Web Proof Information Pack of

碧生源控股有限公司
BESUNYEN HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

WARNING

This Web Proof Information Pack is being published as required by The Stock Exchange of Hong Kong Limited ("HKEx")/the Securities and Futures Commission solely for the purpose of providing information to the public in Hong Kong.

This Web Proof Information Pack is in draft form. The information contained in it is incomplete and is subject to change which can be material. By viewing this document, you acknowledge, accept and agree with Besunyen Holdings Company Limited (the "Company"), any of its sponsors, advisers and/or members of the underwriting syndicate that:

(a) this Web Proof Information Pack is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and not for any other purposes. No investment decision should be based on the information contained in this Web Proof Information Pack;

(b) the posting of the Web Proof Information Pack or any supplemental, revised or replacement pages thereof on the HKEx website does not give rise to any obligation of the Company, any of its sponsors, advisers and/or members of the underwriting syndicate to proceed with an offering in Hong Kong or any other jurisdiction. There is no assurance that the Company will proceed with any offering;

(c) the contents of the Web Proof Information Pack or any supplemental, revised or replacement pages thereof may or may not be replicated in full or in part in the actual prospectus;

(d) this Web Proof Information Pack may be updated or revised by the Company from time to time by each of the Company and its affiliates, advisers, sponsors and members of the underwriting syndicate is under no obligation, legal or otherwise, to update any information contained in this Web Proof Information Pack;

(e) this Web Proof Information Pack does not constitute a prospectus, notice, circular, brochure or advertisement or document offering to sell any securities to the public in any jurisdiction, nor is it an invitation or solicitation to the public to make offers to acquire, subscribe for or purchase any securities, nor is it calculated to invite or solicit offers by the public to acquire, subscribe for or purchase any securities;

(f) this Web Proof Information Pack must not be regarded as an inducement to subscribe for or purchase any securities, and no such inducement is intended;

(g) neither the Company nor any of its affiliates, advisers, sponsors or members of the underwriting syndicate is offering, or is soliciting offers to buy, any securities in any jurisdiction through the publication of this Web Proof Information Pack;

(h) neither the Company nor any of its affiliates, advisers, sponsors or members of the underwriting syndicate makes any express or implied representation or warranty as to the accuracy or completeness of the information contained in this Web Proof Information Pack;

(i) each of the Company and any of its affiliates, advisers, sponsors and members of the underwriting syndicate expressly disclaims any and all liabilities on the basis of any information contained in, or omitted from, or any inaccuracies or errors in, this Web Proof Information Pack;

(j) the Company has not and will not register the securities referred to in this Web Proof Information Pack under the United States Securities Act of 1933, as amended, or any state securities laws of the United States; and

(k) as there may be legal restrictions on the distribution of this Web Proof Information Pack or dissemination of any information contained in this Web Proof Information Pack, you agree to inform yourself about and observe any such restrictions applicable to you.

THE WEB PROOF INFORMATION PACK IS NOT FOR PUBLICATION OR DISTRIBUTION TO PERSONS IN THE UNITED STATES. ANY SECURITIES REFERRED TO HEREIN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED OR SOLD WITHOUT REGISTRATION THEREUNDER OR PURSUANT TO AN AVAILABLE EXEMPTION THEREFROM.

NEITHER THIS WEB PROOF INFORMATION PACK NOR THE INFORMATION CONTAINED HEREIN CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN THE UNITED STATES. THIS WEB PROOF INFORMATION PACK IS NOT BEING MADE AND MAY NOT BE DISTRIBUTED OR SENT INTO CANADA, CHINA OR JAPAN.

Any offer or invitation to make an offer for any securities will only be made to the public in Hong Kong after the Company has registered its prospectus in accordance with the Companies Ordinance (Cap 32). If an offer or an invitation is made to the public in Hong Kong in due course, prospective investors are reminded to make their investment decisions solely based on a prospectus of the Company registered with the Registrar of Companies in Hong Kong, copies of which will be distributed to the public during the offer period.

CONTENTS

This information pack contains the following information relating to Besunyen Holdings Company Limited.

YOU SHOULD READ THE WARNING ON THE COVER OF THIS INFORMATION PACK

OVERVIEW

We are the leading provider of therapeutic tea (功能保健茶) products[(1)] in China, engaging in the development, production, sales and marketing of therapeutic tea and other health food products. According to the Euromonitor Study, which was commissioned by us, we had the largest market share among all therapeutic tea providers in China in terms of retail sales value in 2008 and 2009, with a market share of 11.2% and 18.8%, respectively. Produced using our proprietary blends of high quality Chinese medicinal herbs and teas, our products are designed and marketed as effective, safe, affordable and convenient-to-use health products for people with mild chronic or recurring health problems as well as those seeking to maintain a healthy body and lifestyle. We believe our 碧生源 (Besunyen) brand is a leading therapeutic tea brand in China. According to the Frost & Sullivan Brand Survey, a study commissioned by us and conducted in June 2010, our 碧生源 (Besunyen) brand has the highest brand awareness and is the first choice among consumers amongst all slimming and laxative products sold in China.[(2)] In March 2010, the China Health Care Association (中國保健協會) selected our brand as one of the "Ten Most Trustworthy Health Food Product Brands" in China. Our market leadership position, national brand recognition and established nationwide distribution and sales network, along with our strong product pipeline, provide us with significant competitive advantages in China's large and rapidly growing therapeutic tea market, which increased in size from RMB3.1 billion in 2005 to RMB4.1 billion in 2009, according to the Euromonitor Study.

Our best selling products, Besunyen Detox Tea (碧生源常潤茶) and Besunyen Slimming Tea (碧生源減肥茶), were the leading therapeutic tea products sold through retail pharmacies in China in the laxative product and slimming product markets in terms of retail sales value in 2009, respectively, according to the SMERI Study, a study commissioned by us. According to the SMERI Study, we were the leading provider of laxative products sold through retail pharmacies in 2009 in terms of retail sales value, enjoying a 25.2% market share. In the market for slimming products sold through retail pharmacies, our market share increased rapidly from 8.1% in 2008 to 15.9% in 2009, ranking as the second largest provider of slimming products and the largest provider of slimming tea in terms of retail sales value in 2009. Leveraging upon the success of our 碧生源 (Besunyen) brand, we plan to continue to expand our product offerings. We are expanding into the OTC tea market with the planned launch of our Besunyen MaiShuPing Tea (碧生源脈舒平袋泡茶), which we acquired through our acquisition of Zhuhai Qi Jia in January 2010. Because of the revocation of approvals for three advertisements, the production of which we were not involved in, with respect to MaiShuPing Tea by Guangdong SFDA in June 2010, we are not permitted to advertise our Besunyen MaiShuPing Tea until June 28, 2011. Taking into account market and business considerations, we currently expect to launch Besunyen MaiShuPing Tea some time after June 2011. Our product pipeline also includes four SFDA-approved health food products that we are planning to launch, starting in late 2010. We believe that our market-leading position and strong national brand name have allowed us to develop a broad customer base in China, which in turn will facilitate more rapid acceptance of our new products.

Our products are sold in over 100,000 retail outlets across China, more than 95% of which are retail pharmacies, through our nationwide network of distributors. Our network of distributors[(3)] has grown from 151 distributors covering four provinces and centrally administered municipalities in China as of December 31, 2007

---

(1) *As used in this document, therapeutic tea products are tea-based health food products approved by the SFDA as providing certain health benefits. The SFDA currently approves therapeutic tea products and other health food products for 27 categories of health benefits. For more information on the 27 categories of health benefits, please see the section headed "Industry Overview — Health Food Product Market in China." Upon approval by the SFDA, a "health" ("健") mark may be fixed on such product's packaging.*

(2) *The Frost & Sullivan Brand Survey was conducted by collecting responses for a designed questionnaire from 3,150 people, 900 of whom were from three first-tier cities and the rest were from 15 second-tier cities in China. Of the respondents, 78% were aged between 18 to 34 and 71% were female.*

(3) *These distributors operated in geographic markets covered by our on-the-ground local sales teams. During the Track Record Period prior to 2010, we also sold a small portion of our products to distributors located in markets which our local sales teams did not yet cover.*

to 409 distributors covering 30 provinces and centrally administered municipalities as of June 30, 2010. We also have expanded our presence in supermarkets and convenience stores, in particular large chains such as Wal-Mart and Watsons. Our on-the-ground sales teams, consisting of approximately 1,260 full-time employees in our 81 sales offices across China as of June 30, 2010, interact closely with and monitor our distributors and retail outlets to ensure consistency and quality in our sales promotion and brand-building while still tailoring their marketing efforts to local preferences. To strengthen our control over distribution channels, improve the efficiency of distribution, ensure quality control and maximize our profit margin, we operate a "flat" distribution system in which there is generally only one layer, or at most two layers, of distributors between our company and the retail outlet. We market our products and enhance our brand awareness through a wide range of targeted advertising activities, including primarily television commercials on selected national and regional satellite television networks and other media advertisements as well as sponsorships of television shows and events. In 2007, 2008, 2009 and the six months ended June 30, 2010, our total advertising expenses amounted to RMB49.1 million, RMB118.2 million, RMB196.7 million and RMB117.1 million, respectively, representing 30.1%, 33.0%, 30.4% and 31.8% of our total turnover in the relevant period.

Most members of our senior management team have been in the consumer or health food product industry for over 15 years, and they collectively have a strong proven track record of delivering growth and profitability. In particular, our core management team, including Mr. Zhao Yihong, our founder, Chairman and Chief Executive Officer, Mr. Mou Wenjun, our Vice President in charge of sales, and Mr. Yu Hongjiang, our Vice President in charge of internal control, have been instrumental to our Company's development during almost the entire history of our Company. Other members of our senior management also have significant relevant experience in key aspects of our operations, including marketing, advertising, human resource and corporate financial management. To strengthen our expertise in Chinese medicinal herbal product development, in May 2010 we acquired a Shanghai-based research and development team led by Dr. Cai Ya, the director of the PRC research center of Unilever from 2002 to 2008, with extensive experience in the development of herbal food and tea products, including products sold under the Lipton brand.

We believe our market-leading position, strong national brand name and nationwide distribution and sales network in China, coupled with our experience and knowledge of the strict PRC regulatory requirements for health food products, create strong barriers to entry in our markets. We believe it is difficult for other market participants to replicate our success within a short period of time due to the significant investment and time required to establish strong brand awareness, a long safety record and a nationwide distribution and sales network. Furthermore, obtaining SFDA approval for health food products can take up to two years and we expect the regulatory approval process to become more stringent for new entrants as China's health food product standards and testing regime continue to develop. Our established market reputation, experienced product development team, extensive distribution network and pipeline of SFDA-approved products give us a competitive advantage in bringing new products to the market.

Our turnover has increased rapidly during the Track Record Period, growing from RMB163.1 million in 2007 to RMB358.2 million in 2008 and RMB646.5 million in 2009, representing a CAGR of 99.1%, and from RMB223.7 million in the six months ended June 30, 2009 to RMB368.7 million in the six months ended June 30, 2010 representing a year to year growth of 64.8%. Our gross profit increased from RMB115.4 million in 2007 to RMB298.1 million in 2008 and RMB578.1 million in 2009, representing a CAGR of 123.9%, and from RMB201.7 million in the six months ended June 30, 2009 to RMB330.7 million in the six months ended June 30, 2010, while our total comprehensive income increased from RMB47.6 million in 2007 to RMB122.0 million in 2008 and RMB141.7 million in 2009, representing a CAGR of 72.6%. Our total comprehensive income in 2009 was negatively affected by a RMB33.5 million non-cash charge related to change in fair value on our Series A Preferred Shares in 2009. Our total comprehensive income decreased from RMB68.9 million in the first six months of 2009 to RMB21.1 million in the first six months of 2010, primarily due to a RMB56.7 million non-cash charge related to change in fair value on our Series A Preferred Shares, RMB7.7 million of share-based compensation expenses, and RMB14.7 million of other expenses.

