
HISTORY AND REORGANISATION

BUSINESS DEVELOPMENT

Introduction

We trace our history back to 1996, when Pioneer Pharma, the principal operating entity of the Group's business prior to the Reorganisation, was established in Hainan province in the PRC. Under the leadership of Mr. Li, our chairman, our executive Director, our chief executive officer and one of our Controlling Shareholders, our Group has developed into one of the largest comprehensive marketing, promotion and channel management service providers dedicated to imported pharmaceutical products and medical devices in China.

Business Milestones

The following sets out the key milestones of our Group's development:

<u>Year</u>	<u>Event</u>
1996	Pioneer Pharma was established in Hainan and commenced the business of marketing, promotion and sale of imported pharmaceutical products in the PRC. We entered into our first supply agreement with Alcon for its ophthalmic pharmaceutical products.
1997	We obtained the exclusive rights from Temmler Werke (previously known as Klinge Pharma GmbH) to market, promote and sell Difene products in China.
2004	We obtained the rights from Alfa Wassermann to market, promote and sell its Fluxum products in China.
2008	We were recognised as the <i>Top Five Enterprises for Importing Medicines and Health Products</i> (“醫藥保健品進口五強企業”) from 2008 to 2012 consecutively by China Chamber of Commerce for Import and Export of Medicines and Healthcare Products (中國醫藥保健品進出口商會).
2009	We were recognised as the <i>Top 100 Enterprises in Hainan Province</i> (“海南省企業100強”) by Hainan Province Enterprise Directors Association (海南省企業聯合會及海南省企業家協會) from 2009 to 2012 consecutively.
2010	We were presented by Alcon a prize in appreciation of our contribution to the partnership with Alcon in 2010 and 2011.
2011	We obtained the exclusive rights from Orion Corporation to market, promote and sell Budesonide Easyhaler and Salbutamol Easyhaler in China. Pioneer Ruici was established in Shanghai and commenced our sale of dental devices business.
2012	We obtained the exclusive rights from NovaBay to market, promote and sell its NeutroPhase products in China and in other Southeast Asia territories.

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<u>Year</u>	<u>Event</u>
	We obtained the rights from Wieland to market, promote and sell its dental devices in China.
	We acquired a minority interest in NovaBay.
2013	We acquired a minority interest in Q3, the holding company of QualiMed and AMG.

CORPORATE HISTORY

Our Group's major business operations are located in the PRC. Prior to the Reorganisation, our business was primarily carried out by four PRC operating entities. In recent years, we also established two Singapore subsidiaries and one Hong Kong subsidiary which had limited operations during the Track Record Period. Set forth below are the history and development of these entities since their establishment and up to the Reorganisation. In addition, we have made equity investment in several overseas pharmaceutical suppliers to further our business relationships with them and with the aim to secure long-term marketing, promotion and sales rights of their products.

PRC Subsidiaries

Pioneer Pharma

Prior to the Reorganisation, Pioneer Pharma was the principal operating entity of the Group's business and held all the other operating subsidiaries of our Group during the Track Record Period. Following the Reorganisation, Pioneer Pharma is no longer a member of our Group. Pioneer Pharma was established in July 1996 by Mr. Li Jin (Mr. Li's brother) and Mr. Li Hanjiang (Mr. Li's cousin) through cash contribution of RMB1.6 million and RMB0.4 million, respectively. In November 1996, Mr. Li using his personal funds acquired a 60% equity interest in Pioneer Pharma from Mr. Li Jin for RMB1.2 million and a further 20% equity interest in Pioneer Pharma from Mr. Li Hanjiang for a cash consideration of RMB0.4 million. The consideration was equivalent to the amount of capital contributed by the original equity holders. As a result, Mr. Li became the controlling shareholder of Pioneer Pharma. Then Pioneer Pharma increased its registered capital from RMB2 million to RMB20 million with the additional capital of RMB18 million contributed by its shareholders on a pro rata basis. In August 2002, Pioneer Pharma changed from a limited liability company into a limited liability company by shares in the PRC. Over the past years, there have been changes in the shareholding of Pioneer Pharma. Immediately before the Reorganisation, Pioneer Pharma was owned (i) as to 99.9% by Xinzhou Investment, a company held by Mr. Li and Mrs. Li as to 60% and 40%, respectively, and (ii) as to 0.1% by Anbang Investment, respectively. During the Track Record Period, Anbang Investment was beneficially owned as to 95.1% by Mr. Li and as to 4.9% by Mr. Li Jin from 1 January 2010 to 31 December 2010. From 1 January 2011 onwards, Anbang Investment has been 100% beneficially owned by Mr. Li.

To prepare for the Listing, the Group underwent the Reorganisation. As part of the Reorganisation, the business and assets of Pioneer Pharma in relation to the marketing, promotion and sales of pharmaceutical products and medical devices were transferred to Naqu Pioneer together with the relevant employees pursuant to a business and assets transfer agreement dated 31 March 2013 and a supplemental agreement dated 25 June 2013. Completion of the transfer took place on 25 June 2013. Details of such transfer are set out in "— Reorganisation — Reorganisation of PRC Subsidiaries" below.

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Xiantao Pioneer

On 31 July 2009, Xiantao Pioneer was established by Pioneer Pharma in Xiantao city, Hubei, the PRC with a fully paid-up registered capital of RMB10 million. Prior to the Reorganisation, Xiantao Pioneer was wholly owned by Pioneer Pharma. It is principally engaged in marketing, promotion and sale of pharmaceutical products and medical devices in the PRC.

Naqu Pioneer

On 21 January 2010, Naqu Pioneer was established by Mr. Zhu Huaqiang (“**Mr. Zhu**”), an Independent Third Party, in Naqu area, Tibet Autonomous Region of the PRC under the name of Naqu Pingan Pharma Co., Ltd. (那曲平安醫藥有限公司). Upon establishment, the registered capital of Naqu Pioneer was RMB2.8 million, which had been subsequently paid up in full. Pursuant to a share transfer agreement dated 21 July 2011, Mr. Zhu transferred his entire equity interest in Naqu Pioneer to Pioneer Pharma for a cash consideration of RMB2.8 million which is equal to the amount of the registered capital. The consideration was fully paid in July 2011. Following the transfer, Naqu Pioneer became a wholly owned subsidiary of Pioneer Pharma. On 31 May 2012, Naqu Pioneer adopted its current name, Naqu Area Pioneer Pharma Co., Ltd. (那曲地區先鋒醫藥有限公司).

