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碧生源控股有限公司

BESUNYEN HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 926)

CONTINUING CONNECTED TRANSACTIONS

In late 2009, the Group contemplated distributing its products through an e-commerce platform and formed an in-house special task group to lay the groundwork. However, due to certain restrictions under PRC law and the complexity of the issues involved, the Group decided to delay the establishment of the e-commerce platform.

In September 2010, Pincha obtained a Telecom and Information Service Operation License which allowed it to conduct e-commerce activities for the Group's products in the PRC. On 30 September 2010, Beijing Outsell, an indirect wholly-owned subsidiary of the Company, and Pincha entered into the Distribution Agreement, pursuant to which Beijing Outsell agreed to sell the Products to Pincha for distribution. On the same date, Beijing Outsell also entered into the Lease Agreement with Pincha and agreed to lease the Haidian Properties to Pincha for office use.

During the periods from 30 September 2010 to 31 December 2010 and from 1 January 2011 to the date of this announcement, the respective aggregate amount of the transactions between Beijing Outsell and Pincha under the Distribution Agreement and the Lease Agreement was below HK\$1,000,000 and the applicable percentage ratios relating thereto were less than 5%. As such, the transactions were classified as *de minimis* transactions under Rule 14A.33(3) of the Listing Rules and were exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Due to a continuing increase of the sales volumes by Pincha, the Directors decided it was necessary for Beijing Outsell to establish and formalize the Group's e-commerce platform with Pincha. In view of this, Beijing Outsell and Pincha entered into the Structure Contracts, the Supplemental Distribution Agreement and extended the term under the Lease Agreement by entering into the Supplemental Lease Agreement on 28 March 2011. Upon entering into the Structure Contracts, Pincha became a subsidiary of the Group.

As at the date of this announcement, Pincha is wholly-owned by Mr. Zhao, the controlling shareholder of the Company and an executive Director. Pincha is therefore an associate of Mr. Zhao and hence a connected person of the Company for the purpose of the Listing Rules. As the highest applicable percentage ratio in relation to the largest Annual Caps for the Transactions in aggregate is more than 0.1% but less than 5%, the Transactions fall within Rule 14A.34 of the Listing Rules and are subject to the reporting, announcement and annual review requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

THE TRANSACTIONS

A. THE STRUCTURE CONTRACTS

Date:

28 March 2011

Term

From 28 March 2011 to 31 December 2013

Background

In late 2009, the Group contemplated distributing its products through an e-commerce platform and formed an in-house special task group to lay the groundwork. However, the relevant rules and regulations in the PRC require that the equity interest of a company providing value-added telecommunications services (including e-commerce) held by foreign investors shall not exceed 50% and the foreign investors shall have operation experiences in the area of value-added telecommunications. Due to such restrictions, the Company or its wholly-owned subsidiaries in the PRC (including Beijing Outsell) could not carry out such e-commerce activities in the PRC directly. In view of the complexity of the issues involved, the Group decided to delay the establishment of the e-commerce platform until some of the major regulatory issues could first be resolved.

In June 2010, Mr. Zhao, the Group's Chairman and the controlling shareholder of the Company, advanced RMB1,000,000 on behalf of Beijing Outsell, to an employee of the Group to set up Pincha, which was established as a domestic enterprise in the PRC on 18 June 2010. It was the intention of the Group to explore the possibility of using Pincha as a vehicle to conduct e-commerce activities for the Group's products in the PRC, though the exact legal arrangement between the Group and Pincha was not determined at that time. Subsequently, Pincha obtained a Telecom and Information Service Operation License (電信與信息服務業務經營許可證) from Beijing Communications Administration (北京市通信管理局) dated 29 September 2010, and commenced selling the Group's Products purchased from Beijing Outsell through the e-commerce platform.