OUR COMPETITIVE STRENGTHS

- Market leader in the therapeutic tea segment of China's large and fast-growing health food product market
- Strong nationwide brand recognition and effective brand marketing strategy
- Extensive nationwide distribution network
- Strong pipeline of SFDA-approved products and product development capabilities
- Proven vertically integrated operating model
- Experienced management team with strong track record of effective leadership and execution

OUR STRATEGIES

- Continue to expand our market share to further strengthen our leading position in the therapeutic tea market
- Enhance our brand recognition through effective and targeted marketing
- Further develop and expand our extensive distribution network
- Expand our product portfolio and strengthen our research and development capabilities
- Attract, retain and motivate talented personnel

RISK FACTORS

The section headed "Risk Factors" in this document describes events, uncertainties and circumstances that may create or enhance risks to our business, financial condition or results of operations or otherwise. These risk factors include:

Risk Factors Relating to Our Business and Industry

- We have been, and may continue to be, substantially dependent on turnover from our two flagship products, Besunyen Detox Tea and Besunyen Slimming Tea.
- Changes in consumer preferences and demand for therapeutic tea and health food products based on Chinese medicinal herbs, and our therapeutic tea products in particular, could materially adversely affect our business prospects and results of operations.
- Any failure to develop and introduce new products or gain market acceptance of our new products could have a negative effect on our business.
- The success of our business depends significantly on our ability to maintain and enhance our brand awareness.
- Our marketing activities are critical to the success of our products, and if we fail to maintain or grow our marketing capabilities, the market share, brand name and reputation of our products could be materially adversely affected.

- Our rapid turnover growth has been largely attributable to our expansion into new markets and we may not be able to maintain our high growth rate as our presence in those markets matures.

- Our turnover has been, and may continue to be, significantly dependent on sales in certain geographic markets.

- We face intense competition, and if we fail to compete effectively, we may lose market share and our results of operations may be adversely affected.

- We may be unable to effectively manage our rapid growth, which could materially and adversely affect our business, financial condition and results of operations.

- The expansion of our distribution and retail network may not be as successful as we expect.

- We have experienced increasing trade and notes receivables as our business has expanded, and any significant defaults on these receivables could materially and adversely affect our liquidity, results of operations and financial position.

- If we fail to integrate acquired companies efficiently, or if the acquired companies do not perform to our expectations, we may not be able to realize the benefits envisioned for such acquisitions, and our overall profitability and growth plans may be adversely affected.

- Our high profit margin may not be sustainable.

- Any unexpected or undesirable side effects or injury caused by our products to consumers could result in costly product recalls or product liability claims, which in turn could lead to severe reputational damage, monetary losses or lawsuits.

- Unfavorable publicity or consumer perception of our products, or of similar products sold by other companies, could have a material adverse effect on our business.

- The health food product and pharmaceutical product industries are heavily regulated in China, and any failure to comply with, and changes in, the regulatory requirements or any regulatory actions against us or our products could adversely affect our business prospects and results of operations.

- We depend on distributors for most of our turnover, and failure to maintain relationships with our existing distributors or otherwise expand our distribution network could materially and adversely affect our business.

- We have limited control over the actions and practices of our distributors and retail outlets selling our products and actions and practices of our distributors and retail outlets may harm our brand and reputation and the competitiveness of our products or otherwise negatively affect our business prospects and results of operations.

- We may not be able to accurately track the sales and inventory levels of our distributors and retail outlets, which could cause us to predict sales trends incorrectly.

- Delays in delivery of our products by our distributors and logistics companies may affect our sales and damage our reputation.

- Our products and brand names may be subject to counterfeiting or imitation, which could adversely impact our reputation and lead to loss of consumer confidence, reduced sales and higher administrative costs.
- We consider the formulae of our products to be important trade secrets and know-how, and our ability to compete could be harmed if any such trade secrets and know-how are disclosed to third parties.
- Any failure to protect our intellectual property rights could undermine our competitive position, and litigation to protect our intellectual property rights may be costly and ineffective.
- We may be exposed to intellectual property infringement claims by third parties, which could disrupt our business and cause us to incur substantial legal costs, or damage our reputation.
- Our success and business operations are largely dependent on certain key personnel and our ability to attract and retain talented personnel.
- We experience seasonal fluctuations in our turnover and profitability.
- Any disruption to the supply of, any increase in the prices of, or any quality or safety problems in relation to, our raw materials or packaging materials could adversely affect our production, turnover and profitability.
- Our entry into international markets may expose us to certain risks.
- The recent global financial crisis and economic downturn had and may continue to have a material and adverse effect on our business, results of operations and financial condition.
- We may need additional capital and any failure by us to raise additional capital on terms favorable to us, or at all, could limit our ability to grow our business.
- We rely on an independent third-party employment agency to provide contract personnel for our operation, sales and promotional activities. We have limited control over these contract personnel and we may be liable for this employment agency's violation of applicable PRC labor laws.
- The majority of our production facilities are located at one single location, and any natural disaster or other event affecting these facilities may severely disrupt our business.
- Outbreaks of infectious diseases, such as the recent H1N1 influenza, severe acute respiratory syndrome (SARS) or avian influenza, in China may materially and adversely affect our business and operations.
- Our insurance coverage may not completely cover the risks related to our business and operations.
- A system failure or breakdown of our information technology infrastructure may cause interruptions of our business and operations.
- Our legal right to lease certain properties could be challenged by property owners or other third parties.

Risk Factors Relating to Doing Business in China

- Adverse changes in political and economic policies of the PRC Government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our products and materially and adversely affect our competitive position.
- Uncertainties with respect to the PRC legal system could have a material adverse effect on us.
- A failure by the beneficial owners of our Shares who are PRC residents to comply with certain PRC foreign exchange regulations could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities and subject us to liability under PRC laws.
- Governmental control of currency conversion may limit our ability to use our turnover effectively and the ability of our PRC subsidiaries to obtain financing.
- Fluctuations in the value of the Renminbi may have a material adverse impact on our financial condition and results of operations and the value of your investment.
- The increase in the PRC enterprise income tax and the discontinuation of the preferential tax treatments available to us could decrease our net income and materially and adversely affect our financial condition and results of operations.
- We may be classified as a "resident enterprise" for PRC enterprise income tax purposes; such classification could result in unfavorable tax consequences to us and our non-PRC Shareholders.
- We rely on dividends paid by our subsidiaries for our cash needs, and limitations under PRC laws on the ability of our PRC subsidiaries to distribute dividends to us could adversely affect our ability to utilize such funds.
- PRC tax laws on dividend distribution may materially and adversely affect our business and results of operations and dividends payable by us to our foreign investors and gains on the sale of our Shares may be subject to withholding taxes under PRC tax laws.
- It may be difficult to effect service of process upon us or our Directors or executive officers who reside in China or to enforce against them in China any judgments obtained from non-PRC courts.
- We are subject to environmental regulations and may be exposed to liability and potential costs for environmental compliance.

APPROVALS AND PERMITS

We operate in the health food industry, and we are planning to expand into the OTC tea market, both of which are heavily regulated by the PRC Government. We have adopted various measures to comply with applicable laws, regulations and procedures, and we intend to conduct our operations in accordance with any future laws, regulations and procedures issued by the PRC Government to regulate the health food industry that are applicable to us once they become effective. The following table sets forth the major approvals and permits possessed by us on our products and manufacturing facilities, including their respective expiry dates.

Permit/Approval	Grant Date	Expiry Date
Hygiene Permit[(1)]	June 17, 2010	June 16, 2014
ISO 9001 Certificate	October 11, 2002	October 7, 2011
Pharmaceutical Manufacturing Permit	January 1, 2006	December 31, 2010
National Industry Product Manufacturing Permit	August 12, 2009	August 11, 2012
Registration Certificate for Food Export Manufacturing Enterprise	July 3, 2009	July 2, 2012
Food Circulation Permit	March 4, 2010	March 3, 2013
Pharmaceutical GMP certificate	April 30, 2010	April 29, 2015
SFDA Approval		
Besunyen Detox Tea[(2)]	November 14, 1997	N/A[(3)]
Besunyen Slimming Tea[(2)]	April 15, 2004	N/A[(3)]
MaiShuPing Tea (脈舒平袋泡茶)	November 18, 2002	N/A[(4)]
Besunyen Ganoderma Wolfberry Tea (碧生源牌靈芝枸杞茶)[(2)]	July 4, 2006	July 3, 2011
Besunyen Mei An Granule (碧生源牌美安顆粒)	April 22, 2005	N/A[(3)]
Besunyen Qing Zhi Yin (碧生源牌清之飲沖劑)	January 24, 2005	N/A[(3)]
Besunyen Shan Ge Granule (碧生源牌山葛顆粒)	May 11, 2007	May 10, 2012
Besunyen Rui De Meng Slimming Tea (碧生源牌瑞德夢減肥茶)	June 8, 2006	June 7, 2011
A-Shen Kang Li Yuan Slimming Tea (阿申牌康麗源減肥袋泡茶)[(2)]	February 13, 2003	N/A[(3)]
Besunyen Chang Qing Shuang Detox Tea (碧生源牌腸清爽茶)[(2)]	September 3, 1999	N/A[(3)]
Rui Meng BaiCao Slimming Tea (瑞夢牌百草減肥茶)[(2)]	October 12, 1998	N/A[(3)]

(1) *There is no separately issued GMP certificate for production of health food products. GMP compliance is one of the pre-conditions to issue a hygiene permit for health food products.*

(2) *The grant date for the product was the date on which the SFDA approval was initially granted. Such approval was transferred to us subsequently in connection with the transfer of the product to us.*

(3) *SFDA approval certificates granted prior to July 1, 2005 bear no expiry date. The SFDA will commence the replacement work of all certificates granted prior to July 1, 2005 after the promulgation of the Regulations for the Supervision and Administration of Health Food (保健食品監督管理條例), the promulgation date of which is yet to be determined, and the SFDA will allow reasonably sufficient time for the relevant enterprises to replace their respective certificate.*

(4) *SFDA approval for pharmaceutical products bears a five year term, but approvals for pharmaceutical products, whose re-registration application is accepted by the SFDA, can continue to be used during the re-registration period. The re-registration application of Maishuping Tea was accepted by Guangdong SFDA on July 18, 2008.*

SUMMARY OF HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth, for the periods indicated, the selected financial data from our consolidated financial information. For more detailed information, please see the "Accountants' Report" in Appendix I to this document.