Pursuant to a shareholder’s resolution passed on 8 November 2012, Naqu Pioneer increased its registered capital from RMB2.8 million to RMB8 million with the additional capital of RMB5.2 million contributed by Xiantao Pioneer in cash. Following the capital injection, Naqu Pioneer was owned as to 35% by Pioneer Pharma and 65% by Xiantao Pioneer, and its registered capital has been fully paid up.

Naqu Pioneer is principally engaged in marketing, promotion and sale of imported pharmaceutical products and medical devices in the PRC.

Pioneer Ruici

On 2 September 2011, Pioneer Ruici was established in Shanghai with a registered capital of RMB4 million and owned by Pioneer Pharma as to 70%, Shanghai Integer Consulting (上海英特傑高級人才顧問有限公司) as to 20% and Shanghai Qiyu Information Technology (上海淇宇信息技術有限公司) as to 10%. The registered capital of Pioneer Ruici has been fully paid up. Pioneer Ruici is principally engaged in sale of dental devices in the PRC.

Overseas Subsidiaries

Pioneer Singapore

On 16 February 2011, Pioneer Singapore was incorporated in Singapore as a private company limited by shares. Upon incorporation, Pioneer Pharma was allotted and issued one ordinary share in Pioneer Singapore for a consideration of S\$1. Pioneer Pharma had been the sole shareholder of Pioneer Singapore since its incorporation until the Reorganisation. Pioneer Singapore is principally engaged in sale of imported pharmaceutical products and medical devices.

Pioneer Medident

On 27 August 2012, Pioneer Medident was incorporated in Singapore as a private company limited by shares. Upon incorporation, Pioneer Singapore was allotted and issued six ordinary shares in Pioneer Medident for a consideration of S\$6 and Asian Strategic Alliance Partners was allotted and issued four ordinary shares in Pioneer Medident for S\$4. On 26 February 2013, Pioneer Singapore and

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Asian Strategic Alliance Partners were allotted and issued additional 199,994 and 79,996 ordinary shares of Pioneer Medident respectively for a consideration of S\$1 per share. Since its incorporation, Pioneer Medident has been owned by Pioneer Singapore as to 60% and Asian Strategic Alliance Partners as to 40%. Pioneer Medident is principally engaged in marketing, promotion and sale of medical devices in Southeast Asia.

Pioneer Medical (HK)

On 27 June 2012, Pioneer Medical (HK) was incorporated in Hong Kong with an authorised share capital of HK\$1 million divided into 1,000,000 shares of HK\$1 each. Upon incorporation, Pioneer Singapore, Asian Strategic Alliance Partners and Grand Hill Technology were allotted and issued 600,000 shares, 200,000 shares and 200,000 shares of Pioneer Medical (HK), respectively, for a consideration of HK\$1 per share. Since its incorporation, Pioneer Medical (HK) has been owned by Pioneer Singapore as to 60%, Asian Strategic Alliance Partners as to 20% and Grand Hill Technology as to 20%. Pioneer Medical (HK) is principally engaged in marketing, promotion and sale of medical devices in HK.

Overseas Equity Investments

During the Track Record Period, we made equity investments in several upstream overseas pharmaceutical suppliers to enhance our business relationships with these suppliers and with the aim to secure the relevant marketing, promotion and sale rights of their products.

Investment in NovaBay

NovaBay is a clinical-stage biotechnology company incorporated in the State of Delaware, United States. Its shares are traded on the NYSE MKT. We commenced business relationship with NovaBay in 2012 and were granted the exclusive right to market, promote and sell its NeutroPhase products in China and certain Southeast Asia markets. In October 2012, Mr. Li was appointed by NovaBay as the Asia-Pacific Advisor to its board of directors.

To further enhance our business cooperation with NovaBay, with a view to maintaining our established relationship and improving our Company's prospects for renewing or extending our exclusive right granted by NovaBay, Pioneer Singapore entered into a unit purchase agreement (the "**Unit Purchase Agreement**") with NovaBay on 13 September 2012, pursuant to which Pioneer Singapore purchased an aggregate of 2,000,000 units of NovaBay securities for a total consideration of US\$2.5 million. Each unit of securities comprises (a) one share of NovaBay's common stock, and (b) a warrant to purchase, at an exercise price of US\$1.50 per share, one share of NovaBay's common stock. The exercise price was agreed upon between NovaBay and Pioneer Singapore by taking into account the average closing price of NovaBay's shares for the last 10 consecutive trading days prior to and including the date of the Unit Purchase Agreement.

Naqu Pioneer has entered into a supply agreement (the "**NovaBay Supply Agreement**") with NovaBay on 13 September 2012 pursuant to which, among other things, we are entitled to rebate credits from NovaBay based on our level of purchases of the NovaBay products specified in the NovaBay Supply Agreement and our level of expenses incurred in registering such products for sale in the PRC, in each case subject to cumulative limits. Under the NovaBay Supply Agreement, the rebates are paid to us periodically and NovaBay may elect to pay such rebates in the form of NovaBay shares. We were granted an additional 5,656 NovaBay shares as payment for our accrued rebate credits in respect of the six months ended 30 June 2013.

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As of the Latest Practicable Date, we held 2,005,656 shares of NovaBay's common stocks representing approximately 5.2% equity interest in NovaBay calculated based on the total number of NovaBay's shares of 38,796,529 as of 30 September 2013 and warrants to purchase an additional 2,000,000 shares of NovaBay's common stock. On 9 May 2013, Pioneer Singapore and NovaBay entered into a warrant amendment agreement whereby Pioneer Singapore agreed to exercise all of its warrants granted under the Unit Purchase Agreement to purchase 2,000,000 shares of NovaBay's common stock for a total subscription price of US\$3 million no later than 29 November 2013. Upon exercise of such warrants as contemplated in the supplemental agreement, our total holding in NovaBay will increase to approximately 10% calculated based on the total number of NovaBay's shares of 38,796,529 as of 30 September 2013.

Investment in Q3

QualiMed is a company incorporated in Germany specialising in the design, development and manufacturing of medical devices. We entered into our first supply agreement with QualiMed in 2013 and were granted the exclusive right to market, promote and sell its TsunaMed products, which are medical devices used for the treatment of vascular diseases, in China and certain Southeast Asia markets.

