
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering, Pioneer Pharma (BVI) will own approximately 75.0% of our issued share capital (assuming the Over-allotment Option is not exercised). Pioneer Pharma (BVI) is an investment holding company owned by Mr. Li and Mrs. Li as to 48.5% each and Mr. Wang as to 3.0%. Accordingly, Pioneer Pharma (BVI), Mr. Li and Mrs. Li are our Controlling Shareholders.

EXCLUDED BUSINESS OF CONTROLLING SHAREHOLDERS

Pioneer Pharma

Pioneer Pharma is a company established in the PRC and owned as to 99.9% by Xinzhou Investment, which in turn is owned by Mr. Li and Mrs. Li as to 60% and 40%, respectively before the Reorganisation. Prior to the Reorganisation, Pioneer Pharma was a principal operating entity carrying on the Group's business of providing comprehensive marketing, promotion and channel management service for imported pharmaceutical products and medical devices in China.

As part of the Reorganisation, the business and assets of Pioneer Pharma in relation to the marketing, promotion and sale of pharmaceutical products and medical devices (the "**Transferred Business**") 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 entered into between Pioneer Pharma and Naqu Pioneer (the "**Transfer Agreements**"). Please see the section headed "History and Reorganisation — Reorganisation" of this prospectus for details of the transfer.

In the Transfer Agreements, Pioneer Pharma undertakes that it will cease operating the Transferred Business after the transfer and that Pioneer Pharma itself or its controlled entities will not operate or participate in any business that competes or is likely to compete, directly or indirectly, with the Transferred Business or the business carried on by Naqu Pioneer. Following the transfer, Pioneer Pharma has ceased all its business operations other than its holding of 24% equity interest in Covex and certain assets such as office premises and vehicles, therefore our Directors believe that there is no competition between Pioneer Pharma and our Group.

Pursuant to two lease agreements both dated 6 June 2013 entered into between Pioneer Pharma and Naqu Pioneer, our Group rents office premises in Hainan and two vehicles from Pioneer Pharma. Since alternative office premises and vehicles are available in the open market and our Directors consider it is less economical to transfer those assets to our Group, such office premises and vehicles will continue to be held by Pioneer Pharma and our Group rents the assets from Pioneer Pharma at market rates. The Directors believe that such office premises and vehicles are not critical to our business operations and we are not dependent on Pioneer Pharma for the provision of the leases. Following the Listing, such leases will constitute exempt connected transactions of our Group. Please see the section headed "Connected Transactions — Exempt Continuing Connected Transactions" of this prospectus for details of the leases.

Covex

Covex is a public limited company incorporated under Spanish law in 1977 and engaged in the chemical and pharmaceutical business. 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 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 shareholder of Covex, and no Director of the Group was involved in the

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management of Covex before its receivership. Please see the section headed “History and Reorganisation — Corporate History — Overseas Equity Investments” of this prospectus for details of Pioneer Pharma’s investment in Covex. To the best of our knowledge, the remaining shareholders of Covex are Independent Third Parties.

Covex is one of our top five suppliers. We have the exclusive right to market, promote and sell Covex’s Vinpocetine API in China and started purchasing Vinpocetine API from Covex in 2009. For the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, our Group’s purchases of Vinpocetine API accounted for nil, 0.2%, 1.8% and 4.0% of our total purchases for the respective period, and our Group’s sales of Vinpocetine API accounted for 1.1%, 0.7%, 1.3% and 4.9% of our total revenue for the respective period. We believe our operations will not be materially adversely affected if the supply of products from Covex is ceased.