Consolidated Statements of Comprehensive Income

	Year Ended December 31,			Six Months Ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Turnover	163,100	358,231	646,535	223,679	368,684
Cost of sales	(47,728)	(60,114)	(68,401)	(21,999)	(37,962)
Gross profit	115,372	298,117	578,134	201,680	330,722
Other income (expenses)	1,853	(335)	13,338	5,425	(10,841)
Selling and marketing expenses	(63,740)	(162,872)	(343,808)	(112,719)	(186,686)
Administrative expenses	(5,522)	(11,524)	(27,800)	(11,436)	(29,952)
Finance costs	(366)	(1,353)	(8,654)	(439)	(2,734)
Change in fair value on redeemable convertible preferred shares	—	—	(33,497)	—	(56,661)
Profit before taxation	47,597	122,033	177,713	82,511	43,848
Taxation	(2)	(54)	(36,006)	(13,567)	(22,740)
Profit and total comprehensive income for the year/period	47,595	121,979	141,707	68,944	21,108
Earnings per share					
Basic	0.04	0.11	0.13	0.06	0.02
Diluted	N/A	N/A	0.13	N/A	0.02

Consolidated Statements of Cash Flows

	Year Ended December 31,			Six Months Ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash from (used in) operating activities	41,902	121,428	96,564	12,834	(6,454)
Net cash used in investing activities	(10,459)	(68,310)	(131,735)	(73,509)	(79,872)
Net cash (used in) from financing activities	(9,122)	7,207	115,870	4,241	(21,516)
Increase (Decrease) in cash and cash equivalents	22,321	60,325	80,699	(56,434)	(107,842)
Cash and cash equivalents at beginning of the year/period, representing bank balances and cash	5,432	27,753	88,078	88,078	168,777
Cash and cash equivalents at end of the year/period, representing bank balances and cash	27,753	88,078	168,777	31,644	60,935

Consolidated Statements of Financial Position

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property plant and equipment	39,976	54,138	130,935	256,577
Prepaid lease payments	4,900	17,619	18,025	69,580
Intangible assets	5,902	5,343	7,138	24,466
Non-current deposits	4,672	28,480	93,056	22,168
Deferred tax assets	—	413	976	3,703
Goodwill	—	—	—	20,785
	55,450	105,993	250,130	397,279
Current assets				
Inventories	5,664	6,695	6,397	13,245
Trade and notes receivables	6,401	8,095	94,723	109,289
Deposits, prepayments and other receivables	2,095	22,217	44,506	121,119
Amounts due from related parties	2,283	29,802	20	20
Investment held for trading	6,791	5,151	—	—
Pledged bank deposits	500	12,154	1,955	—
Bank balances and cash	27,753	88,078	168,777	60,935
	51,487	172,192	316,378	304,608
Current liabilities				
Trade payables	376	4,756	10,512	3,113
Other payables and accrued expenses	28,126	49,418	31,981	63,644
Amounts due to related parties	4,911	883	—	1,500
Dividend payable	25,759	25,759	—	2,500
Taxation payable	—	425	13,436	15,258
Bank borrowings	7,800	—	50,000	32,000
	66,972	81,241	105,929	118,015
Net current (liabilities) assets	(15,485)	90,951	210,449	186,593
	39,965	196,944	460,579	583,872
Capital and reserves				
Paid-in capital/share capital	34,721	61,994	63	65
Reserves	3,244	97,950	299,451	332,104
	37,965	159,944	299,514	332,169
Non-current liabilities				
Bank borrowings	—	35,000	15,000	45,000
Deferred government grant	2,000	2,000	3,944	5,588
Deferred tax liabilities	—	—	6,200	9,526
Redeemable convertible preferred shares	—	—	135,921	191,589
	2,000	37,000	161,065	251,703
	39,965	196,944	460,579	583,872

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2010

The following sets forth certain forecast data for our Company for the year ending December 31, 2010, which should be read in conjunction with this prospectus:

Forecast consolidated net profit attributable to the equity holders of the Company for the year ending December 31, 2010[(1)]	not less than RMB80.3 million (approximately HK$91.8 million)
Adjustment[(2)]:	
Loss on increase in fair value of the Series A Preferred Shares	RMB90.9 million (approximately HK$104.0 million)
Forecast consolidated net profit attributable to equity holders of the Company before loss on increase in fair value of the Series A Preferred Shares[(2)]	not less than RMB171.2 million (approximately HK$195.8 million)
Unaudited pro forma forecast profit per Share[(3)]	RMB0.05 (approximately HK$0.06)

(1) The bases and assumptions on which the forecast consolidated profit for the year ending December 31, 2010 attributable to owners of the Company has been prepared are summarized in Appendix III to this prospectus.

(2) The calculation of forecast consolidated net profit before loss on increase in fair value of the Series A Preferred Shares attributable to the equity holders of the Company is based on the forecast consolidated net profit attributable to the equity holders of the Company for the year ending December 31, 2010, adjusted for the estimated fair value adjustment on the Series A Preferred Shares of RMB90.9 million (approximately HK$104.0 million) for the year ending December 31, 2010.

(3) The unaudited pro forma forecast profit per share are converted into Hong Kong dollars at an exchange rate of RMB0.8743 to HK$1, the rate of The People's Bank of China prevailing on September 9, 2010. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

There can be no assurance that such estimates will ultimately be realized, or if not realized, that the failure to realize such results will not have a material and adverse impact on our financial condition or results of operations.

DIVIDENDS AND DIVIDEND POLICY

We declared a dividend of RMB34.3 million to our then shareholders in 2007 with respect to our distributable profits for 2007, RMB8.6 million of which was paid in 2007 and the remainder of which was paid in

2009. We also declared a special cash dividend of an aggregate amount of the US Dollar equivalent of RMB47.5 million (the "Special Dividend") to Foreshore, one of our immediate holding companies, in April 2010. Each of our Shareholders other than Foreshore forfeited and waived in writing any and all of its rights and interest in the Special Dividend. The US Dollar equivalent of RMB45.0 million of the Special Dividend was paid in May 2010 and the remainder of the Special Dividend was paid in August 2010. We have not made any other dividends or distributions to our Shareholders during the Track Record Period. Our historical distributions of dividends are not indicative of our future declarations of dividends.

Our Board may declare dividends in the future after taking into account our financial and business conditions, earnings, capital requirements and other factors as it may deem relevant at such time. Any declaration and payment, as well as the amount of, dividends will be subject to the requirements of our constitutional documents and the Cayman Companies Law. Our Shareholders in general meeting must approve any declaration of dividends, which may not exceed the amount recommended by our Board. In addition, our Directors may from time to time pay such interim dividends as appear to our Board to be justified by our profits, or special dividends of such amounts and on such dates as they think fit. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries, in particular those established in China. PRC laws require that dividends be paid only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profit under PRC accounting standards each year to its general reserves or statutory capital reserve fund until the aggregate amount of such reserves reaches 50% of its respective registered capital. These reserves are not available for distribution as cash dividends.

Subject to the considerations and constraints above, we currently intend to distribute as dividends to all our Shareholders approximately 20% to 30% of our consolidated net profit after tax in respect of the year ended December 31, 2010 and each year thereafter.

DEFINITIONS

In this document, unless the context otherwise requires, the following words and expressions have the following meanings.

"Accountants' Report"	the accountants' report set out in Appendix I of this document
"affiliate(s)"	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with a specified person
"AQSIQ"	the PRC General Administration of Quality Supervision, Inspection and Quarantine (中華人民共和國質量監督檢驗檢疫總局)
"Articles" or "Articles of Association"	the articles of association of our Company, conditionally adopted on September 8, 2010 and as amended from time to time
"associate"	has the meaning ascribed thereto under the Listing Rules
"Beijing Dongzhimen Hospital"	The Dongzhimen Hospital affiliated to Beijing University of Chinese Medicine (北京中医药大学东直门医院) in Beijing, PRC, an independent third party
"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 a wholly owned indirect subsidiary of our Company
"Beijing Ruipule"	Beijing Ruipule Commerce and Trade Co., Ltd. (北京瑞普樂商貿有限公司), a company incorporated under the laws of the PRC with limited liability and controlled by Mr. Zhao Yihong prior to its deregistration on December 12, 2007
"Besunyen Food and Beverage"	Beijing Besunyen Food and Beverage Co., Ltd. (北京碧生源食品飲料有限公司), a company incorporated under the laws of the PRC with limited liability and a wholly owned indirect subsidiary of our Company
"Besunyen HK"	Besunyen (Hong Kong) Co., Limited (碧生源(香港)有限公司), a company incorporated under the laws of Hong Kong with limited liability and a wholly owned indirect subsidiary of our Company, previously known as Outsel Herbal Tea Limited
"Besunyen Investment"	Besunyen Investment (BVI) Co. Ltd., a company incorporated under the laws of the BVI with limited liability and a wholly owned subsidiary of our Company, previously known as Tea-Care Holding Co. Universal Ltd

"Besunyen Trade"	Beijing Besunyen Trading Co., Ltd. (北京碧生源商貿有限公司), a company incorporated under the laws of the PRC with limited liability and a wholly owned indirect subsidiary of our Company
"Board"	the board of Directors of our Company
"BSYI"	Besunyen Investment Co., Ltd. (碧生源投資有限公司), a company incorporated under the laws of PRC with limited liability and controlled by Mr. Zhao Yihong
"Business Day"	a day that is not a Saturday, Sunday or public holiday in Hong Kong, on which banks in Hong Kong are open generally for normal banking business
"BVI"	British Virgin Islands
"CAGR"	compound annual growth rate
"Cayman Companies Law"	the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Chairman"	the chairman of our Board
"Chief Executive Officer"	the chief executive officer of our Company
"Chief Financial Officer"	the chief financial officer of our Company
"China" or "PRC"	the People's Republic of China, but for the purpose of this document and for geographical reference only and except where the context requires, references in this document to "China" and the "PRC" do not include Taiwan, the Macau Special Administrative Region and Hong Kong
"China Health Care Association"	the China Health Care Association (中國保健協會), the industry association of China's health products industry
"Company" or "our Company" or "Besunyen Holdings"	Besunyen Holdings Company Limited (碧生源控股有限公司), a company incorporated under the laws of the Cayman Islands on August 5, 2009 with limited liability, previously known as Tea-Care Group Ltd
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules, and in the context of the Company means Foreshore and Zhao Yihong
"Ding Tian"	Ding Tian Greater China Strategy Fund, a company incorporated under the laws of the Cayman Islands with limited liability and a Shareholder of our Company controlled by one of our Directors, Mr. Wang Bing, see the section headed "History, Reorganization and Group Structure" in this document for more information
"Director(s)"	directors of our Company or any one of them

"Euromonitor"	Euromonitor International Plc., a private independent provider of business intelligence on industries, countries and consumers and an independent third party
"Euromonitor Study"	a research study dated July 7, 2010, commissioned by us for a fee of RMB314,438, conducted by Euromonitor regarding certain market information
"Ever Assure"	Ever Assure Limited, a company incorporated under the laws of Hong Kong with limited liability and a wholly owned indirect subsidiary of our Company
"FMCG"	International FMCG Investments Ltd., an independent third party
"Foreshore"	Foreshore Holding Group Limited, a company incorporated under the laws of the BVI with limited liability
"Frost & Sullivan"	Frost & Sullivan, a private independent research firm and an independent third party
"Frost & Sullivan Brand Survey"	a marketing survey dated July 14, 2010, commissioned by us for a fee of RMB320,000, conducting by Frost & Sullivan in June 2010 regarding certain market information
"Frost & Sullivan Health Problem Prevalence Study"	a research study dated June 3, 2010, commissioned by us for a fee of RMB100,000, conducted by Frost & Sullivan regarding prevalence information on certain health problems
"GDP"	Gross Domestic Product
"GGV"	collectively, Granite Global Venture III L.P. and GGV III Entrepreneurs Fund L.P., each, a Shareholder of our Company for which one of our Directors, Mr. Zhuo Fumin, is a managing director, see the section headed "History, Reorganization and Group Structure" in this document for more information
"Group," "our Group," "we" or "us"	our Company and its subsidiaries
"Guangzhou Outsell"	Guangzhou Outsell Trading Co., Ltd. (廣州澳特舒爾商貿有限公司), a company incorporated under the laws of the PRC with limited liability and a wholly owned indirect subsidiary of our Company
"Hong Kong" or "HK"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Companies Ordinance"	the Hong Kong Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended from time to time)
"Hong Kong Dollars" or "HK$"	Hong Kong Dollars, the lawful currency of Hong Kong