To further enhance our business cooperation with QualiMed, with a view to maintaining our established relationship and improving the Company's prospects for renewing or extending our exclusive right granted by QualiMed, we made various investments (collectively, the "**Investment**") in its holding company, Q3, in 2013. In addition to QualiMed, Q3 also wholly controls AMG, another company incorporated in Germany which sells coronary and peripheral vascular products. Pursuant to a binding letter of intent dated 7 January 2013 and an investment agreement dated 17 April 2013 (collectively, the "**Investment Agreements**") entered into by, amongst others, QualiMed, AMG and Pioneer Singapore, Pioneer Singapore has agreed to acquire and subscribe for shares of Q3 for a total consideration of EUR1.8 million and to provide three Convertible Loans (as defined below) up to EUR3.2 million. Pursuant to the Investment Agreements, there were two tranches of acquisition and subscription of Q3's shares which took place on 17 April 2013 and 12 June 2013, pursuant to which Pioneer Singapore purchased a total of 38,570 shares of EUR1.00 each. For each tranche, Pioneer Singapore acquired a total of 19,284 shares of Q3 from certain selling shareholders for an aggregate consideration of EUR0.75 million and subscribed for and was allotted one share of Q3 for a consideration of EUR0.15 million. Pioneer Singapore was also granted anti-dilution rights to its shareholding in Q3 following completion of the share acquisition and subscription under the Investment Agreements. Pursuant to a loan agreement entered into on or about 21 January 2013, Pioneer Singapore also granted a convertible loan of EUR0.7 million ("**Convertible Loan 1**") to QualiMed which was assigned to Q3 on 17 April 2013. Convertible Loan 1 was subsequently converted into 7,254 shares in Q3 representing approximately 3.5% of the issued share capital immediately following such conversion. Immediately following the two tranches of acquisition and subscription and the conversion of the Convertible Loan 1, Pioneer Singapore held 45,824 shares in Q3, representing approximately 22.1% of Q3's issued share capital. As at the Latest Practicable Date, Pioneer Singapore had a 21.2% equity interest in Q3.

Pursuant to the Investment Agreements, in the event that Q3 requests:

(i) on 30 November 2013, we are obliged to either grant a convertible loan of EUR1.0 million ("**Convertible Loan 2**") to Q3 with an option exercisable by Pioneer Singapore to convert the loan into Q3 shares in accordance with a specified conversion formula which option will lapse on 30 November 2016, or act as a guarantor for a bank loan of EUR1 million at reasonable commercial rates reflecting market conditions. In the event that Pioneer Singapore elects to act as the guarantor for such

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bank loan, the difference in the amount of interest between the interest which would be payable by Q3 on the bank loan and a rate of 10% per annum shall be either paid by Q3 to Pioneer Singapore or received by Q3 from Pioneer Singapore, as the case may be; and

(ii) on 15 March 2014, we are obliged to either grant a convertible loan of EUR1.5 million (“**Convertible Loan 3**”, together with Convertible Loan 1 and Convertible Loan 2, the “**Convertible Loans**”) to Q3 with an option exercisable by Pioneer Singapore to convert the loan into Q3 shares in accordance with a specified conversion formula which will lapse on 15 March 2017, or act as a guarantor for a bank loan of EUR1.5 million at reasonable commercial rates reflecting market conditions. In the event that Pioneer Singapore elects to act as the guarantor for such bank loan, the difference in the amount of interest between the interest which would be payable by Q3 on the bank loan and a rate of 10% per annum shall be either paid by Q3 to Pioneer Singapore or received by Q3 from Pioneer Singapore, as the case may be.

Pioneer Pharma has provided an undertaking to Q3 and certain of its shareholders that if Pioneer Singapore decides not to provide the Convertible Loan 2 or Convertible Loan 3, it will assume Pioneer Singapore’s obligation to provide such loans. We expect that our maximum shareholding in Q3 will not be more than 29.0% in the event of full conversion of all the Convertible Loans (assuming that Pioneer Singapore elects to provide all the Convertible Loans, and Q3 does not issue or repurchase any other shares).

Investments in Covex

Before the Reorganisation, Pioneer Pharma also made an equity investment in Covex, a Spanish company engaged in chemical and pharmaceutical business, and manufacturing API raw materials, pharmaceutical products and dietary supplements. We entered into a supply agreement with Covex in 2009 pursuant to which we were granted the exclusive right to import its Vinpocetine API to China. Covex voluntarily initiated receivership proceedings in April 2009 in anticipation of breaching its obligation to pay its creditors. Despite Covex’s voluntary receivership proceedings, Pioneer Pharma decided to invest in it to further enhance the Company’s business relationship with Covex. As we expect Vinpocetine API to continue to be in high demand in China in the future, the strategic investment in Covex, our supplier of Vinpocetine API, was made to further improve our prospects for renewing or extending our exclusive rights to market, promote and sell Vinpocetine API in China going forward. Therefore, Pioneer Pharma entered into a share subscription and shareholders agreement with Covex and certain shareholders of Covex on 15 March 2012, pursuant to which Pioneer Pharma acquired an aggregate of approximately 24% equity interest in Covex for a consideration of EUR2 million and was also granted an option to acquire a further 24% equity interest in Covex exercisable no later than 1 April 2013. Such option was extended on 5 July 2013 and assigned to Mr. Li personally, to be exercisable by 10 July 2014. We will comply with the relevant requirements under Chapter 14A of the Listing Rules in the event that Covex becomes our connected person by virtue of Mr. Li’s exercise of the option to acquire the further 24% equity interest in Covex.

Considering Covex’s receivership status and its difficult financial situation, the management decided that the equity interest in Covex should remain with Pioneer Pharma and thus was excluded from our Group as part of the Reorganisation, while our Group still retains the exclusive rights to market, promote and sell Covex’s Vinpocetine API in the PRC. Further details of the transfer of Pioneer Pharma’s business and assets to Naqu Pioneer and the relationship between our Group and Covex are set out in “— Reorganisation of PRC subsidiaries” below and in the section headed “Relationship with Controlling Shareholders” of this prospectus, respectively.

As of the Latest Practicable Date, Pioneer Pharma held a 24% equity interest in Covex. Our Group does not hold any equity interest in Covex. In addition, Pioneer Pharma is not the single largest

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shareholder of Covex, and no Director was involved in the management of Covex before its receivership.