In order to reduce the risk exposure associated with the uncertainties of Covex’s financial performance, our internal audit department, and assisted by our external PRC legal counsel, Hua Xia & Partners, reviews the relevant contracts closely, and, with the assistance of our Spanish legal counsel, Mavens, monitors the receivership proceedings on Covex on a regular basis to mitigate the risks that we might face. In addition, at Covex’s annual shareholders’ meetings, Pioneer Pharma carefully evaluates and assesses Covex’s operational and financial conditions with Covex’s other shareholders and forms corresponding resolutions and guidance for Covex’s future development. Apart from the above effort and surveillance from shareholder’s level, Pioneer Pharma has been a passive investor in Covex and has not been involved in its management or daily operation.

Our Directors confirm that the terms of our Group’s supply agreement with Covex were entered into, and the transactions conducted thereunder are conducted, on an arm’s length basis. Pioneer Pharma first obtained the exclusive right to promote, market and sell Vinpocetine API in the PRC from Covex in 2009, which was more than two years prior to Pioneer Pharma’s investment in Covex in 2012. Since 2009, Pioneer Pharma and, subsequently, our Group have continued to hold the right to promote, market and sell Vinpocetine API in the PRC on substantially the same terms. Consequently, the principal terms of the supply agreement were agreed between the parties when neither Pioneer Pharma nor any member of our Group had any equity or other relationship with Covex other than as a commercial supplier, and the terms were agreed based on arm’s length negotiation and continue to exist on normal commercial terms. The only amendment to our Group’s current supply contract with Covex occurred in 2013, when our Group agreed, on commercial terms, to accelerate the purchase schedule, and for which we obtained appropriate price concessions. None of our Directors is, or has been, involved in the management or daily operation of Covex and, as noted above, Pioneer Pharma only holds a minority interest in Covex as a passive investor and, to the best knowledge of our Directors, all the remaining shareholders of Covex are Independent Third Parties. As such, when negotiating the terms of our Group’s supply agreement with Covex, the amendment thereto and purchases thereunder, neither Pioneer Pharma nor any member of our Group has at any point been in the position to influence the management of Covex.

Reasons for Non-inclusion of Covex

In consideration of the following practical difficulties and the uncertainties of Covex’s financial performance, our Directors deem it prudent not to include Pioneer Pharma’s interest in Covex in our Group:

- Covex is currently under a voluntary receivership proceeding pursuant to a court ruling dated 20 April 2009. Covex’s director and management powers are subject to the supervision and authorisation by the receivers who have been appointed by the court.

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- Pioneer Pharma has no control over Covex's management. Pioneer Pharma has been a passive investor since it first invested in Covex and has not been involved in the daily operation of Covex. Currently none of the directors of Covex are nominated by Pioneer Pharma.

As Covex is a manufacturer of pharmaceutical products based in Spain while our Group is engaged in marketing, promoting and selling pharmaceutical products and medical devices supplied by overseas manufacturers in China, our Directors do not believe that the business engaged in by Covex competes with the business of our Group.

In addition, the Controlling Shareholders have entered into deed of non-competition in favour of our Group pursuant to which the Controlling Shareholders have undertaken that they will not and will procure that their associates and connected persons will not engage in any activities which are, or are likely to be, in competition with our Group. Please see “— Deed of Non-Competition” in this section of the prospectus below for details of the deed of non-competition. Further, each of Pioneer Pharma and Mr. Li has granted our Company a call option to acquire its or his entire equity interest in Covex at cost subject to Covex's bylaws and where applicable the other shareholders of Covex agreeing to waive the right of first refusal granted under the Covex's bylaws. Other than the right of first refusal of the other shareholders of Covex granted under Covex's bylaws, which Covex's other shareholders have waived in respect of Pioneer Pharma's existing interest in Covex (but not yet in respect of any further interest in Covex which Mr. Li or Pioneer Pharma may acquire) in the event the Company elects to acquire such interest, there are no other legal or regulatory limitations on the transfer of Covex's interest. The exercise of such options will constitute connected transactions of our Company. We will comply with all applicable requirements under the Listing Rules upon such exercise.

Having considered the matters described above and the following factors, our Directors are satisfied that our Group can carry on business independently of and at arm's length from Pioneer Pharma and its minority interest in Covex, and the Controlling Shareholders following the Listing.