Since its establishment in June 2010, Pincha's daily operation has been handled by the Group's personnel who directly report to Mr. Zhao. The commercial relationship between Beijing Outsell and Pincha was only at infancy stage during the initial few months, and the total trading volume was below HK\$1,000,000 for 2010, therefore, it was treated as *de minimis* transaction under Chapter 14A of the Listing Rules. As the Directors previously believed that as the trading volumes would generally be low, a formal announcement would not be necessary at that time. However, there has been a continuing increase in the trading volumes over the past few months. As the result, the Directors have decided that it is now appropriate to formalize the legal arrangement between the Group and Pincha through a series of contracts, namely the Structure Contracts to be entered into between Beijing Outsell and Pincha. The Structure Contracts would ensure that:

- (i) the Group is able to exercise control over Pincha;
- (ii) the Group would have the right to govern the management of Pincha;
- (iii) the Group would have the right to acquire the entire equity interest in Pincha (as and when the PRC relevant rules and regulations allow it to do so);

- (iv) the Company is able to consolidate the financial results of Pincha into the Group's results from the date of the Structure Contracts; and
- (v) upon entering into the Structure Contracts, Mr. Zhao will not obtain or receive any financial or commercial benefits from his interest in Pincha under the Structure Contracts despite holding direct or indirect interests in Pincha.

The Structure Contracts

The key provisions of the Structure Contracts are summarized as follows:

Exclusive Business Cooperation Agreement

On 28 March 2011, Beijing Outsell and Pincha entered into the Exclusive Business Cooperation Agreement, pursuant to which Beijing Outsell has the exclusive right to provide technical consulting and management services to Pincha. Such services include but not limited to technical service, network support, business consulting, intellectual property license and other services as the parties may mutually agree from time to time. The Exclusive Business Cooperation Agreement also entitles Beijing Outsell to charge Pincha seasonally for service fees to be determined by Beijing Outsell in accordance with the amount and quality of the services provided.

Equity Interests Pledge Agreement

On 28 March 2011, Beijing Outsell, Mr. Zhao and Pincha entered into the Equity Interests Pledge Agreement, pursuant to which Mr. Zhao agreed to pledge the entire registered capital of Pincha to Beijing Outsell as security for the performance of the obligations of Pincha under the Exclusive Business Cooperation Agreement.

Exclusive Purchase Agreement

On 28 March 2011, Beijing Outsell, Mr. Zhao and Pincha entered into an exclusive purchase agreement pursuant to which Beijing Outsell is irrevocably entitled to, as and when permitted by applicable PRC laws and regulations, acquire all of the equity interests in Pincha held by Mr. Zhao at the lowest price permitted by applicable PRC laws and regulations at that time unless appraisal is required under PRC law.

Power of Attorney

On 28 March 2011, Mr. Zhao executed a power of attorney pursuant to which he irrevocably authorized Beijing Outsell to:

- (a) attend shareholder meetings of Pincha;
- (b) exercise all rights of shareholders and voting rights in Pincha, including but not limited to selling, transferring, pledging or otherwise dealing in all or any of the equity interests in Pincha; and
- (c) appoint the legal representative, directors, supervisors, general manager and other management level personnel of Pincha.

Legality of the Structure Contracts

After taking all reasonable actions or steps to enable it to reach its legal conclusions, the Group's PRC legal advisor, Global Law Office, is of the opinion that as at the date of this announcement, the execution, delivery and performance of the Structure Contracts by Beijing Outsell and Pincha, to which it is a party, do not and will not:

- (a) result in any violation of the provisions under the articles of association or other organization documents of such party; or
- (b) result in any violation of any of the PRC laws.

B. THE DISTRIBUTION AGREEMENTS

Date:

- (1) Distribution Agreement: 30 September 2010
- (2) Supplemental Distribution Agreement: 28 March 2011

Parties

- (1) Vendor: Beijing Outsell
- (2) Distributor and purchaser: Pincha

Term

- (1) Distribution Agreement: 30 September 2010 to 30 September 2013
- (2) Supplemental Distribution Agreement: From 28 March 2011 to 31 December 2013

Background and subject of the Distribution Agreements

On 30 September 2010, Beijing Outsell and Pincha entered into the Distribution Agreement pursuant to which Beijing Outsell agreed to sell the Products to Pincha for distribution.