Risk Management Measures

In order to manage the risks associated with our overseas investments, we have taken, and will continue to take, the following measures:

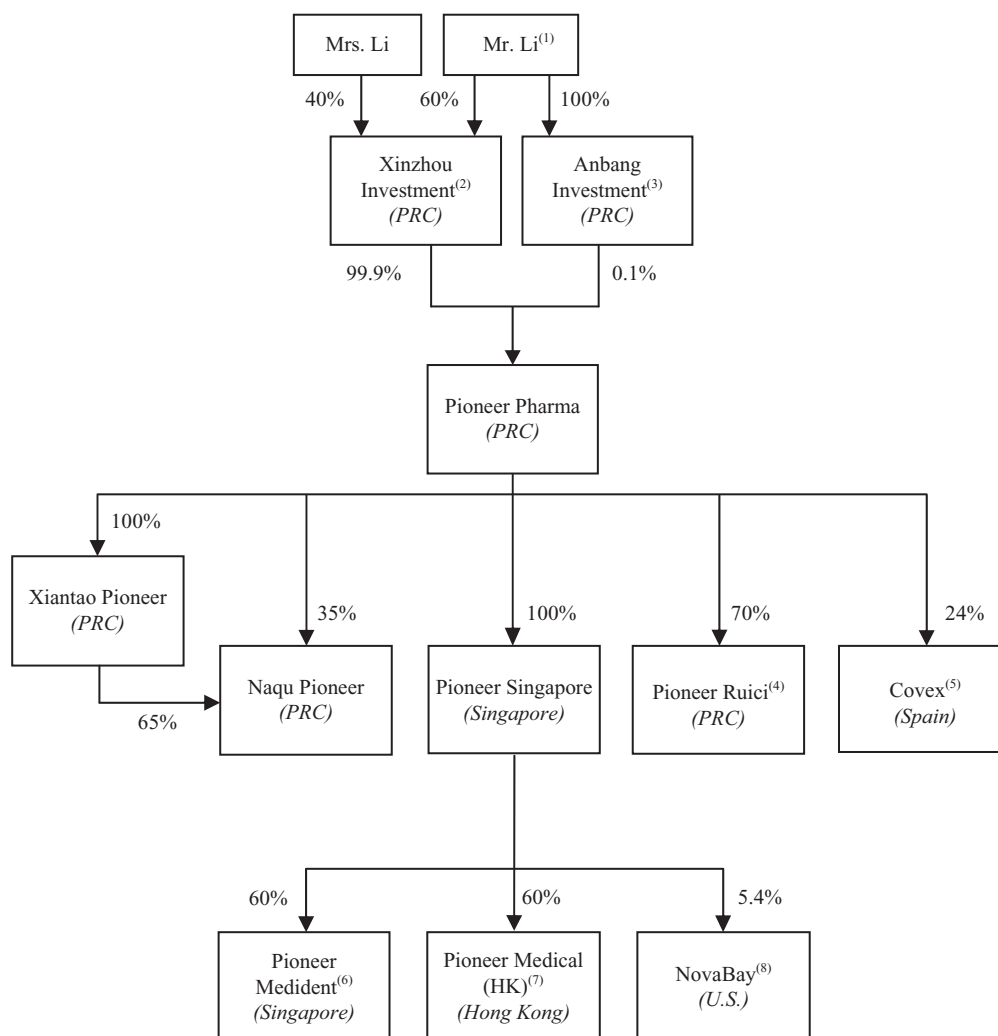
- (i) Before investing in Covex, NovaBay and QualiMed (Q3 being its holding company), we performed due diligence. We thoroughly assessed the marketability and growth potential of their respective products. We also assessed their business prospects, taking into account their historical relationship and cooperation with us. Going forward, we intend to adopt similar procedures when considering other investment opportunities.
- (ii) Before we invested in Covex, NovaBay and QualiMed, our internal audit department, with the assistance of our external PRC legal counsel, Hua Xia & Partners, reviewed the relevant contracts.
- (iii) We have designated Mr. Li, our Chairman, executive Director and chief executive officer, to oversee and monitor our investments in NovaBay and QualiMed. We believe Mr. Li has the requisite qualifications, experience and abilities to oversee our overseas investments. In addition, we have appointed Mr. Mathijs van Basten Batenburg, who holds an LL.M degree from the University of Amsterdam and previously worked with a leading international law firm, as our internal legal counsel mainly responsible for overseas investments. Mr. Batenburg is experienced in advising on cross border transactions, with a focus on negotiation, contracting, structuring and legal strategy.
- (iv) We have internal policies and procedures in place which require us to periodically evaluate our relationships with NovaBay and Q3 (previously with QualiMed), including the risks involved in the relationship and their respective products' market performance. We maintain regular business contacts via email and teleconference, and organise a number of face-to-face meetings with NovaBay and Q3 (previously with QualiMed) per annum to monitor our investments.
- (v) Our Board reviews the performance of our overseas investments and evaluates our business relationships with NovaBay and Q3 on a semi-annual basis. Relevant personnel in charge are required to report to our Board on a timely basis should there be any material development in relation to our business cooperation with NovaBay and Q3.

We understand that Pioneer Pharma also reviews and monitors its investments in Covex. Given Covex's receivership status, we have appointed a Spanish legal counsel, Mavens, to carry out due diligence on Covex and consulted with Mavens on the receivership proceedings of Covex on a regular and timely basis to mitigate the risks that we might face.

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REORGANISATION

In preparation for the Listing, our Group has undergone certain reorganisation steps. The following chart sets forth the corporate structure of our Group immediately prior to the Reorganisation:



Notes:

- (1) Anbang has been 100% beneficially owned by Mr. Li since 1 January 2011.
- (2) Xinzhou Investment is an investment holding company.
- (3) Anbang Investment is an investment holding company.
- (4) The remaining 30% equity interest in Pioneer Ruici is owned by Shanghai Integer Consulting as to 20% and Shanghai Qiyu Information Technology as to 10%.
- (5) To the best of our knowledge, the remaining shareholders of Covex are Independent Third Parties.
- (6) The remaining 40% equity interest in Pioneer Medident is owned by Asian Strategic Alliance Partners. Asian Strategic Alliance Partners is held by Mr. Yuen, Ms. Choe Siaw Lai Catherine and Ms. Janet Shung Suk Ling as to 60%, 35% and 5%, respectively. Both Ms. Choe Siaw Lai Catherine and Ms. Janet Shung Suk Ling are Independent Third Parties.
- (7) The remaining 40% equity interest in Pioneer Medical (HK) is owned by Asian Strategic Alliance Partners as to 20% and Grand Hill Technology as to 20%. Grand Hill Technology is held by Ms. Kam and Mr. Tam Wai Ming, each an Independent Third Party, as to 50% each. To the knowledge of our Directors, Mr. Tam Wai Ming has no other material business relationship with our Group.

