reporting and announcement requirements but are exempt from the circular (including independent financial advice) and independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Background

On 10 November 2016, PuraPharm Nanning (a wholly-owned subsidiary of the Company) entered into the following agreements with The Chinese University of Hong Kong and Hong Kong Baptist University (collectively, the “**Technology and Intellectual Property Contracts**”):

- (a) the licensing agreement pursuant to which The Chinese University of Hong Kong and Hong Kong Baptist University licensed to PuraPharm Nanning the Patents and technology rights in relation to the development of pharmaceutical products for treating irritable bowel syndrome known as 仁術腸樂顆粒 (the “**Products**”); and
- (b) the transfer agreement pursuant to which The Chinese University of Hong Kong and Hong Kong Baptist University transferred to PuraPharm Nanning the PRC clinical trial approval documents in relation to the development of the Products.

PuraPharm Nanning has since been carrying on the clinical trial of the Products in the PRC based on the licensed Patents and technology rights as well as the clinical trial approval documents obtained through the Technology and Intellectual Property Contracts.

ASSET SALE AGREEMENT

On 8 October 2020 (after trading hours), PuraPharm Nanning entered into the Asset Sale Agreement with BAGI, the details of which are set out as follows: -

Date	8 October 2020
Parties	PuraPharm Nanning, an indirect wholly owned subsidiary of the Company (as the seller); and BAGI (as the buyer)

The Assets

Pursuant to the Asset Sale Agreement, PuraPharm Nanning has agreed to sell, and BAGI has agreed to purchase, the following assets (the “**Assets**”): -

- (a) the Technology and Intellectual Property Contracts;
- (b) all reports, medical data and/or clinical trial results developed or being developed by PuraPharm Nanning or by independent third parties for PuraPharm Nanning in connection with the Target Development;

- (c) all contracts entered into between PuraPharm Nanning and any independent third parties in connection with the Target Development; and
- (d) PuraPharm Nanning's Intellectual Property.

Consideration

Pursuant to the Asset Sale Agreement, BAGI has agreed to purchase the Assets from PuraPharm at a consideration of HK\$12,500,000. The consideration was determined between PuraPharm Nanning and BAGI after arm's length negotiations with reference to the appraised value of the Assets based on the valuation report prepared for the Company by an independent professionally qualified valuer.

The consideration shall be payable in cash by BAGI to PuraPharm Nanning or such party nominated by PuraPharm Nanning by way of a cashier's order or by way of telegraphic transfer to a bank account designated by PuraPharm Nanning in accordance with the terms and conditions of the Asset Sale Agreement.

It is estimated that a gain of approximately HK\$12.5 million before the related transaction costs will be recorded for the Group. The proceeds of approximately HK\$12.5 million arising from the Sale will be used as general working capital of the Group.

Conditions Precedent

The completion of the Asset Sale Agreement is conditional upon the fulfilment of the following conditions: -

- (a) the Chinese University of Hong Kong and Hong Kong Baptist University, being the parties to each of the Technology and Intellectual Property Contracts, having entered into the novation deeds (the "**Novation Deeds**") whereupon (i) PuraPharm Nanning would assign and transfer to BAGI all of its rights and benefits, including the license of the Patents and technology rights of the Target Development from The Chinese University of Hong Kong and Hong Kong Baptist University and (ii) BAGI would assume all obligations and liabilities, including the annual payment obligations of PuraPharm Nanning under the Technology and Intellectual Property Contracts;
- (b) the Seller and BAGI having entered into the Framework Agreement;
- (c) all necessary consents, licences and approvals required to be obtained on the part of PuraPharm Nanning in respect of the Asset Sale Agreement and the Novation Deeds and the transactions contemplated thereunder having been obtained and remain in full force and effect;

- (d) all necessary consents, licences and approvals required to be obtained on the part of the BAGI in respect of the Asset Sale Agreement and the Novation Deeds and the transactions contemplated thereunder having been obtained and remain in full force and effect; and
- (e) warranties given by PuraPharm Nanning and BAGI as set out in the Asset Sale Agreement remaining true and accurate in all material aspects.

If any of the conditions set out above have not been satisfied or otherwise waived by PuraPharm Nanning or BAGI (as the case may be) on or before 4:00 p.m. on 31 March 2021, or such later date as PuraPharm Nanning or BAGI may agree in writing, the Asset Sale Agreement shall terminate immediately whereupon no parties shall have any right or claim against any other party without prejudice to any accrued rights or liabilities of any party to the other party in respect of the terms of the Asset Sale Agreement at or before such termination.