"Huaiyin Huayi"	Jiangsu Huaiyin Huayi Health Food Co., Ltd. (江蘇淮陰華醫保健品有限公司), a company incorporated under the laws of the PRC with limited liability and an independent third party
"IFRS"	International Financial Reporting Standards
"Ignition"	collectively, Ignition Venture Partners III, L.P. and Ignition Managing Directors Fund III, LLC, each, an independent third party
"independent third party"	A party which, to the best knowledge, information and belief of the Directors having made due and careful enquires, is independent of and not connected with our Directors, Substantial Shareholders (within the meaning under the Listing Rules) or chief executive of our Company or any of their representative associates
"Jian Shi Xing"	Jian Shi Xing Biotech Research and Development (Shanghai) Co., Ltd. (健士星生物技術研發(上海)有限公司), a company incorporated under the laws of the PRC with limited liability and a wholly owned indirect subsidiary of our Company
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Memorandum"	the amended and restated memorandum of association of our Company conditionally adopted on September 8, 2010, as amended from time to time
"MOFCOM"	the Ministry of Commerce of the PRC (中國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部)
"MOH"	the Ministry of Health of the PRC (中華人民共和國衛生部)
"National People's Congress"	the National People's Congress of the PRC (全國人民代表大會), the legislative apparatus of the PRC
"National People's Congress Standing Committee"	the National People's Congress Standing Committee of the PRC (全國人民代表大會常務委員會)
"NDRC"	the National Development and Reform Commission (中華人民共和國國家發展和改革委員會), a macroeconomic management agency under the State Council, which studies and formulates policies for economic and social development, maintains a balance of economic aggregates and guides the restructuring of the overall economic system
"NewMargin"	NewMargin Growth Fund, L.P., an independent third party
"NHTE"	"New and Hi-Tech Enterprises" as defined in the Administrative Measures for Determination of High and New Tech Enterprises

DEFINITIONS

"Outsell Trade"	Beijing Outsell Trading Co., Ltd. (北京澳特舒爾商貿有限公司), a company incorporated under the laws of PRC with limited liability and a wholly owned indirect subsidiary of our Company
"PBOC"	People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC EIT Law"	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), promulgated on March 16, 2007 by the National People's Congress and effective on January 1, 2008
"PRC Government" `	the central government of the PRC and all political subdivisions (including provincial, municipal and other regional or local government entities) thereof and its or their organs or, as the context requires, any of them
"PRC Labor Contract Law"	the Labor Contract Law (中華人民共和國勞動合同法) promulgated by the Standing Committee of the National People's Congress on June 29, 2007 and became effective on January 1, 2008
"Qiming"	collectively, Qiming Venture Partners, L.P. and Qiming Managing Directors Fund, L.P., each, an independent third party
"Reorganization"	the reorganization of the businesses comprising our Group, as described in the section headed "History, Reorganization and Group Structure" in this document
"RMB" or "Renminbi"	Renminbi yuan, the lawful currency of China
"Ruilongxiang"	Beijing Ruilongxiang Industry and Trade Co., Ltd. (北京瑞隆祥工貿有限公司), a company incorporated under the laws of PRC with limited liability and a company controlled by Mr. Zhao Yihong
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	the State Administration of Industry and Commerce of the PRC (國家工商行政管理總局)
"SAT"	the State Administration of Taxation of the PRC (中國國家稅務總局)
"Series A Preferred Share(s)"	our series A convertible redeemable preferred share(s)
"Series A Preferred Shares Purchase Agreement"	the Series A Preferred Shares Purchase Agreement dated September 9, 2009 by and between the Company, GGV and certain other parties
"SFDA"	the State Food and Drug Administration of the PRC (中華人民共和國國家食品藥品監督管理局)

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
"Share(s)"	ordinary share(s) with nominal value of US$0.00000833333 each in the share capital of our Company, which nominal value was US$0.001 prior to the Share Subdivision that became effective on September 10, 2010
"Shareholder(s)"	holders of our Share(s)
"Share Exchange Agreement"	the Share Exchange Agreement dated May 21, 2010 by and between the Company, Besunyen Investment, High Star Limited, Qiming, Ignition, NewMargin, FMCG and certain other parties
"Share Subdivision"	the 120-for-one share subdivision, details of which are set out in the section headed "Changes in share capital of our Group" in Appendix VI of this document
"SMERI"	China Southern Medicine Economy Research Institute (南方醫藥經濟研究所), a research institute affiliated with the SFDA and an independent third party
"SMERI Study"	a research study dated June 3, 2010, commissioned by us for a fee of RMB100,000, conducted by SMERI regarding certain market information
"State Council"	the PRC State Council (中國國務院)
"Track Record Period"	three years ended December 31, 2007, 2008 and 2009
"Unilever"	the Unilever Group, a multi-national group of companies specializing in consumer goods comprising Unilever N.V., a public limited company registered in the Netherlands, and its subsidiaries and affiliated entities, an independent third party
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US Dollar" or "US$"	United States Dollars, the lawful currency of the United States
"US Securities Act"	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"Zhuhai Qi Jia"	Zhuhai Qi Jia Medicine Industry Co., Ltd. (珠海市奇佳藥業有限公司), a company incorporated under the laws of PRC with limited liability and an indirect subsidiary controlled by our Company

The terms "associate," "connected person," "connected transaction," and "subsidiary" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

GLOSSARY

The glossary of technical terms contains explanations and definitions of certain terms used in this document in connection with us and our business. The terms and their meaning may not correspond to meanings or usage of these terms as used by others.

"GMP"	acronym for "good manufacturing practice," guidelines and regulations issued from time to time pursuant to PRC laws as part of quality assurance to ensure that health food products and pharmaceutical products subject to those guidelines and regulations are consistently produced and controlled to the quality and standards appropriate for their intended use
"health food product"	a food product which has been approved by the SFDA as having one or more of the 27 categories of health benefits under China's health food regulatory framework; upon approval by the SFDA, a "health" ("健") mark may be affixed on such product's packaging
"OEM"	acronym for "original equipment manufacturing," whereby products are manufactured in accordance with a customer's specifications for sale under the customer's brand
"OTC"	acronym for "over-the-counter," used to identify drug products that may be sold without a prescription
"OTC drug"	drug products that may be sold without a prescription; upon approval by the SFDA, an "OTC" mark must be affixed on such product's packaging; such drug products may only be sold by entities holding a pharmaceutical distribution permit, principally including pharmacies and hospitals
"OTC tea"	a tea-based OTC drug product
"SPV"	acronym for "special purpose vehicle," a legal entity (usually a limited company or a limited partnership) created to fulfill narrow, specific or temporary objectives
"therapeutic tea"	a tea-based health food product

RISK FACTORS RELATING TO OUR BUSINESS AND INDUSTRY

We have been, and may continue to be, substantially dependent on turnover from our two flagship products, Besunyen Detox Tea and Besunyen Slimming Tea.

During the Track Record Period, sales of our two flagship products, Besunyen Detox Tea and Besunyen Slimming Tea, have accounted for substantially all of our total turnover. Besunyen Detox Tea and Besunyen Slimming Tea accounted for 62.9% and 23.9%, 62.0% and 34.0%, 57.7% and 41.1%, and 48.3% and 50.9% of our total turnover in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively. We expect to continue to derive the majority of our total turnover from our two flagship products for the foreseeable future. Our business will therefore remain highly sensitive to demand for and the profitability of these two products. Any event or circumstance that adversely affects the sales or profitability of these products, such as a decline in demand, increasing competition, pricing pressure or regulatory restrictions on their sale or related advertising activities, may materially adversely affect our turnover and overall results of operations.

Changes in consumer preferences and demand for therapeutic tea and health food products based on Chinese medicinal herbs, and our therapeutic tea products in particular, could materially and adversely affect our business prospects and results of operations.

Our continued success depends, in large part, upon the popularity of and demand for therapeutic tea products as well as overall demand for health food products based on Chinese medicinal herbs. However, consumer preferences and demand may shift away from such products for various reasons, including but not limited to:

- a change in consumers' belief that therapeutic tea and health food products based on Chinese medicinal herbs may be effective in achieving their claimed benefits;
- a general decrease in consumer preferences for tea-based and Chinese medicinal herb-based health food products as compared to other types of products that claim similar benefits, such as western medications;
- a change in consumer preferences for therapeutic tea products produced in the form of tea bags to other forms, such as ready-to-drink tea; and
- negative publicity regarding tea, therapeutic tea products, health food products based on Chinese medicinal herbs or other products that may be associated with ours.

In addition, consumers may not regard our therapeutic tea products as effective as competing therapeutic tea products. Shifts in consumer preferences and demand away from therapeutic tea and health food products based on Chinese medicinal herbs in general, and our therapeutic tea products in particular, could materially and adversely affect our business prospects and results of operations.

Any failure to develop and introduce new products or gain market acceptance of our new products could have a negative effect on our business.

The future growth of our business may be significantly dependent on our ability to successfully bring new products to market and grow sales from those new products. We recently introduced our VS Series tea products to the market through online sales, and intend to develop and introduce more new products into the market as market recognition of and demand for therapeutic tea and health food products continue to grow.

Historically we have utilized external research teams for the development of new products and also acquired certain products developed by third parties. The formulae of our two best selling products, Besunyen

Detox Tea and Besunyen Slimming Tea, were acquired from Huaiyin Huayi in 2001 and Beijing Ruipule in 2004, for a one-time transfer fee of RMB500,000 and RMB10,000, respectively. Huaiyin Huayi is an independent third party and Beijing Ruipule is a company owned by Mr. Zhao Yihong, our founder, Chairman and Chief Executive Officer. We developed our VS herbal tea series in collaboration with Jian Shi Xing. We have recently enhanced our research and development capabilities through the acquisition of Jian Shi Xing, a Shanghai-based company with a focus on research and development of tea products. For more details, please see the section headed "Business — Research and Product Development" in this document.

Due to the rapidly changing nature of the health food product and therapeutic tea market in China, our research and development team may not be successful in identifying trends in consumer preferences and develop new products that respond to such trends in a timely manner. In addition, as the development cycle for our therapeutic tea products is relatively long, lasting up to two years or more, it is difficult for us to predict whether we will be able to obtain SFDA approval and other relevant regulatory approvals, including approvals for related advertisements, for our new products early in the development cycle.