NovaBay

NovaBay is a public company listed on the NYSE MKT. It is a clinical-stage biotechnology company incorporated in the State of Delaware, United States. As of 30 September 2013, our Group held 2,005,656 shares of NovaBay's common stocks representing approximately 5.2% of NovaBay's equity interest as at that date, via Pioneer Singapore. Mr. Li, one of our Controlling Shareholders, individually held 120,000 NovaBay shares as at the Latest Practicable Date. Upon Pioneer Singapore's exercise of all of its warrants granted under the Unit Purchase Agreement to purchase an additional 2,000,000 shares of NovaBay's common stock for a total subscription price of US\$3 million no later than 29 November 2013, our total shareholding in NovaBay will increase to approximately 10% calculated based on the total number of NovaBay's shares outstanding as of 30 September 2013. Please see the section headed “History and Reorganisation — Corporate History — Overseas Equity Investments — Investment in NovaBay” of this prospectus for details of our investment in NovaBay.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Management Independence

Our Board consists of a total of eight Directors, comprising two executive Directors, three non-executive Directors and three independent non-executive Directors. Our Directors and members of senior management possess relevant management and/or industry-related experience to act as Directors or senior management of our Company. Please see the section headed “Directors and Senior Management” of this prospectus for details of our Directors and senior management.

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Except for Mr. Li, none of the Directors and members of the senior management of our Group holds any positions (including directorships, legal representatives, etc.) with Pioneer Pharma, our Controlling Shareholder, or any of the companies controlled by our Controlling Shareholders. Apart from the position in our Group, Mr. Li is also the director and legal representative of Pioneer Pharma. He oversaw Pioneer Pharma's business prior to the Reorganisation. After the Reorganisation, Pioneer Pharma no longer engages in any substantive business except its holding of equity interest in Covex and certain properties such as office premises and vehicles, therefore Mr. Li does not expect to devote substantial time for the management of Pioneer Pharma going forward. Furthermore, despite Pioneer Pharma's 24% equity interest in Covex, we understand from Pioneer Pharma that it has been a passive investor and is not involved in the daily operation of Covex, and Mr. Li is not a director of Covex. Mr. Li confirmed that he is able to devote full time attention to the business of our Group upon Listing.

Each of our Directors confirmed that he is aware of and understands his fiduciary duties as a Director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the Articles require that the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have a senior management team to make business decisions independently. Our independent non-executive Directors will also bring independent judgment to the decision-making process of our Board.

Based on the above, our Directors are satisfied that our Board as a whole together with our management team are able to perform the managerial role of our Group independently.

Operational Independence

We have full control over our assets to continue our business independently of our Controlling Shareholders. We do not rely on our Controlling Shareholders for supplies of pharmaceutical products or medical devices, distribution, staffing or marketing. Our organisational structure is made up of individual departments, each with specific areas of responsibilities, and we have established our own distribution network with our own sources of suppliers and customers. Internal control procedures are available to ensure effective operation of the Group's business. Our Directors and senior management conduct our business with established systems and arrangements in place.

During the Track Record Period, we purchased Vinpocetine API from Covex. Despite the 24% equity interest in Covex held indirectly by our Controlling Shareholders through Pioneer Pharma, Covex is managed by its own team and neither Mr. Li nor Pioneer Pharma has any management control over Covex. Therefore, we are not dependent on our Controlling Shareholders in respect of our purchases from Covex.

In 2012, Pioneer Pharma purchased certain pharmaceutical products from Hainan San Feng You Ltd. (海南三風友製藥有限公司), a company controlled by Mr. Li's brother, pursuant to an agreement dated 13 July 2012. The purchase amount for the year ended 31 December 2012 amounted to RMB0.5 million and as at the Latest Practicable Date, we had not purchased any pharmaceutical products from Hainan San Feng You Ltd. in 2013. Such agreement was terminated on 15 June 2013. Please see the section headed "Connected Transactions — Anticipated Future Continuing Connected Transactions" of this prospectus for details of our purchases from Hainan San Feng You Ltd. Since such historical procurement is immaterial for our operation, we do not believe that the purchase represents our reliance on Hainan San Feng You Ltd. or our Controlling Shareholders.