Completion

Subject to the fulfillment of the conditions set out above, completion of the Asset Sale Agreement shall take place at 4:00 p.m. on the day after all the conditions precedents set out above are satisfied or such later date as PuraPharm Nanning and BAGI may agree in writing.

Post completion undertaking

Pursuant to the Asset Sale Agreement, upon registration of the Products with any government authority for commercial production and the sale of the Products, BAGI shall share the economic benefits derived from the Target Development with the Group by paying the Group such sums at a rate of 2% on the invoiced sales amount of such products, which shall be paid quarterly.

INFORMATION OF PARTIES

The Company is an investment holding company, with its subsidiaries engaged principally 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.

PuraPharm Nanning was established in the PRC and is engaged principally in the research and development, production and sale of CCMG products.

BAGI is principally engaged in the research and development on the active components of herbs specifically for application in western medicine.

REASONS AND BENEFITS OF THE SALE

The Target Development is one of the two pharmaceutical products which have been developed by the Company with the proceeds of the listing of the Company in July 2015. It still requires further research and development and is subject to further clinical trials before the relevant pharmaceutical products can be registered and commercialised. The Board expects that the Company will incur approximately HK\$70 million and require 4 more years to complete the Target Development. The Board is aware that any research and development on pharmaceutical products, including the Target Development, involves multiple tests and clinical trials which may not be successful during the development process.

The Sale therefore represents an excellent opportunity for the Group to manage and mitigate its commercial risk, streamline its business profiles and research and development function. The Sale allows the Group to realise the Target Development historically carried out by the Group such that it can allocate more resources to other research and development projects as well as other operations of the Group.

Since BAGI has agreed to share the economic benefits derived from commercialising the Target Development, the Sale also allows the Group to retain the upside potential of the Target Development, but can avoid the downside risk of the failure of the Target Development as the clinical trials results and commercialising are uncertain.

Upon completion of the Sale, the Group intends to use the unused portion of approximately HK\$7.2 million of the proceeds, which were raised from the listing of the Company in July 2015 and previously allocated to the Target Development, as working capital of the Group's other research and development projects.

The terms and conditions of the Sale have been agreed after arm's length negotiations between the parties. The Directors (including the independent non-executive Directors) are of the view that the Sale is on normal commercial terms, and that the terms of the Sale are fair and reasonable and the Sale is in the interests of the Company and its Shareholders as a whole.

THE FRAMEWORK AGREEMENT

PuraPharm Nanning would further enter into the framework agreement (the “**Framework Agreement**”) with BAGI, pursuant to which BAGI would agree to engage PuraPharm Nanning or the member of the Group to provide services, assistance and supports in relation to the clinical trials of the Target Development, including but not limited to the coordination with independent Contract Research Organisation, and administration work in relation to the research and development of the Products and/or such other services as shall be agreed by the parties in writing from time to time (the “**Services**”) for a term of three years.

PuraPharm Nanning would receive an annual service fee of HK\$820,000 from BAGI for the provision of the Services which will allow PuraPharm Nanning to benefit from additional regular revenue stream even after the Sale. The annual service fee will be paid in four installments (HK\$205,000 each) on quarterly basis in arrear. The Directors therefore consider that the entering into the Framework Agreement is in the interests of the Company and its Shareholders as a whole. The annual service fee was determined between PuraPharm Nanning and BAGI after arm's length negotiations with reference to the expected time costs and prevailing market price for providing similar services.

LISTING RULES IMPLICATIONS

PuraPharm Nanning is an indirect wholly owned subsidiary of the Company and BAGI is a company indirectly and wholly owned by Mr. Chan, the executive Director, chairman, chief executive officer, and one of the Controlling Shareholders (as defined in the Listing Rules) of the Company. Therefore, BAGI is a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Asset Sale Agreement will constitute connected transactions and the transactions contemplated under the Framework Agreement will constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

(i) the Asset Sale Agreement

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the Asset Sale Agreement is more than 0.1% but less than 5% and the total consideration under the Asset Sale Agreement is more than HK\$3,000,000, the transactions contemplated thereunder are only subject to the reporting and announcement requirements but are exempt from the circular (including independent financial advice) and independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