Even if we obtain the related regulatory approvals, our new products may fail to be successfully commercialized. Product candidates that appear to be promising at their early phases of research and development may fail to gain market acceptance as expected, or at all. The success of our new products depends on a number of factors, including our ability to accurately anticipate changes in market demand and consumer preferences, our ability to differentiate the effectiveness and quality of our products from those of our competitors, and the effectiveness of our marketing and advertising campaigns for our new products. Moreover, we may incur significant costs and expenses relating to product development, obtaining the relevant regulatory approvals and marketing and distributing each of the new products we launch.

Any delay or failure to develop and introduce new products that gain market acceptance may materially and adversely affect our business and our ability to compete effectively. In addition, any failure of new products, especially those using our 碧生源 (Besunyen) brand, could negatively affect market perceptions of our existing products. If our new products fail to gain market acceptance, are restricted by regulatory requirements, or have quality problems, we will not be able to fully recover our costs and expenses incurred in the product development and marketing process and our business prospects, financial condition and results of operations may be materially adversely affected.

The success of our business depends significantly on our ability to maintain and enhance our brand awareness.

We believe that brand image plays an important role in influencing consumers' decisions in purchasing our products. Our brands, particularly our 碧生源 (Besunyen) brand, are critical to the success of our business. During the Track Record Period, we derived substantially all of our turnover from sales of products under the 碧生源 (Besunyen) brand. Maintaining and enhancing our brand recognition and reputation depends primarily on the perceived effectiveness and quality of our products as well as the success of our marketing and promotion efforts. We have devoted significant resources to brand promotion efforts in recent years, including television advertising and other media advertisements and sponsorships of television shows and events to increase our brand recognition and improve brand image. However, our marketing and promotion efforts may not be successful or may inadvertently negatively impact our brand. For example, if the public image of any of the brand ambassadors we engage declines, our brand image will be damaged. In addition, our brand image may be harmed by negative publicity, regardless of its veracity, relating to our company or our products. If we fail to successfully market or promote our brands or our brands are tarnished, demand for our current and future products may be materially adversely affected.

Our marketing activities are critical to the success of our products, and if we fail to maintain or grow our marketing capabilities, the market share, brand name and reputation of our products could be materially adversely affected.

The success and lifespan of our products depend to a significant extent on the effectiveness of our marketing activities. We use television commercials and sponsorship of television programs as a primary marketing tool. In addition, we often use a combination of different media in a target market to ensure broad coverage and penetration of our advertisements, such as newspapers, magazines, public transportation displays, flat-panel displays placed in elevator lobbies and other public areas and the Internet. In addition, we also organize frequent in-store marketing and promotional activities, and require the retail outlets operating under our distributors to strictly follow the product display policy designed by us to ensure easy and consistent identification of our brands and products. These various marketing activities are critical to the success of our products. However, our ability to maintain or grow our marketing capabilities can be adversely affected by various factors, such as our ability to efficiently purchase and effectively manage media resources and government regulations on our advertisements. For more details, see the section headed “Risk Factors — The health food product and medicinal product industries are heavily regulated in China, and any failure to comply with, and changes in, the regulatory requirements or any regulatory actions against us or our products could adversely affect our business prospects and results of operations — (iv) Regulations on product advertising” in this document. Any factors adversely affecting the scale and effectiveness of our marketing capabilities may have an adverse effect on the market share, brand name and reputation of our products. In addition significant increases in our marketing expenses, whether due to market factors or otherwise, may adversely impact our profitability.

Our rapid turnover growth has been largely attributable to our expansion into new markets and we may not be able to maintain our high growth rate as our presence in those markets matures.

We experienced rapid growth recently. Our turnover increased RMB145.0 million, or 64.8%, from RMB223.7 million in the six months ended June 30, 2009 to RMB368.7 million in the six months ended June 30, 2010. Over the same periods, turnover attributable to the provinces and centrally administered municipalities in which our market presence was less than two years as of June 30, 2010 increased RMB80.6 million, or 120.0%, to RMB147.7 million from RMB67.2 million, representing 55.6% of our total turnover growth. Based on our experience, as sales in our more mature markets reach relatively high levels, the sales of our products in those markets may not grow as fast as in the past. As a result, our historical operating results or our historical rate of growth may not be indicative of our future performance. If we are not able to successfully identify and penetrate additional markets or broaden our product portfolio, we may not be able to maintain our high growth rate.

Our turnover has been, and may continue to be, significantly dependent on sales in certain geographic markets.

In 2007, 2008, 2009 and the six months ended June 30, 2010, 67.2%, 44.9%, 26.2% and 17.1% of our total turnover, respectively, were derived from sales in our largest market, Guangdong. During the same periods, turnover derived from sales in our three largest geographic markets accounted for 88.3%, 70.6%, 45.6% and 33.3% of our total turnover, respectively. The percentage of our turnover derived from our largest markets decreased during the Track Record Period as we gradually expanded into, and deepened our distribution and sales network in, new geographic markets. However, we may continue to derive a significant portion of our total turnover from certain geographic markets. Our sales and profitability in relation to these geographic markets could be negatively affected by a number of factors, including general economic conditions and demand for our products, adverse publicity relating to our products in these markets, local competition, or restrictions on the marketing or sales of our products in these markets due to local regulatory rules or decisions. Any significant decline in our sales or profitability from these geographic markets, due to the above factors or otherwise, could materially adversely affect our results of operations.

We face intense competition, and if we fail to compete effectively, we may lose market share and our results of operations may be adversely affected.

The overall health food product market and the therapeutic tea market in China are competitive and rapidly evolving, and we expect competition in these markets to persist and intensify. We face competition from other manufacturers of health food products and therapeutic tea products, including multinational companies as well as domestic manufacturers of traditional Chinese medicines with similar nutritional or medical benefits that can be used as substitutes for our products.

Our competitiveness depends on a number of factors, including market awareness of our 碧生源 (Besunyen) brand, the effectiveness of our marketing activities, the quality of our products, and the breadth and depth of our distribution and sales network. Certain of our existing and potential competitors may have greater financial, technical, manufacturing and other resources than we do. Such competitors may also have greater brand name recognition, more established distribution networks, or more extensive knowledge of our target consumers and target markets. As a result, our competitors may be able to devote greater resources to the research, development, promotion and sale of their products or respond more quickly to evolving industry standards, changes in customer preference and in market conditions than we can. It is also possible that there will be consolidation or alliances among our competitors and as a result, our market share may be affected. In addition, in order to increase sales, some competitors may also actively engage in activities, whether legal or illegal, designed to undermine our brands or to influence consumer confidence in our products.

If we are unable to maintain our competitive position or otherwise respond to competitive pressure effectively, the sales of our products may decrease, we may lose market share and our operating results may be adversely affected. Intense competition may also lead to pricing pressure on our products, which could adversely affect our turnover and profitability.

We may be unable to effectively manage our rapid growth, which could materially and adversely affect our business, financial condition and results of operations.

We have experienced rapid growth and significantly expanded our business recently. Our total turnover grew to RMB646.5 million in 2009 from RMB163.1 million in 2007 and to RMB368.7 million in the six months ended June 30, 2010 from RMB223.7 million in the six months ended June 30, 2009. We intend to continue our expansion in the foreseeable future to pursue existing and potential market opportunities. Our rapid growth has placed and will continue to place significant demands on our management and our administrative, operational and financial infrastructure. To manage the future growth of our operations, we will be required to improve our operational and financial systems, procedures and controls, increase effective annual production capacity, and expand, train and manage our growing employee base. Furthermore, we need to maintain and expand our relationships with our distributors, customers, suppliers, research institutions and other third parties. In particular, we need to hire and train our sales personnel to manage our growing distribution and sales network. Moreover, as we introduce new products or enter into new markets, we may face new market, technological and operational risks and challenges with which we are unfamiliar. Our current and planned operations, personnel, systems, internal procedures and controls may not be adequate to support our future growth and expansion. In addition, the success of our growth strategy depends on a number of external factors, such as the growth of the health food product and therapeutic tea markets in China and the level of competition we face. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, execute our business strategies or respond to competitive pressures. Failure to manage our expansion effectively may affect our business, financial condition and results of operations.

The expansion of our distribution and retail network may not be as successful as we expect.

As part of our business strategy, we plan to expand our distribution and retail network to grow our business. We in particular focus on expanding the geographic coverage of our distribution and retail network and adding additional retail channels, including large supermarket and convenience store chains such as Watsons and Wal-Mart. However, the success of our expansion plan is subject to numerous factors including the following:

- the availability of adequate management and financial resources;
- the availability of suitable distributors and retail outlets;
- our ability to negotiate favorable cooperation terms with our distributors;
- our ability to hire, train and retain skilled personnel to manage our distribution and sales network; and
- the adaptation of our logistics and other operational and management systems to an expanded distribution and retail network.

Furthermore, we may fail to anticipate and address competitive conditions in the new expanded distribution and retail network that are different from those in our existing markets. Accordingly, we may not be able to achieve our expansion goals or effectively integrate new distributors and retail outlets into our existing network. If we encounter difficulties in expanding our distribution and retail network, our growth prospects may be impacted, which could in turn have a material adverse effect on our business, financial condition and results of operations.

We have experienced increasing trade and notes receivables as our business has expanded, and any significant defaults on these receivables could materially and adversely affect our liquidity, results of operations and financial position.

We allow sales on credit, contractually or upon approval of an application for credit on a case-by-case basis, to some of our distributors. Our trade and notes receivables increased from RMB8.1 million as of December 31, 2008 to RMB94.7 million as of December 31, 2009 and RMB109.3 million as of June 30, 2010, primarily due to an increase in the number of distributors to whom we allowed sales on credit upon application from 34 in 2008 to 97 in 2009 and 156 in the six months ended June 30, 2010. The increase in the number of distributors to whom we allowed sales on credit was primarily due to our efforts to quickly grow sales in new markets and an increase in the number of long-time distributors to whom we granted credit based on their historical creditworthiness. Of our RMB109.3 million of trade and notes receivables as of June 30, 2010, RMB46.3 million was subsequently settled by July 31, 2010. If distributors to whom we have allowed sales on credit were to become insolvent or otherwise unable or unwilling to settle their outstanding receivables in a timely manner or at all, our liquidity could be materially and adversely affected and we may have to write off receivables or increase provisions against receivables, which could materially and adversely affect our results of operations and financial position.

If we fail to integrate acquired companies effectively, or if the acquired companies do not perform to our expectations, we may not be able to realize the benefits envisioned for such acquisitions, and our overall profitability and growth plans may be adversely affected.

Historically, we have expanded our research and development capabilities and product offerings through selective corporate acquisitions such as our acquisitions of Zhuhai Qi Jia in January 2010 and Jian Shi Xing in May 2010. Our ability to successfully integrate an acquired entity and realize the benefits of any acquisition requires, among other things, successful integration of technologies, operations and personnel in a timely and efficient manner. The primary value of many potential targets in the health food product and therapeutic tea product industry lies in their skilled and experienced personnel, established distribution network, promising product candidates, technology and intellectual property rights. Integrating these types of assets to our business can be particularly difficult due to different corporate cultures and values, geographic distance and other intangible factors. Some newly acquired employees may decide not to join us or to leave shortly after their move to our company. We may also not be able to quickly launch and commercialize the newly acquired product candidate due to our lack of familiarity with such product and the operational risks and challenges associated therewith. These difficulties and challenges could disrupt our ongoing business, distract our management and current employees and increase our expenses, including causing us to incur significant one-time expenses and write-offs, and make it more difficult and complex for our management to effectively manage our operations. Acquired assets or businesses may not produce or deliver the benefits we expect. For example, we anticipate our recently acquired research team led by Dr. Cai Ya will significantly strengthen our product development capabilities and ability to effectively expand into new therapeutic tea market segments. However, they may fail to perform at the level we expect. If we are not able to successfully integrate an acquired entity and its operations and realize the benefits envisioned for such acquisition, our overall profitability and growth plans may be adversely affected.