As the commercial relationship between Beijing Outsell and Pincha was only in its infancy, the Directors believed that the trading volumes would be generally low for the periods from 30 September 2010 to 31 December 2010 as well as from 1 January 2011 to the date of this announcement, and such sales within the respective periods could be classified as *de minimis* transactions exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33(3) of the Listing Rules.

However, due to a continuing increase of the sales volumes by Pincha, the Directors decided it was necessary for Beijing Outsell to enter into the Supplemental Distribution Agreement with Pincha. The Supplemental Distribution Agreement shall be effective from the signing date and shall supersede the Distribution Agreement from 28 March 2011 onwards.

Summary of terms of the Supplemental Distribution Agreement

Pursuant to the Distribution Agreements, Pincha shall have the right to distribute the Products globally through its e-commerce platform and telemarketing network.

The prices of the Products sold by Beijing Outsell to Pincha will be determined with reference to general market practice and the prices of similar products sold across the e-commerce platform by other independent suppliers to Pincha. The Directors estimate that the trading volume under the Supplemental Distribution Agreement will increase steadily for the three years ending 31 December 2013.

C. THE LEASE AGREEMENTS

Date:

- (1) Lease Agreement: 30 September 2010
- (2) Supplemental Lease Agreement: 28 March 2011

Parties

- (1) Lessor: Beijing Outsell
- (2) Lessee: Pincha

Term

- (1) Lease Agreement: 30 September 2010 to 30 September 2011
- (2) Supplemental Lease Agreement: From 28 March 2011 to 31 December 2013

Summary of terms of the Lease Agreements

On 30 September 2010, Beijing Outsell and Pincha entered into the Lease Agreement. In order to extend the term under the Lease Agreement, Beijing Outsell and Pincha entered into the Supplemental Lease Agreement, which shall be effective from the signing date and shall supersede the Lease Agreement from 28 March 2011 onwards.

Pursuant to the Supplemental Lease Agreement Beijing Outsell agreed to extend the lease to Pincha a quarter portion of the premises (the “**Haidian Properties**”) located at Rooms 1811, 1813, 1815 and 1817 of No. 9, Si Huan Xi Road North, Haidian District, Beijing for use as offices for the period from 28 March 2011 to 30 September 2011, and to lease the entire Haidian Properties to Pincha for the period from 1 October 2011 to 31 December 2013. The rent for the Haidian Properties for the years ending 31 December 2011, 2012 and 2013 are RMB472,500, RMB1,116,282 and RMB1,172,096 respectively, payable every six months starting from the date of the Supplemental Lease Agreement. Pincha intends to use the Haidian Properties as its principal place of business in the PRC.

ANNUAL CAPS

The proposed annual caps (the “**Annual Caps**”) for the Transactions for the three years ending 31 December 2011, 2012 and 2013 are as follows:

	2011 (in RMB)	2012 (in RMB)	2013 (in RMB)
Structure Contracts	0.00	1,938,500.00	5,266,500.00
Distribution Agreements	9,130,500.00*	17,640,000.00	24,575,500.00
Lease Agreements	472,500.00**	1,116,282.00 ^Δ	1,172,096.00 ^Δ
	<u> </u>	<u> </u>	<u> </u>
Total (on an aggregated basis)	<u>9,603,000.00</u>	<u>20,694,782.00</u>	<u>31,014,096.00</u>

* Based on the transactions under the Distribution Agreements covering the period from 1 January 2011 to 31 December 2011.

** Based on the rent payable under the Lease Agreements covering the period from 1 January 2011 to 31 December 2011.

^Δ Based on the rent payable under the Supplemental Lease Agreement.

Basis of calculation of Annual Caps

Structure Contracts

The Annual Caps of the Structure Contracts are calculated with reference to market price, the scope of services and the estimated volume of the services to be provided by Beijing Outsell to Pincha, which include consultancy services on potential product market know-how, information technology services, staff training and other administrative services and support provided by Beijing Outsell to Pincha.