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- (8) The percentage represents our Group's shareholding in NovaBay as of 30 June 2013. Mr. Li held 120,000 NovaBay shares as of the Latest Practicable Date. The shares of NovaBay are listed on NYSE MKT. Save as set out above, the Directors are not aware of any connected persons holding any shares in NovaBay.

Establishment of our Company

Incorporation of Pioneer Pharma (BVI)

On 12 February 2013, Pioneer Pharma (BVI) was incorporated in the BVI as a limited liability company with an authorised share capital of US\$5 million divided into 5,000,000 shares of par value of US\$1 each. At the time of its incorporation, each of Mr. Li and Mrs. Li subscribed for and was allotted and issued one share of Pioneer Pharma (BVI). Pioneer Pharma (BVI) is an investment holding company.

On 13 June 2013, Pioneer Pharma (BVI) allotted and issued an additional 500,500 shares each to Mr. Li and to Mrs. Li at par value for cash consideration.

On 6 September 2013, Pioneer Pharma (BVI) allotted and issued an additional 1,999,499 shares each to Mr. Li and Mrs. Li at par value for cash consideration and as a result, the issued share capital of Pioneer Pharma (BVI) is US\$5 million.

Pursuant to a share transfer agreement dated 16 September 2013, each of Mr. Li and Mrs. Li transferred to Mr. Wang, an Independent Third Party and a business partner of our Group, 75,000 shares of Pioneer Pharma (BVI) representing 1.5% of its issued share capital for a total consideration of RMB9.0 million in cash. The consideration was agreed between the parties after arms' length negotiation taking into account, among other factors, the book value of the net assets of Pioneer Pharma as of 31 December 2010. The consideration was fully paid. Following the transfer, Mr. Wang holds a 3% equity interest in Pioneer Pharma (BVI). Mr. Wang's equity interest in Pioneer Pharma (BVI) cannot be converted into our Company's Shares. There is no current or contemplated arrangement in place among our Company, Mr. Wang, Mr. Li, Mrs. Li and Pioneer Pharma (BVI) pursuant to which such equity interest of Pioneer Pharma (BVI) will be converted into our Company's Shares.

Incorporation of our Company

Our Company was incorporated on 5 February 2013 as an exempted limited liability company in the Cayman Islands with an authorised share capital of US\$5 million divided into 500,000,000 Shares of US\$0.01 each. At the time of incorporation of our Company, one Share was allotted and issued to the initial subscriber. On 14 February 2013, the initial subscriber transferred that one Share to Pioneer Pharma (BVI) at a consideration of US\$0.01 and Pioneer Pharma (BVI) subscribed for an additional 99 Shares at par value in cash, as a result of which our Company became a wholly owned subsidiary of Pioneer Pharma (BVI). On 22 February 2013, our Company's name was changed from Pioneer Pharma (Cayman) Co., Ltd (先锋医药(开曼)有限公司) to our current name, China Pioneer Pharma Holdings Limited (中国先锋医药控股有限公司).

On 13 June 2013, our Company allotted and issued an additional 100,100,000 Shares to Pioneer Pharma (BVI) at par value for cash consideration.

On 6 September 2013, our Company allotted and issued an additional 399,899,900 Shares to Pioneer Pharma (BVI) at par value in cash and as a result, the issued share capital of the Company increased to US\$5 million.

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Incorporation of Pioneer HK

On 19 February 2013, Pioneer HK was incorporated as a limited liability company in Hong Kong with an authorised share capital of US\$5 million divided into 5,000,000 shares of US\$1 each. Upon incorporation, one share of Pioneer HK was allotted and issued to our Company at a consideration of US\$1 and Pioneer HK has since then been a wholly-owned subsidiary of our Company. Pioneer HK is an investment holding company.

On 13 June 2013, Pioneer HK allotted and issued an additional 1,001,000 shares to our Company for a consideration of US\$1,001,000.

On 30 August 2013, Pioneer HK allotted and issued an additional 3,998,999 shares to our Company at par value for cash consideration and as a result, the issued share capital of Pioneer HK increased to US\$5 million.

Reorganisation of PRC Subsidiaries

Establishment of Xiantao Medical

Xiantao Medical was established in Xiantao city, Hubei, the PRC on 22 March 2013 with a registered share capital of US\$1 million, which has been fully paid up on 6 June 2013. Xiantao Medical has been a wholly owned subsidiary of Pioneer HK since its incorporation and it acts as the holding vehicle of our PRC subsidiaries.

Xiantao Medical's acquisition of Xiantao Pioneer

On 13 June 2013, an equity transfer agreement was entered into between Pioneer Pharma as the transferor and Xiantao Medical as the transferee, pursuant to which Pioneer Pharma transferred all its equity holding in Xiantao Pioneer representing 100% equity interest in Xiantao Pioneer to Xiantao Medical at a consideration of RMB50,210,000, which was based on the net asset value of Xiantao Pioneer as of 31 May 2013 as determined by Hainan Bai Xin Assets Appraisal Firm (海南柏信資產評估事務所), an independent valuer. The consideration was fully settled on 14 August 2013. As a result of the transfer, Xiantao Pioneer became wholly owned by Xiantao Medical. As advised by our legal adviser as to PRC laws, Jingtian & Gongcheng, the above transfer has been completed in compliance with applicable laws in the PRC.

Xiantao Pioneer's acquisition of Naqu Pioneer and Pioneer Ruici

On 14 June 2013, an equity transfer agreement was entered into between Pioneer Pharma as the transferor and Xiantao Pioneer as the transferee, pursuant to which Pioneer Pharma transferred all its equity holding in Naqu Pioneer representing 35% equity interest in Naqu Pioneer to Xiantao Pioneer at a consideration of RMB19,690,000, which was based on the net asset value of Naqu Pioneer as of 31 May 2013 as determined by Hainan Bai Xin Assets Appraisal Firm (海南柏信資產評估事務所), an independent valuer. The consideration was fully paid on 9 July 2013. As a result of the transfer, Naqu Pioneer became wholly owned by Xiantao Pioneer.

On 14 June 2013, an equity transfer agreement was entered into between Pioneer Pharma as the transferor and Xiantao Pioneer as the transferee, pursuant to which Pioneer Pharma transferred all its equity holding in Pioneer Ruici representing 70% equity interest in Pioneer Ruici to Xiantao Pioneer at a consideration of RMB 300,000, which was determined based on a valuation report prepared by Hainan Bai Xin Assets Appraisal Firm (海南柏信資產評估事務所), an independent valuer.