Our high profit margin may not be sustainable.

In 2007, 2008, 2009 and the six months ended June 30, 2010, we had a gross margin of 70.7%, 83.2%, 89.4% and 89.7%, and a net profit margin of 29.2%, 34.1%, 21.9% and 5.7%, respectively. Our net profit margin in 2009 and the six months ended June 30, 2010 were negatively affected by non-cash charges related to a change in fair value of our Series A Preferred Shares. Our net profit margin in the six months ended June 30, 2010 was also affected by certain expenses. Absent such charges and expenses, our net profit margin in 2009 and the six months ended June 30, 2010 would have been 27.1% and 21.1%, respectively. Our high profit margin is primarily attributable to the success of our two flagship products, Besunyen Detox Tea and Besunyen Slimming Tea, our low costs and our leading market position. The continued success of Besunyen Detox Tea and Besunyen Slimming Tea depends on numerous factors that may be beyond our control, such as competition from other similar products, the effectiveness of our marketing activities, change of consumer demand and preference, and market perception and publicity about our products. In addition, as market conditions change and as we make significant expenditures related to the expansion of our business, our profit margin may be adversely impacted. For example, our profitability for future fiscal years may be negatively affected by low-margin sales and competition strategies adopted by our competitors, increasing cost of raw materials and packaging materials, increasing selling and distribution costs arising from the expansion of our distribution and sales network and increasing advertisement expenses, and our increasing expenditures on research and development. In addition, we may not be able to sustain the same level of gross margin as we continue to invest in advanced production equipment and introduce new products to the market in 2010, 2011 and beyond. We expect to incur moderately higher per unit cost of sales, and therefore lower gross margin, in the full year 2010 as compared to 2009, primarily due to our shift to utilization of more advanced IMA C24 packaging machines, which require use of higher quality packaging materials and have higher depreciation costs. As a result, we may not be able to maintain our high profit margins.

Any unexpected or undesirable side effects or injury caused by our products to consumers could result in costly product recalls or product liability claims, which in turn could lead to severe reputational damage, monetary losses or lawsuits.

As a developer and manufacturer of products designed for human consumption, we are subject to product liability claims or product recalls if the use of our products is alleged to have resulted in side effects or injury. Our products contain a number of ingredients, some or the combination of which may cause side effects or injuries that are unknown to us. Likewise, some of the raw materials we use in our production may contain harmful chemicals or substances of which we are not aware and may cause undesirable side effects or injuries to our consumers. In the past, consumers of our Besunyen Detox Tea and Besunyen Slimming Tea products have claimed, usually through our customer service hotline, that they have caused unintended side effects, including stomach aches and diarrhea. These consumers sometimes request a refund or otherwise seek compensation, but the amount requested by each individual customer is typically very small. During the Track Record Period, the cost incurred by us in relation to claims by consumers of unintended side effects had no material impact on our business operations, financial condition and results of operations. As of September 9, 2010, we had no outstanding liabilities in relation to such claims. Based on our communications with consumers, we believe that some of the unintended side effects, including temporary stomach ache and diarrhea, are due to consumers' incorrect usage of our products, which are designed to be taken after a meal and while still warm. We also recommend against repeated use of a single tea bag. We cannot give assurance that our products will not cause similar or other, potentially more severe, undesirable side effects or injuries to consumers in the future.

We provide quality assurance to our distributors, retail outlets and consumers, and allow them to return products to us for quality defects. If our products cause any serious side effect or injury or if our products are perceived to cause such side effect or injury, our products may have to be recalled from the market. During the Track Record Period, we have not experienced any product recalls or product returns that had a significant impact on our business and operations. Although we have product liability insurance, a product recall or large product liability claim could exceed the coverage of such insurance, which is RMB5.0 million per year, and result in substantial and unexpected expenditures, which would reduce our operating profit and cash flow, and may require significant management attention. Furthermore, a product recall or large product liability claim may hurt the value of our brands, our reputation and demand for our products and may also lead to increased scrutiny of our operations by regulatory agencies. Any large product liability claim, even if unfounded, may be expensive for us to defend and will divert management's attention as well as other resources away from our business operations.

Unfavorable publicity or consumer perception of our products, or of similar products sold by other companies, could have a material adverse effect on our business.

We are highly dependent upon consumer perception regarding the safety, efficacy and quality of our products and of therapeutic tea products in general. Consumer perceptions can be significantly influenced by factors outside of our control, such as scientific research or findings, national media attention and Internet articles and commentary, some of which may be negative. In the past, there has been some unfavorable publicity about us and our Besunyen Detox Tea and Besunyen Slimming Tea, including public media coverage on regulatory actions and penalties against us or consumer complaints of our products. We are also aware of communications and complaints on certain Internet sites that question the efficacy and benefits of our products or claim that our products cause undesirable side effects. While some of the ineffectiveness claims are due to consumers' incorrect usage of our products, we have never guaranteed that our products are necessarily effective for all persons. We did not incur any material costs during the Track Record Period defending against or responding to such claims. Research reports, findings or publicity that are perceived as negative or that question the safety, efficacy or benefits of our or similar products could have a material adverse effect on the effectiveness of our marketing campaigns, the demand for our products and our business and results of operations. Such adverse publicity could arise even if the ineffectiveness of, or the adverse effects associated with, such products resulted from consumers' failure to consume such products appropriately or as directed. Unfavorable publicity, even if unfounded, will have an adverse impact on our business and may damage our brand and lead to greater scrutiny of our products by the regulatory authorities and possibly regulatory actions restricting our ability to advertise or sell our products in certain geographic markets.

The health food product and medicinal product industries are heavily regulated in China, and any failure to comply with, and changes in, the regulatory requirements or any regulatory actions against us or our products could adversely affect our business prospects and results of operations.

The health food product, including therapeutic tea, and the medicinal product industries in China are subject to extensive government regulation and supervision. As further elaborated below, the regulatory framework addresses every aspect of operating in the health food product industry and the medicinal product industry in China, including product approvals and registration, product processing, formulation, manufacturing, packaging, labeling, distribution and sale, product advertising and maintenance of manufacturing facilities.

(i) Regulations on product approval.

All health food products, including therapeutic teas, and medicinal products must be approved by and registered with the SFDA before they can be manufactured and sold in China and comprehensive and sometime costly experiments or trials are required before the related health food product or medicinal product is submitted to the SFDA for approval. It often takes a number of years before a health food product or a medicinal product is approved by the SFDA. SFDA approvals for health food products granted before July 1, 2005 do not specify an expiry date and an SFDA approval obtained after July 1, 2005 will be valid for five years and must be renewed at least three months before its expiration. SFDA approvals for our Besunyen Detox Tea and Besunyen Slimming Tea were initially granted prior to July 1, 2005 and do not specify an expiry date. It is uncertain when such approvals will expire or when the SFDA will deem such approvals to have expired. If the SFDA determines an expiry for these two approvals, we may not be able to renew them in a timely manner or at all. An SFDA approval for medicinal products is valid for five years and must be renewed within six months prior to its expiration. The loss of or failure to renew our product approvals could lead to temporary or permanent suspension to our production or distribution operations of the impacted product, which could disrupt our operations and adversely affect our business.

In addition, the SFDA and other regulatory authorities may apply new standards for safety, manufacturing, packaging, and distribution of future product candidates. Complying with such standards may be time-consuming and expensive and could result in delays in obtaining SFDA approvals for our product candidates, or possibly preclude us from obtaining SFDA approvals altogether. Furthermore, our product candidates may not be effective or may prove to have undesirable or unintended side effects, toxicities or other characteristics that may preclude us from obtaining regulatory approvals or prevent or limit their commercial use. The SFDA and other regulatory authorities may not approve the products that we plan to manufacture, and even if we do obtain regulatory approvals, such regulatory approvals may be subject to limitations on the indicated uses for which we may market a product, which may limit the size of the market for such product. If we fail to obtain SFDA approvals for our product candidates, we would not be able to recover our upfront research and development, manufacturing, testing and other costs, and our business may fail to grow as quickly as we anticipate.

(ii) Regulations on product processing, formulation, manufacturing, packaging, labeling, distribution and sale.

The processing, formulation, manufacturing, packaging, labeling, distribution and sale of our health food products and medicinal products are subject to regulation by several PRC agencies, including the SFDA, the MOH and the SAIC and their respective local counterparts. In order to manufacture health food products in China, we are required to obtain a health product hygiene permit from the SFDA and comply with GMP requirements. In order to manufacture medicinal products in China, we are required to obtain a pharmaceutical manufacturing permit and a GMP certificate from the SFDA. The contents in the labels and packaging of health food products and medicinal products shall be true and accurate without containing inappropriate descriptions, and must be approved by the SFDA. The distribution and sales of health food products can only be carried out in certain designated channels such as retail pharmacies and supermarkets that have obtained a health product hygiene permit. The distribution and sales of medicinal products can only be carried out by distributors and retailers that has obtained a pharmaceutical distribution permit and that comply with the Good Supply Practice standards promulgated by the SFDA. Government regulations in this area may prevent or delay the introduction of new products or require the reformulation of certain of our products. If we fail to comply with the related regulatory requirements, some agencies, such as the SFDA, could require us to remove a particular product from the market, or otherwise disrupt the marketing of our products. Any such government actions would result in additional costs to us, including lost turnover from any additional products that we are required to remove from the market, any of which could be material. Any such government actions could also lead to liability, substantial costs and reduced growth prospects.

(iii) Regulations on manufacturing facilities.

Under PRC laws, all facilities and manufacturing techniques used for the manufacture of our health food products and medicinal products must be operated in conformity with GMP, and a pharmaceutical manufacturing permit must be obtained for the manufacture of our medicinal products. In complying with GMP requirements, we must continually spend time, money and effort in production, record-keeping and quality assurance and control to ensure that our products meet applicable specifications and other requirements for product safety, efficacy and quality. Our pharmaceutical manufacturing permits and GMP certificates must be renewed every five years. Any failure by us to comply with our GMP requirements or renew our pharmaceutical manufacturing permits and GMP certificates in the future may prevent us from continuing to carry on our business and have a material adverse effect on our financial condition and results of operations.

(iv) Regulations on product advertising.

PRC advertising laws and regulations require advertising content to be fair and accurate, not misleading and in full compliance with applicable laws. Contents of advertisements relating to our products must be filed with the provincial agency of the SFDA, or other competent authorities, and the required permits and approvals from the provincial agency of the SFDA or other competent authorities must be obtained before their publication or broadcasting. Violation of these laws or regulations may result in penalties, including fines, orders to cease dissemination of the advertisements, orders to publish an advertisement correcting the misleading information, orders to cease sales within certain designated markets (in the case of medicinal products), suspension of approval for new advertisement within one year (in the case of medicinal products), and even criminal liabilities. The provincial agency of the SFDA may also issue a safety warning to the public and publish the names of the violators.