Supplemental Distribution Agreement

The Annual Caps of the Supplemental Distribution Agreement are calculated after taking into account the following factors:

- (i) the existing market presence of the Group’s businesses;
- (ii) estimated growth rate of internet users with reference to data published by China Internet Network Information Center and iResearch, an independent internet research company;
- (iii) growth trends of the business-to-business e-commerce market in the PRC within the next three years with reference to data published by iResearch and Analysis International, an independent internet research company; and
- (iv) the development of e-commerce companies listed in the PRC with reference to the sales data contained in the recently published financial reports of these companies.

Supplemental Lease Agreement

The Annual Caps of the Supplemental Lease Agreement are calculated based on the prevailing market rent for similar premises in comparable locations in the PRC, the overall commercial property market conditions in the PRC and the location of the properties which may affect the rental rates. The Company expects that the rental price per square meter in late 2011, 2012 and 2013 will be on upward trend.

REASONS AND BENEFITS FOR THE TRANSACTIONS

Pincha became the Company's subsidiary after the execution of the Structure Contracts, upon which the Group would obtain financial and operational control of Pincha through Beijing Outsell. Further, upon the execution of the Structure Contracts, the Supplemental Distribution Agreement and the Supplemental Lease Agreement, this would allow Beijing Outsell to expand its distribution network via the internet at a low cost and shorten the sales process by having direct access to customers. Through co-operation with Pincha pursuant to the terms of the Supplemental Distribution Agreement, Beijing Outsell will be able to explore the global e-commerce markets and make its distribution network more effective and cost efficient, thus strengthening the Group's market position in the therapeutic tea industry.

CONSIDERATION BY THE BOARD AND RECOMMENDATION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Directors (including the independent non-executive Directors) consider that the Transactions:

- (i) have been entered into in the ordinary and usual course of business of the Company;
- (ii) have been conducted on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole;
- (iii) in relation to the Structure Contracts, Mr. Zhao does not take advantage of his position as a controlling shareholder of the Company under the Structure Contracts, and the Structure Contracts are fundamental to the Company's e-commerce business legal structure and operations; and
- (iv) the Annual Caps for the three years ending 31 December 2013 are fair and reasonable.

Mr. Zhao, being an executive Director and sole shareholder of Pincha, and Ms. Gao Yan, being an executive Director and spouse of Mr. Zhao, had abstained from voting on the Board resolutions in respect of the Transactions and the Annual Caps. Save for Mr. Zhao and Ms. Gao, none of the Directors has material interests in the Transactions. Except for Mr. Zhao and Ms. Gao, all the Directors (including all the independent non-executive Directors) voted unanimously to pass the resolutions in respect of the Transactions.

INFORMATION ON THE GROUP AND PINCHA

Information on the Group

The Group is a leading provider of therapeutic tea products in China focusing on the development, manufacture and sales of therapeutic tea and other health food products. Beijing Outsell, an indirect wholly-owned subsidiary of the Company, is a limited liability company established in the PRC and the Company's primary operating entity.

Information on Pincha

Pincha is a limited liability company established in the PRC on 18 June 2010 and wholly-owned by Mr. Zhao. It is principally engaged in online sales and marketing of therapeutic tea and other tea products. Following the execution of the Structure Contracts, Pincha became the Company's subsidiary and the Group would obtain financial and operational control of Pincha through Beijing Outsell.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Pincha is wholly-owned by Mr. Zhao, an executive Director. Pincha is therefore an associate of Mr. Zhao and hence a connected person of the Company for the purpose of the Listing Rules. Accordingly, the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

During the periods from 30 September 2010 to 31 December 2010 and from 1 January 2011 to the date of this announcement, the respective aggregate amount of the transactions between the Group and Pincha under the Distribution Agreement and the Lease Agreement was below HK\$1,000,000 and the applicable percentage ratios relating thereto were less than 5%, respectively. As such, the transactions were classified as *de minimis* transactions under Rule 14A.33(3) of the Listing Rules and were exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in relation to the largest Annual Caps for the Transactions in aggregate is more than 0.1% but less than 5%, the Transactions fall within Rule 14A.34 of the Listing Rules and are subject to the reporting, announcement and annual review requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