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The consideration was fully paid on 19 June 2013. As a result of the transfer, Pioneer Ruici became owned by Xiantao Pioneer, Shanghai Integer Consulting and Shanghai Qiyu Information Technology as to 70%, 20% and 10%, respectively.

As advised by our legal advisers as to PRC laws, Jingtian & Gongcheng, the above transfers have been completed in compliance with applicable laws in the PRC.

Naqu Pioneer's acquisition of Pioneer Pharma's business operations

Naqu Pioneer entered into a business and assets transfer agreement with Pioneer Pharma on 31 March 2013 and a supplemental agreement dated 25 June 2013, pursuant to which Pioneer Pharma transferred to Naqu Pioneer on 25 June 2013 all the operations, assets and liabilities in relation to its business of marketing, promoting and sale of pharmaceutical products and medical devices at a consideration of RMB210,000, which is based on the net asset valuation of the assets and liabilities of Pioneer Pharma being transferred. The consideration was fully paid by Naqu Pioneer on 22 July 2013. The employees in Pioneer Pharma relating to the business of marketing, promoting and sale of pharmaceutical products and medical devices were transferred to Naqu Pioneer on a voluntary basis in April 2013.

Our principal business, the marketing, promotion and sale of pharmaceutical products and medical devices, does not require any significant fixed assets such as production facilities or research laboratories. As of 31 December 2010, 2011 and 2012 and as at 30 June 2013, our non-current assets only represent 5.0%, 3.7%, 6.6% and 7.9% of our total assets, respectively. Our most significant tangible asset, other than cash and bank deposits, is our inventories, which are generally stored at our central warehouse located in Hubei Province. Naqu Pioneer leases a small office with a gross floor area of 137.7 square metres in Lhasa, Tibet and a warehouse with a gross floor area of 528 square metres in Naqu, Tibet. In order to carry out the marketing and promotion activities, our marketing and promotion team travel frequently across China. As such, we believe having a full-fledged office in Naqu is not critical for our operation. As a result, only minimal physical relocation of assets and employees were involved and the business transfer has had minimal operational impact on us.

As advised by our legal adviser as to PRC laws, Jingtian & Gongcheng, the business and assets transfer agreements are legal, valid, binding and enforceable under applicable laws in the PRC, and all rights, benefits and interests in and to the business operations and assets were transferred from Pioneer Pharma to Naqu Pioneer on 25 June 2013 in accordance with the agreements. As of 25 June 2013 and immediately following the transfer of its business to Naqu Pioneer, Pioneer Pharma had a net asset value of RMB51,843,105.

Reorganisation of Overseas Subsidiaries

Pioneer HK's acquisition of Pioneer Singapore

On 31 May 2013, Pioneer HK acquired the entire issued share capital of Pioneer Singapore from Pioneer Pharma for a consideration of US\$7,743,600, which was based on the net asset value of Pioneer Singapore as of 30 April 2013 as determined by Hainan Bai Xin Assets Appraisal Firm (海南柏信資產評估事務所), an independent valuer. The consideration was fully paid in September 2013. As a result, Pioneer HK wholly owns Pioneer Singapore and, through Pioneer Singapore, indirectly owns a 60% equity interest in Pioneer Medical (HK), a 60% equity interest in Pioneer Medident and Pioneer Singapore's minority interest in NovaBay and Q3. As advised by our Singapore legal adviser, the transfer has been duly completed and Pioneer HK has been registered as the sole shareholder of Pioneer Singapore in accordance with Singapore laws.

Acting in Concert

Mr. Li, together with Mrs. Li, were the major shareholders of our Group (including Pioneer Pharma before the Reorganisation) during the Track Record Period. They have acted in concert in the policy-making, operation, management and all major decision-making of our Group based on mutual trust and agreement. Mr. Li and Mrs. Li entered into a deed of acting in concert on 25 June 2013 to confirm and record this arrangement. Pursuant to such deed, Mr. Li and Mrs. Li agreed that this arrangement will continue after the Listing as long as Mrs. Li continues to be interested in the Shares of our Company.

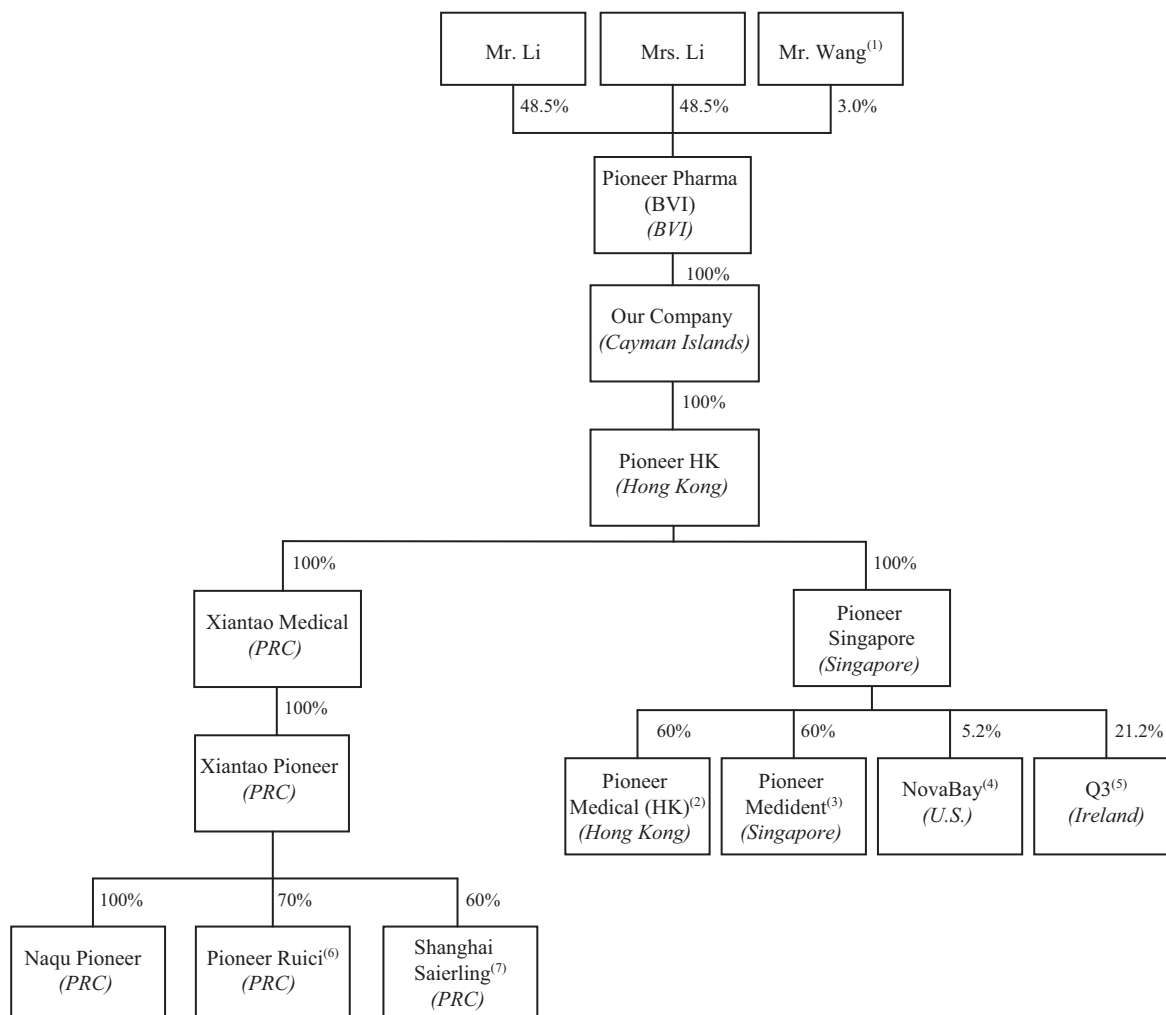
Establishment of Shanghai Saierling subsequent to Reorganisation