In the past, some of our product advertisements or related advertising practices have been declared not being in full compliance with applicable regulations and we were fined by the related government authorities for such noncompliance instances. These instances include: (i) in 2007, Beijing Administration for Industry and Commerce found one advertisement with respect to each of our Besunyen Detox Tea, Besunyen Slimming Tea and A-Shen Kang Li Yuan Slimming Tea violating the applicable laws by using the image of consumers and ordered us to pay a fine of RMB10,000; and (ii) in 2007, Beijing Administration for Industry and Commerce found one advertisement with respect to our Besunyen Detox Tea misleading and overstating the effect of our products, and ordered us to pay a fine of RMB73,000. We timely paid these fines. In response to these noncompliance instances, we ceased the dissemination of these advertisements or rectified the content of the related advertisements and adjusted our advertising practices accordingly. Some advertisements of our products have been declared not in full compliance with applicable regulations by provincial SFDA in public warnings for which we have not received any notice or penalty from SFDA or other government authorities. As far as we are aware, based on our review of the websites of the provincial SFDAs, these instances include the following findings that certain of our advertisements were misleading, improperly claimed the effect of our products or improperly used the names and images of consumers in our advertising practice or we published, or that we had revised the content of, our advertisements without obtaining appropriate approval: (i) Guangdong SFDA in 2007, 2008 and 2009 found and publicly announced 19 public warnings with respect to our Besunyen Detox Tea and Besunyen Slimming Tea, (ii) Hunan SFDA in 2009 found and publicly announced two public warnings with respect to our Besunyen Detox Tea and Besunyen Slimming Tea, and (iii) Beijing SFDA in 2007 found and publicly announced two public warnings with respect to our Besunyen Detox Tea. To ensure our future advertisements and the related advertising practices are in full compliance with applicable regulations, we established a designated team to review the content of, and maintain the related approvals for, our advertisements and regularly monitor and review our advertising practices. The Company has implemented stringent internal control measures to ensure there will be no future non-compliance on product advertisements. Specifically, we require all the advertisements shall be published only after obtaining the approval from SFDA, and we apply for extension of the approvals 60 days before their expiration date to make sure we maintain effective approvals during the publication period of the advertisements. We provide relevant SFDA approvals to the operators of the media where the advertisements are published and require the content of the advertisements published shall be strictly the same as approved by the SFDA.

Certain historical advertisements that were produced and published by our distributors operating in markets which our local sales teams did not cover, the production and publication of which we were not involved in, have also been found to not be in full compliance with applicable advertising laws and regulations. These instances include: (i) Liaoning SFDA in 2008 and 2009 found and publicly announced in two public warnings that the advertisements with respect to our Besunyen Detox Tea produced and published by our distributors; and (ii) Shanghai SFDA in 2007 found and publicly announced in one public warning that the advertisements with respect to our Besunyen Detox Tea produced and published by our distributors, improperly used the names, and images of consumers in their advertising practice or our distributors published, or revised the content of, the advertisements without obtaining appropriate approval. After our local sales teams began to cover these markets, they are no longer allowed to independently produce and publish advertisements with respect to our products.

In addition, certain historical product advertisements produced and published by Zhuhai Qi Jia's distributors for MaiShuPing Tea, which we acquired through our acquisition of Zhuhai Qi Jia in January 2010, have been found not be in full compliance with applicable advertising laws and regulations. To our knowledge, these instances include: (i) Inner Mongolia SFDA in 2008 found and publicly announced in one public warning that certain advertisements with respect to MaiShuPing Tea were published without obtaining appropriate approval; (ii) Jiangsu SFDA in 2010 found and publicly announced in one public warning that certain advertisements with respect to MaiShuPing Tea were published without obtaining appropriate approval; (iii) in August 2009, Guangdong SFDA found and publicly announced that one advertisement with respect to MaiShuPing Tea was misleading and improperly claimed the effect of MaiShuPing Tea, and ordered Zhuhai Qi Jia to cease sales of MaiShuPing Tea in Guangzhou, the capital city of Guangdong (Guangdong SFDA's such sales-cessation order expired on September 29, 2009); and (iv) on June 28, 2010, Guangdong SFDA revoked the approvals for three advertisements with respect to MaiShuPing Tea created in 2009 on the basis that advertisements for MaiShuPing Tea, the production of which we were not involved in, were misleading and improperly claimed the effect of MaiShuPing Tea. Pursuant to applicable PRC laws and regulations, such revocation of approvals will cause us unable to obtain SFDA approvals for new advertisements for MaiShuPing Tea until June 28, 2011. We have asked Zhuhai Qi Jia to stop producing MaiShuPing Tea and producing or publishing any advertisement with respect to Maishuping Tea and we plan to apply to obtain SFDA approvals for new advertisements for MaiShuPing Tea after June 28, 2011.

If we are found in violations of applicable advertising laws and regulations in the future, we may face more serious penalties including increased amounts of fines, discontinuance of our marketing and advertising activities and discontinuance of our sales activities in certain designated markets. As a result, we may not be able to broadcast new advertisements in a timely manner, and our turnover and reputation could be materially affected. Moreover, government actions and civil claims may be filed against us for misleading or inaccurate advertising. We may have to spend significant resources in defending against such actions, and these actions may damage our reputation, result in reduced turnover, and negatively affect our results of operations.

Any failure to comply with the foregoing complex regulatory requirements could adversely affect our business prospects and results of operation. In addition, the regulatory framework regarding the health food products industry and the medicinal products industry in China is quickly evolving. Additional or more stringent regulations on the health food products industry and the medicinal products industry have been and may continue to be adopted from time to time in China. Such developments could require reformulation of certain products to meet new standards, recalls or discontinuance of certain products not able to be reformulated, additional record-keeping requirements, increased documentation of the properties of certain products, additional or different labeling, additional scientific substantiation, adverse event reporting or other new requirements. Any such developments could increase our costs significantly.

We depend on distributors for most of our turnover, and failure to maintain relationships with our existing distributors or otherwise expand our distribution network could materially and adversely affect our business.

We sell more than 99.5% of our products through distributors in China, all of which are independent from us. Distributors are important to our business because they may help us gain access to retail outlets through their business relationships, especially in new markets where we do not have an established presence. In 2007, 2008, 2009 and the six months ended June 30, 2010, turnover from our five largest distributors accounted for 34.7%, 27.2%, 13.7% and 12.8%, respectively, of our total turnover. In line with industry practices in China, we typically enter into distribution agreements with our distributors for a one-year term. As our existing distribution agreements expire, we may be unable to renew them with distributors we prefer to engage on favorable terms or at all. Our distributors and retail outlets may not be able to market and sell our products successfully or maintain their competitiveness, or we may not be able to monitor our distributors or retail outlets directly to ensure efficient sales of our products to consumers. If the sales volumes of our products to our consumers are not maintained at a satisfactory level, our distributors may not place orders for new products from us, may decrease the quantity of their usual orders or may ask for discount on the purchase price. In addition, we typically do not have an exclusivity arrangement with our distributors. Our distributors may also choose to distribute products of a competitor. The loss of our distributors and retail outlets, or reduced orders from them, could adversely affect our access to consumers and therefore our sales volume and turnover. For more information relating to the movement in the number of our distributors during the Track Record Period, please see the section headed "Business — Distribution and Sales — Nationwide Distribution Network" in this document.

Moreover, our distributors may violate our distribution agreements, which will result in our terminating the related distribution agreements with the offending distributors. If we decide to terminate our distributors as a result of violations of our distribution agreements, or if the distributors fail to address material violations committed by any of their retailers, our ability to effectively sell our products in a given territory could be negatively impacted. These and similar actions could also negatively affect our corporate and product image, possibly resulting in loss of customers and a decline in sales.

We have limited control over the actions and practices of our distributors and retail outlets selling our products and actions and practices of our distributors and retail outlets may harm our brand and reputation and the competitiveness of our products or otherwise negatively affect our business prospects and results of operations.

We sell our products through our network of distributors and retail outlets that carry our products. As of June 30, 2010, we had a network of 409 distributors that operated in geographic markets covered by our on-the-ground local sales teams and sold our products in over 100,000 retail outlets, most of which are retail pharmacies. Due to the large number of our distributors and retail outlets, it is difficult to monitor their practices. While we have direct contractual relationships with all of our distributors and a portion of our sub-distributors, we do not directly control or have direct oversight on their business activities. Moreover, we generally do not have any contractual relationship with the retail outlets that sell our products. We contractually require our distributors to, and to procure the sub-distributors and retail outlets under their jurisdiction to, adhere to our retail policies. For example, distributors generally are not allowed to sell our products at a price lower than our recommended retail price. For more information relating to the major terms of the agreements with our distributors and sub-distributors, please see the section headed "Business — Distribution and Sales — Agreements with Distributors and Sub-Distributors" in this document. We also regularly monitor and review our distributors' sales performance and their compliance with the terms of our agreements to decide whether we need to add or replace any under-performing distributors. However, our ability to monitor and control the activities of our distributors, sub-distributors and retail outlets is limited. For instance, our distributors may fail to meet their minimum sales targets. Our distributors and retail outlets may fail to follow our product display and pricing policy or fail to carry out the promotional activities as agreed with us. If any of our distributors and third-party retail outlets deviates from our product display policy, pricing policy or other requirements under our distribution agreements, our brand and reputation and consumers' perception of our products could be tarnished, which in turn could have a material adverse effect on our business, financial condition, results of operations and prospects.

Although distributors of health food products must obtain a food hygiene permit which includes distribution of "health foods" within the permitted business scope from government authorities according to relevant PRC laws and regulations, approximately 20% of our distributors failed to provide us valid permit as required under PRC laws. In 2009 and the six months ended June 30, 2010, turnover from these distributors accounted for 9.9% and 14.1% of our total turnover, respectively. We have reminded such distributors of the risk of the non-compliance and suggested them to rectify the non-compliance in accordance with applicable laws, but we cannot assure that such distributors will fully comply with the relevant laws and regulations. Our PRC legal advisor, Global Law Office, has advised us that the distributors' non-compliance with the license requirements will not have any adverse legal impact on us. In addition, we do not enter into exclusive distribution agreements for a specific geographic area to reduce the risk of our reliance on a single distributor in any particular geographic area. If such distributors are punished by relevant government authorities (such as fines, confiscation of income from their business or, in some serious cases, termination of their business which has not been properly approved under the relevant laws and regulations), we may need to terminate the engagement with such distributors, and our results of operations and financial conditions could be adversely affected.

We may not be able to accurately track the sales and inventory levels of our distributors and retail outlets, which could cause us to predict sales trends incorrectly.

We have a regular system to track the sales of our products by our distributors. We request our distributors and sub-distributors with which we have contractual relationships to compile monthly sales information setting forth the quantity and prices of our products being sold to each retail outlet or sub-distributor. Our local sales personnel conduct regular scheduled and unscheduled site visits, generally on a weekly basis for distributors and a monthly basis for sub-distributors, to inspect our distributors' and sub-distributors' inventory to make sure sales information provided by our distributors are accurate. In addition, we also evaluate the orders placed by our distributors during any price-adjustment period to ensure that orders from our distributors are consistent with their past demands to avoid any excessive accumulation of inventory at our distributors. Although we usually do not enter into agreements with retail outlets directly, our sales personnel conduct regular scheduled and unscheduled site visits, usually once or twice a month, to substantially all of our retail outlets, among other things, to inspect their inventory. However, these actions may not be as effective as we expect in tracking the inventory levels of our distributors and retail outlets. As we usually do not enter into agreements with our sub-distributors and retail outlets directly, our ability to accurately track the sales of our products by our retail outlets to consumers is limited. As a result, our sales to distributors may not be reflective of actual sales trends to consumers and we may not be able to timely gather sufficient information and data regarding the market acceptance of our products and consumers' preferences in relation to our products. The failure to accurately track sales and inventory levels of our distributors and retail outlets and timely gather market information may cause us to incorrectly predict sales trends and impede our ability to quickly realign our marketing and product strategies to respond to market changes.