“Annual Caps”	has the meaning ascribed to it in the section headed “Annual Caps” in the announcement
“associate”	has the same meaning ascribed to it under the Listing Rules
“Beijing Outsell”	Beijing Outsell Health Product Development Co., Ltd. (北京澳特舒爾保健品開發有限公司), a company incorporated under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Board”	the board of Directors
“China” or “PRC”	the People's Republic of China, but for the purpose of this announcement and for geographical reference only and except where the context requires, references in this announcement to “China” and the “PRC” do not include Taiwan, the Macau Special Administrative Region and Hong Kong
“Company”	Besunyen Holdings Company Limited (碧生源控股有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange

“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	directors of the Company or any one of them
“Distribution Agreement”	the agreement dated 30 September 2010 for the sale and distribution of the Products entered into between Beijing Outsell and Pincha
“Distribution Agreements”	the Distribution Agreement and the Supplemental Distribution Agreement
“Equity Interests Pledge Agreement”	the agreement dated 28 March 2011 entered into between Beijing Outsell, Pincha and Mr. Zhao pursuant to which the entire registered capital of Pincha will be pledged to Beijing Outsell
“Exclusive Business Cooperation Agreement”	the agreement dated 28 March 2011 entered into between Beijing Outsell and Pincha pursuant to which Beijing Outsell has the exclusive right to provide certain technical consulting and management services to Pincha
“Exclusive Purchase Agreement”	the agreement dated 28 March 2011 entered into between Beijing Outsell, Pincha and Mr. Zhao pursuant to which Beijing Outsell would be entitled to, as and when permitted by applicable PRC laws and regulations, acquire all of the equity interest of Pincha
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Regions of the PRC
“Independent Third Parties”	parties which, to the best knowledge, information and belief of the Directors having made due and careful enquires, are independent of and not connected with the Directors, substantial Shareholders (within the meaning under the Listing Rules) or chief executives of the Company or any of their respective associates
“Lease Agreement”	the agreement for the lease of commercial premises by Beijing Outsell to Pincha dated 30 September 2010
“Lease Agreements”	the Lease Agreement and the Supplemental Lease Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Mr. Zhao”	Mr. Zhao Yihong, Chairman, Chief Executive Officer and executive Director of the Company

“Pincha”	北京品茶在綫電子商務有限公司 (Beijing Pincha Online E-Commerce Co., Ltd.*), a company incorporated in the PRC on 18 June 2010 and wholly-owned by Mr. Zhao
“Power of Attorney”	the power of attorney dated 28 March 2011 signed by Mr. Zhao
“Products”	the products supplied by Beijing Outsell, including products under the “Besunyen” and “VS Series” brands and other products manufactured by Beijing Outsell
“RMB”	Renminbi yuan, the lawful currency of China
“Shareholders”	the shareholders of the Company
“Structure Contracts”	collectively, the Exclusive Business Cooperation Agreement, the Equity Interests Pledge Agreement, the Exclusive Purchase Agreement and the Power of Attorney
“Supplemental Distribution Agreement”	the supplemental agreement dated 28 March 2011 for the sale and distribution of the Products entered into between Beijing Outsell and Pincha
“Supplemental Lease Agreement”	the supplemental agreement dated 28 March 2011 for the lease of commercial premises by Beijing Outsell to Pincha
“Transactions”	the transactions contemplated under the Distribution Agreements and the Lease Agreements covering the period from 1 January 2011 to 31 December 2013 and the Structure Contracts

* *For identification purpose only*

By order of the Board
Besunyen Holdings Company Limited
Zhao Yihong
Chairman and Chief Executive Officer

Hong Kong, 28 March 2011

As at the date of this announcement, the executive Directors of the Company are Mr. Zhao Yihong (Chairman and Chief Executive Officer) and Ms. Gao Yan (Vice Chairman); the non-executive Directors of the Company are Mr. Zhuo Fumin and Mr. Wang Bing; and the independent non-executive Directors of the Company are Mr. Huang Jingsheng, Mr. Wong Lap Tat Arthur and Ms. Xin Katherine Rong.