On 15 August 2013, Shanghai Saierling was established in the PRC to carry on the business of trading of medical devices. Shanghai Saierling is owned as to 60% by Xiantao Pioneer, and 10% each by Mr. Li Jinfeng, Ms. Shen Jie, Ms. Ma Haiyan and Ms. Zhang Xiaoyan, each an Independent Third Party. Since its establishment, Shanghai Saierling has not had any significant business activities.

HISTORY AND REORGANISATION

SHAREHOLDING AND GROUP STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group as of the Latest Practicable Date:



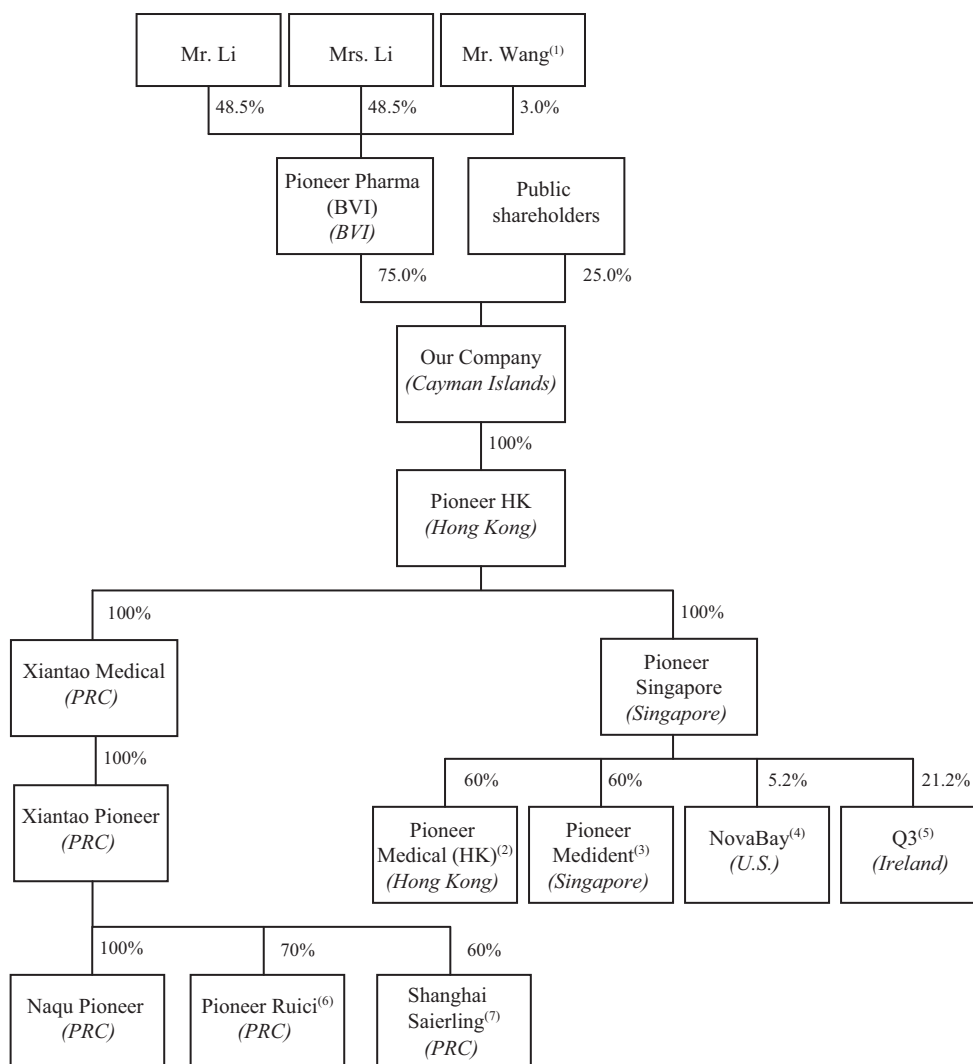
Notes:

- (1) Mr. Wang is an Independent Third Party and a business partner of our Group.
- (2) The remaining 40% equity interest in Pioneer Medical (HK) is owned by Asian Strategic Alliance Partners as to 20% and Grand Hill Technology to 20%. Asian Strategic Alliance Partners is held by Mr. Yuen, Ms. Choe Siaw Lai Catherine and Ms. Janet Shung Suk Ling as to 60%, 35% and 5%, respectively. Both Ms. Choe Siaw Lai Catherine and Ms. Janet Shung Suk Ling are Independent Third Parties. Grand Hill Technology is held by Ms. Kam and Mr. Tam Wai Ming, each an Independent Third Party, as to 50% each. To the knowledge of our Directors, Mr. Tam Wai Ming has no other material business relationship with the Group.
- (3) The remaining 40% equity interest in Pioneer Medident is owned by Asian Strategic Alliance Partners.
- (4) The percentage represents our Group's shareholding in NovaBay as of 30 September 2013. We expect to increase our shareholding in NovaBay to approximately 10% (calculated based on the total number of NovaBay shares outstanding as of 30 September 2013) on or before 29 November 2013. Separately, Mr. Li held 120,000 NovaBay shares as of the Latest Practicable Date. The shares of NovaBay are listed on NYSE MKT. Save as set out above, the Directors are not aware of any connected persons holding any shares in NovaBay.