(ii) the Framework Agreement

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the annual caps for the transactions contemplated under the Framework Agreement is more than 0.1% but less than 5% and the annual caps for the transactions contemplated under the Framework Agreement is less than HK\$3,000,000, the transactions contemplated thereunder are fully exempt from the reporting, announcement, the circular (including independent financial advice) and independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

As BAGI is a company indirectly and wholly owned by Mr. Chan, Mr. Chan and Ms. Man Yee Wai, Viola, the spouse of Mr. Chan, are therefore deemed to have a material interest in the Asset Sale Agreement and the Framework Agreement. Both of Mr. Chan and Ms. Man Yee Wai, Viola have abstained from voting on the relevant Board resolutions approving the transactions contemplated under the Asset Sale Agreement and the Framework Agreement. Further, Dr. Tsoi Kam Biu, Alvin is a director of BAGI, who is also deemed to have a material interest in the Asset Sale Agreement and the Framework Agreement. Save for the above, to the best knowledge, information and belief of the Directors after having made all reasonable enquiries, no other Director has material interest in the Sale and will be required to abstain from voting on the relevant resolutions to approve the Asset Sale Agreement, the Framework Agreement and other relevant agreements at the Board meeting.

DEFINITIONS USED

“Assets”	means all those assets to be transferred by PuraPharm Nanning to BAGI pursuant to the Asset Sale Agreement and has the meaning given to it under the section headed “Asset Sale Agreement — The Assets” in this announcement
“Asset Sale Agreement”	the asset sale agreement dated 8 October entered into between PuraPharm Nanning and BAGI
“BAGI”	BAGI Research Limited, a company with limited liability incorporated in Hong Kong which is indirectly and wholly owned by Mr. Chan, a connected person of the Company
“Board”	the board of Directors
“Business Days”	a day (other than a Saturday or Sunday) on which licensed banks are generally open in Hong Kong throughout their normal business hours
“Company”	Purapharm Corporation Limited 培力控股有限公司, incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“connected person”	has the meaning given to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning given to it under the Listing Rules, and in the context of this prospectus, refers to the controlling Shareholder(s)
“Directors”	the director(s) of the Company

“Framework Agreement”	the framework agreement to be entered into between PuraPharm Nanning and BAGI and has the meaning given to it under the section headed “Framework Agreement” in this announcement
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars
“Intellectual Property”	means all patents, designs, copyrights, trade marks, trading names (whether or not registered) and all other property rights which may subsist in Hong Kong, the PRC and/or any other part of the world, including but not limited to all logos, specifications, computer data, drawings and certificates which are used or applied in the Target Development
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chan”	Mr. Chan Yu Ling, Abraham, a Director, Chairman and a Controlling Shareholder of the Company
“Novation Deeds”	has the meaning given to it under the section headed “Asset Sale Agreement — Conditions Precedent” in this announcement
“Patents”	means the following registered patents: <ul style="list-style-type: none"> (a) The Chinese medical composition, extracts and its application for preventing and treating irritable bowel syndrome (Patent Number: 200610146331.1); and (b) The Chinese medical composition, extracts and its application for preventing and treating irritable bowel syndrome (Patent Number: HK1118014)

“Products”	has the meaning given to them under the section headed “Background” in this announcement
“PuraPharm Nanning”	Purapharm (Nanning) Pharmaceuticals Co. Limited 培力(南寧) 藥業有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company
“PRC”	the People’s Republic of China
“Sale”	the sale of the Assets by PuraPharm Nanning to BAGI in accordance with the terms of the Asset Sale Agreement
“Services”	means all those services to be provided by PuraPharm Nanning to BAGI pursuant to the Framework Agreement and has the meaning given to it under the section headed “Framework Agreement” in this announcement
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Development”	means the research and development of the Products and, if the context so requires, any part of such research and development
“Technology and Intellectual Property Contracts”	has the meaning given to them under the section headed “Background” in this announcement

By order of the Board
Chan Yu Ling, Abraham
Chairman

Hong Kong, 8 October 2020

As at the date of this announcement, the executive Directors are Mr. Chan Yu Ling, Abraham, Dr. Tsoi Kam Biu, Alvin, Mr. Cheong Shin Keong, and Ms. Man Yee Wai, Viola; non-executive Directors are Mr. Chow, Stanley and Mr. Chan Kin Man, Eddie; and the independent non-executive Directors are Dr. Chan Kin Keung, Eugene, Mr. Ho Kwok Wah, George, Dr. Leung Lim Kin, Simon and Prof. Tsui Lap Chee.