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We rented our head office in Shanghai from Xinzhou Investment, a company jointly owned by Mr. Li and Mrs. Li, during part of the Track Record Period starting from September 2012 for nil consideration. On 19 June 2013, Naqu Pioneer and Xinzhou Investment formalised the lease arrangement and entered into an agreement pursuant to which Naqu Pioneer has agreed to pay a monthly rental of RMB50,000 to Xinzhou Investment for the continued use of the office premises for a term of three years ending 30 June 2016. Please see the section headed “Connected Transactions — Exempt Continuing Connected Transactions — (5) Lease of head office from Xinzhou Investment” of this prospectus for further details of such lease. Our Directors are of the view that the lease is immaterial to our overall operation as it is primarily used as our head office which houses our management team. These staff can easily be relocated to an alternative site. Further, there are alternative office premises in the vicinity of where our headquarters are located. Accordingly, the Directors believe that our lease of such office premises from Xinzhou Investment is not critical to the operation of our business and that our operation is not dependent on our Controlling Shareholders for the provision of such lease.

Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders during the Trade Record Period and are able to continue to operate independently.

Administrative Independence

The Group has its own capabilities and personnel to perform all essential administrative functions, including internal control and audit monitor, financial and accounting management, invoicing and billing, human resources and information technology.

Based on the above, our Directors believe that we have administrative independence from our Controlling Shareholders.

Financial Independence

We have our own internal control and financing systems with an internal accounting and finance department independent from our Controlling Shareholders. Our Directors believe that our Group is capable of obtaining financing from external sources without reliance on our Controlling Shareholders.

As of 30 June 2013, our Group owed RMB209.2 million to Pioneer Pharma. Of that amount, we have paid RMB110.6 million to Pioneer Pharma as of 31 August 2013 (which was funded through borrowings from Independent Third Parties in an aggregate amount of RMB50.2 million, as well as cash on hand and cash from operations), and with respect to the remaining balance of RMB98.6 million that was due to Pioneer Pharma as at 30 June 2013, we expect to settle it prior to the Listing (which we expect to fund by our cash on hand, cash from operations and borrowings). As at the Latest Practicable Date, save as disclosed above, there was no outstanding loan granted by our Controlling Shareholders or any of their associates to us and there is no guarantee provided for our benefit by our Controlling Shareholders or any of their associates. We have sufficient capital and banking facilities to operate our business independently, and have adequate internal resources and a strong credit profile to support our daily operations.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders.

DEED OF NON-COMPETITION

In order to avoid any possible future competition between our Group and the Controlling Shareholders, the Controlling Shareholders have entered into a deed of non-competition in favour of our Group. The major terms and conditions of the deed of non-competition are summarised as follows.

The Controlling Shareholders entered into a deed of non-competition (the “**Deed of Non-Competition**”) on 16 October 2013 in favour of the Company, pursuant to which each of the Controlling Shareholders has given certain non-competition undertakings to the Company (for itself and for the benefits of other members of the Group), to the effect that, he/she/it shall not, and he/she/it shall procure that his/her/its associates and connected persons do not and shall not, directly or indirectly, whether on his/her/its own or through any entities, carry on, participate, be interested or engaged or otherwise be involved, whether for profit, reward or otherwise, in any business or activity (the “**Restricted Business**”), conducted in the PRC or overseas, that is in competition with, or is likely to be in competition with, the business carried on by any member of the Group from time to time during the agreed restricted period. A Controlling Shareholder and/or his/her/its associates or connected persons is not restricted from holding or being interested in shares or other securities in any company which conducts or is engaged in any Restricted Business (the “**Subject Company**”), provided that:

- (a) such shares or securities are listed on a recognised stock exchanged; and
- (b) (i) the relevant Restricted Business conducted or engaged in by the Subject Company (and assets relating thereto) accounts for less than 10% of that company’s consolidated revenue or consolidated assets, as shown in that Subject Company’s latest audited accounts; or (ii) the aggregate number of shares, held by him/her/it, and/or his/her/its associates and connected persons or, in which he/she/it and/or his/her/its associates and connected persons are interested, does not amount to more than 5% of the issued shares of the Subject Company, and he/she/it or his/her/its connected person or associates at no time shall have the right to appoint any person to the board of directors of the Subject Company.

Each of the Controlling Shareholders has further undertaken that he/she/it shall first refer to the Company any investment or other commercial opportunity relating to the Restricted Business that is identified by, or offered by a third party to, him/her/it or his/her/its associates or connected persons, in the following manner:

- (a) The relevant Controlling Shareholder or his/her/its associates or connected persons shall give a written offer notice to our Company of such opportunity, identifying the nature of business, investment or acquisition costs and other details reasonably necessary for our Company to consider whether to pursue the opportunity.
- (b) Our Company is required to notify the relevant Controlling Shareholder within 30 days (which, if our Company in its sole discretion decides, may be extended for another 30 days by our Company notifying the relevant Controlling Shareholder of such extension) in writing of any decision taken to pursue or decline such opportunity. Our Company will seek approval from its board committee, consisting of independent non-executive Directors who do not have a material interest in the matter, as to whether to pursue or decline such opportunity.
- (c) The relevant Controlling Shareholder or his/her/its associates or connected persons may pursue such opportunity if (i) he/she/it has received a notice from our Company

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declining the opportunity, or (ii) he/she/it has not received any notice from the Company within 30 days (or 60 days if the Company has given notice to the relevant Controlling Shareholder to extend the notice period).

- (d) If there is a material change in the nature of the opportunity pursued by the relevant Controlling Shareholder or his/her/its associates or connected persons, the relevant Controlling Shareholder will refer the opportunity as so revised to the Company in the manner as outlined above.

The non-compete undertakings will terminate upon the earlier of:

- (a) the first anniversary of the date on which all of the Controlling Shareholders and their respective associates and connected persons cease to be a Controlling Shareholder; and
- (b) the date when the Shares cease to be listed on the Hong Kong Stock Exchange.

CORPORATE GOVERNANCE MEASURES

To monitor the effectiveness of the Deed of Non-Competition given to us by the Controlling Shareholders, we have adopted the following corporate governance measures:

- The decision-making process in relation to the Deed of Non-Competition will be governed and monitored as follows:
 - Our independent non-executive Directors will be responsible for deciding whether or not to take up a new opportunity referred to our Group or any other matter arising under the terms of the Deed of Non-Competition.
 - Our independent non-executive Directors will also review, on an annual basis, any decision in relation to new opportunities referred to our Group, and state their views with basis and reasons in the annual report of our Company.
- Our Company will observe any transaction that is proposed between our Group and our connected persons, and will comply with all applicable requirements under Chapter 14A of the Listing Rules for any proposed connected transactions of our Group.
- The independent non-executive Directors will review, at least on an annual basis, the compliance with the non-competition undertakings under the Deed of Non-Competition.
- The Controlling Shareholders have undertaken to provide us with all information necessary for the annual review conducted by the independent non-executive Directors and the enforcement of the Deed of Non-Competition.
- We will disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the non-competition undertakings under the Deed of Non-Competition in our annual report.

The Controlling Shareholders will make an annual statement on compliance with the non-competition undertakings under the Deed of Non-Competition in our annual report, including the disclosure on how the Deed of Non-Competition was complied with and enforced (if applicable).