HISTORY AND REORGANISATION

- (5) To the best of our knowledge, the remaining shareholders of Q3, a holding company that wholly controls QualiMed and AMG, are Independent Third Parties except for Mr. Zhang Wenbin who held approximately 4.0% shareholding in Q3 as of the Latest Practicable Date for the benefit of himself, and Mr. Yuen who held approximately 4.7% shareholdings in Q3 as of the Latest Practicable Date for the benefit of himself, Mr. Yang, Mr. Zhu Mengjun, Mr. Liu Xuefeng, Mr. Wang Tao, Ms. Kam, Mr. Wong and certain other Independent Third Parties.
- (6) The remaining 30% equity interest in Pioneer Ruici is owned by Shanghai Integer Consulting as to 20% and Shanghai Qiyu Information Technology as to 10%.
- (7) The remaining 40% equity interest in Shanghai Saierling is owned as to 10% each by Mr. Li Jinfeng, Ms. Shen Jie, Ms. Ma Haiyan and Ms. Zhang Xiaoyan, each an Independent Third Party. Shanghai Saierling was incorporated on 15 August 2013 and there have not been any significant business activities since its incorporation.

The following chart sets forth the shareholding and corporate structure of our Group upon completion of the Global Offering and the Capitalisation Issue, assuming the Over-allotment Option is not exercised:



Notes:

- (1) Mr. Wang is an Independent Third Party and a business partner of our Group.

HISTORY AND REORGANISATION

- (2) The remaining 40% equity interest in Pioneer Medical (HK) is owned by Asian Strategic Alliance Partners as to 20% and Grand Hill Technology as to 20%. Asian Strategic Alliance Partners is held by Mr. Yuen, Ms. Choe Siaw Lai Catherine and Ms. Janet Shung Suk Ling as to 60%, 35% and 5%, respectively. Both Ms. Choe Siaw Lai Catherine and Ms. Janet Shung Suk Ling are Independent Third Parties. Grand Hill Technology is held by Ms. Kam and Mr. Tam Wai Ming, each an Independent Third Party, as to 50% equity interest each. To the knowledge of our Directors, Mr. Tam Wai Ming has no other material business relationship with the Group.
- (3) The remaining 40% equity interest in Pioneer Medident is owned by Asian Strategic Alliance Partners.
- (4) The percentage represents our Group's shareholding in NovaBay as of 30 September 2013. We expect to increase our shareholding in NovaBay to approximately 10% (calculated based on the total number of NovaBay shares outstanding as of 30 September 2013) on or before 29 November 2013. Separately, Mr. Li held 120,000 NovaBay shares as of the Latest Practicable Date. The shares of NovaBay are listed on NYSE MKT. Save as set out above, the Directors are not aware of any connected persons holding any shares in NovaBay.
- (5) To the best of our knowledge, the remaining shareholders of Q3, a holding company that wholly controls QualiMed and AMG, are Independent Third Parties except for Mr. Zhang Wenbin who held approximately 4.0% shareholding in Q3 as of the Latest Practicable Date for the benefit of himself, and Mr. Yuen who held approximately 4.7% shareholdings in Q3 as of the Latest Practicable Date for the benefit of himself, Mr. Yang, Mr. Zhu Mengjun, Mr. Liu Xuefeng, Mr. Wang Tao, Ms. Kam, Mr. Wong and certain other Independent Third Parties.
- (6) The remaining 30% equity interest in Pioneer Ruici is owned by Shanghai Integer Consulting as to 20% and Shanghai Qiyu Information Technology as to 10%.
- (7) The remaining 40% equity interest in Shanghai Saierling is owned as to 10% each by Mr. Li Jinfeng, Ms. Shen Jie, Ms. Ma Haiyan and Ms. Zhang Xiaoyan, each an Independent Third Party. Shanghai Saierling was incorporated on 15 August 2013 and there have not been any significant business activities since its incorporation.

COMPLIANCE WITH THE RELEVANT PRC LAWS AND REGULATIONS

All necessary government approvals and registrations required for (i) the incorporation of Xiantao Medical, (ii) the acquisition of equity interest in Xiantao Pioneer, Naqu Pioneer and Pioneer Ruici from Pioneer Pharma, and (iii) the acquisition of Pioneer Pharma's business operations and assets by Naqu Pioneer have been obtained or filed in compliance with applicable PRC laws and regulations.

Prior to the Reorganisation, Mr. Li and Mrs. Li, being the Controlling Shareholders of the Company, obtained permanent residence status in Saint Christopher (St. Kitts) and Nevis and passports thereof, they became foreign nationals and were no longer PRC individuals as defined under the M&A Rules. Accordingly, none of the overseas companies of our Group, including the Company, Pioneer Pharma (BVI) and Pioneer HK, is controlled directly or indirectly by PRC individuals or PRC enterprises for the purpose of the M&A Rules. In addition, Xiantao Medical is a wholly foreign owned enterprise established under PRC laws, and its acquisition of Xiantao Pioneer is regulated by the Interim Provisions on Domestic Investment by Foreign-invested Enterprises (關於外商投資企業境內投資的暫行規定), rather than the M&A Rules. Therefore our Company is not required to obtain approvals from the MOFCOM for the Reorganisation or approvals from the CSRC for the Listing.

The Controlling Shareholders completed the initial registration procedures as required under Circular No. 75 with the Hubei Branch of the SAFE for the incorporation of Pioneer Pharma (BVI), our Company and Pioneer (HK) on 19 April 2013 and the relevant amendment registration in respect of the Reorganisation set out above on 12 August 2013. The Controlling Shareholders also completed the relevant amendment registration with respect to the share transfer of Pioneer Pharma (BVI) on 27 September 2013 from Mr. Li and Mrs. Li to Mr. Wang. As advised by our PRC legal adviser, Jingtian & Gongcheng, the Controlling Shareholders are in compliance with all material SAFE registration requirements under the PRC laws and regulations.