Delays in delivery of our products by our distributors and logistics companies may affect our sales and damage our reputation.

We rely on our distributors and logistics companies for the distribution and transportation of our products. The services provided by these distributors and logistics companies could be suspended and could cause interruption to the supply of our products to our distributors due to unforeseen events. Delivery disruptions may occur for various reasons beyond our control, including poor handling by our distributors or logistics companies, transportation bottlenecks, natural disasters and labor strikes, and could lead to delayed or lost deliveries. If our products are not delivered on time, or are delivered damaged, the sale of our products could be materially affected and we could lose business and our reputation could be harmed.

Our products and brand names may be subject to counterfeiting or imitation, which could adversely impact our reputation and lead to loss of consumer confidence, reduced sales and higher administrative costs.

As our 碧生源 (Besunyen) brand is a widely recognized brand in China, we have in the past experienced, and are currently still experiencing, counterfeiting and imitation of our products as well as imitation of our trademarks. Some counterfeiters sell inferior quality therapeutic tea bag products using our 碧生源 (Besunyen) brand while certain other counterfeiters sell therapeutic tea bag products with packaging that is very similar to ours. Counterfeit products may or may not have the same ingredients as our products. In order to proactively prevent counterfeiting or imitation, we add counterfeit-prevention labels on the packaging of each of our products. In addition, we have also established a dedicated team to be responsible for fighting counterfeit and imitation goods, including liaising with relevant government agencies. Supported by our in-house legal department, this team has helped the industry and commerce authorities and public security authorities to successfully detect and investigate three counterfeit goods occurrences since 2009. However, notwithstanding our efforts, counterfeiting or imitation of our products will likely continue to occur in the future, and we may not be able to detect or address the problem effectively.

Counterfeit products are generally sold at lower prices than the authentic products due to their low production costs, and in some cases are very similar in appearance to the authentic products which can easily cause confusion to consumers. If counterfeit products illegally sold under our brand name result in adverse side effects or injuries to end-users, we may be associated with negative publicity resulting from such incidents. In addition, consumers may buy counterfeit products that are in direct competition with our authentic products, which could have an adverse impact on our turnover, business and results of operations. Any occurrence or increase of counterfeiting or imitation of our products could negatively affect our reputation and brand name, lead to loss of consumer confidence in our brands, and, as a consequence, adversely affect our turnover and results of operations. Any legal proceedings, including investigations by government authorities, to prosecute counterfeiting or imitation of our products may be expensive and will divert the management's attention as well as other resources away from our business.

We consider the formulae of our products to be important trade secrets and know-how, and our ability to compete could be harmed if any such trade secrets and know-how are disclosed to third parties.

Our products are produced using our proprietary formulae. We have kept these formulae as our trade secrets and know-how. We have not made any applications for patents for our formulae because patent registration in the PRC involves publication of the relevant details of the subject of the patent. We believe that such disclosure would provide our competitors with details of our formulae and would therefore enable them to imitate our production methods or refine their own production accordingly.

We have entered into confidentiality agreements with all personnel who have knowledge of our proprietary formulae. In addition, our employee handbook, which is distributed to all of our employees, sets forth the employee's obligation to keep confidential our trade secrets and proprietary information. We are entitled to terminate any employee that materially breaches his or her obligations under the employee handbook. While we use reasonable efforts (including the foregoing measures) to protect our formulae, our employees, consultants, contractors or scientific and other advisors (or those of the research institutions with which we have collaborations) may unintentionally or willfully disclose our formulae to our competitors. Moreover, even if we were to obtain a judgment against the violating party, the judgment may be insufficient to remedy the harm done to us by the disclosure and we may face difficulty enforcing such judgment in China in practice. Accordingly, the confidentiality agreements entered into by the foregoing persons might not provide meaningful protection for our formulae or other proprietary information in the event of unauthorized use or disclosure. Therefore, our proprietary formulae may be obtained by a competitor or another third-party, or products using similar formulae may be developed or marketed by such persons. Consequently, we may lose our market share, and our business, financial condition and results of operations may be materially and adversely affected.

Any failure to protect our intellectual property rights could undermine our competitive position, and litigation to protect our intellectual property rights may be costly and ineffective.

We consider our trade secrets, trademarks, trade names, copyrights, patents and other intellectual property important to our business. From time to time, our intellectual properties have been used or infringed by third parties. Preventing intellectual property infringement, particularly in China, is difficult, costly and time-consuming and continued unauthorized use of our intellectual properties by unrelated third parties may damage our reputation and brand. The measures we take to protect our trademarks, copyrights, patents, trade secrets and other intellectual property rights may not be adequate to prevent unauthorized use by third parties. If we are unable to adequately protect our trademarks, copyrights, patents, trade secrets and other intellectual property rights, we may lose these rights, our brand name may be harmed, and our competitive position and business may suffer.

We may be exposed to intellectual property infringement claims by third parties, which could disrupt our business and cause us to incur substantial legal costs, or damage our reputation.

Although we are not aware of any third party intellectual property rights that our products currently infringe, we cannot assure you that our products will not infringe any intellectual property rights held by third parties. We may receive claims of infringement of third parties' proprietary rights or claims for indemnification resulting from infringement arising from our products. Also, we may be unaware of intellectual property registrations or applications relating to our products or business operations that may give rise to potential infringement claims against us. There may also be technologies licensed to and relied on by us that are subject to infringement or other corresponding allegations or claims by third parties. We are subject to additional risks as a result of our recent and future acquisitions and the hiring of our current and new employees, especially those that were previously employed by our competitors, who may misappropriate intellectual property from their former employers.

Parties making infringement claims may be able to obtain an injunction to prevent us from delivering our products or using technology involving the allegedly infringing intellectual property. Intellectual property litigation is expensive and time-consuming and could divert management's attention from our business. A successful infringement claim against us could, among others things, require us to pay substantial damages, develop non-infringing technology, or enter into royalty or license agreements that may not be available on acceptable terms, if at all, and cease manufacturing, selling or using products that have infringed a third party's intellectual property rights. Any intellectual property claim or litigation, whether we ultimately win or lose, could damage our reputation and have a material adverse effect on our business, results of operations or financial condition.

Our success and business operations are largely dependent on certain key personnel and our ability to attract and retain talented personnel.

Our future success depends heavily on the continued services of our senior executives, technical personnel and other key employees. In particular, we rely on the expertise, experience and leadership of Mr. Zhao Yihong, our founder, Chairman and Chief Executive Officer, who plays a vital role in our operation. Mr. Zhao has nearly 20 years of experience in the consumer product industry, and his expertise in business strategies, product development, business operations, sales and marketing, regulatory compliance and relationships with our distributors and suppliers are crucial to us. We expect Dr. Cai Ya, our Vice President in charge of research and development, to play a key role in strengthening our product development capabilities. We do not maintain key man insurance for any of our key personnel. If one or more of our senior executives or other key employees are unable or unwilling to continue in their present positions, we may not be able to replace them promptly or at all, which may severely disrupt our business and affect our results of operations and future prospects. Moreover, we may not be able to attract or retain highly skilled employees or key personnel. The competition for qualified personnel in China may also drive up our labor costs, which would in turn increase our costs of operations and affect our profitability. In such circumstances, our business, financial condition and results of operations may be materially and adversely affected.

In addition, certain members of our senior management team have worked together for a relatively short period of time. For example, Mr. Allen Chien Kun, our Chief Financial Officer, and Dr. Cai Ya joined us in 2010. Therefore, it may be difficult for you to evaluate the effectiveness of our senior management team, on an individual or collective basis, and their ability to address future challenges to our business.

Most of our executives and key personnel have entered into employment agreements with us that contain non-competition provisions, non-solicitation and non-disclosure covenants. However, if any dispute arises between our executive officers and key personnel and us, such non-competition, non-solicitation and confidentiality provisions may not be enforceable.

We experience seasonal fluctuations in our turnover and profitability.

The sales of our products are subject to seasonality. We typically experience relatively low sales of our Besunyen Detox Tea and Besunyen Slimming Tea in the first quarter due to the effect of the Chinese New Year holiday. We generally record the highest sales of our Besunyen Slimming Tea as a percentage of our total turnover during the second and third quarters as consumers are generally more conscious of their figures prior to and during the summer months, while our Besunyen Detox Tea, which accounted for 62.9%, 62.0%, 57.7% and 48.3% of our total turnover in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively, generally experiences its highest sales, both in absolute terms and as a percentage of our total turnover, in the fourth quarter. Turnover in the fourth quarter accounted for 32.3%, 29.8% and 36.0% of our total turnover in 2007, 2008 and 2009, respectively. Accordingly, our results of operations for a particular year may be significantly impacted by our results of operations for the last three quarters of the year. Factors that could cause our results of operations to fluctuate include, among others, the level, cost and timing of our major advertising and promotional campaigns, regulatory events, new products introduced by us or our competitors and the general economic environment.

Any disruption to the supply of, any increase in the prices of, or any quality or safety problems in relation to, our raw materials or packaging materials could adversely affect our production, turnover and profitability.

Our business requires certain key raw materials, such as tea and processed pieces of traditional Chinese herbs, and packaging materials such as cardboard, composite membranes, tea bag paper and labels. Some of the raw materials used in our products, such as senna (番瀉葉), are imported and are subject to various PRC governmental permit requirements, approval procedures and import duties, and may also, from time to time, be subject to export controls and other legal restrictions imposed by foreign countries. We may experience a shortage in the supply of certain raw materials or packaging materials in the future, which could materially and adversely affect our production and results of operations. We do not have guaranteed supply contracts with any of our raw material or packaging material suppliers, and some of our suppliers may, without notice or penalty, terminate their relationship with us at any time. If any supplier is unwilling or unable to provide us with high quality raw materials or packaging materials in required quantities and at acceptable prices, we may be unable to find alternative sources or at commercially acceptable prices, on satisfactory terms, in a timely manner, or at all. Our inability to find or develop alternative sources could result in delays or reductions in production, product shipments or a reduction in our profit margins.

In addition, although we have a strict quality control system for the procurement of our raw materials and packaging materials, we can not assure you that our suppliers will not intentionally or inadvertently contaminate our raw material or packaging material supplies or provide us with substandard raw material or packaging material supplies that adversely impact the quality of our products. Some of the raw materials we use in our production may contain harmful chemicals or substances of which we are not aware and may cause undesirable side effects or injuries to our consumers. If we experience any quality or safety problems in relation to our raw materials or packaging materials, our product quality, competitive position, reputation and business could suffer.

Furthermore, we are vulnerable to increases in the prices of raw materials and packaging materials. The prices for our raw materials and packaging materials are determined principally by market forces and our bargaining power vis-a-vis our suppliers. For a discussion of changes in our raw material and packaging material prices during the Track Record Period, please see the section headed "Financial Information — Significant Factors Affecting Our Results of Operations and Financial Condition — Raw Material and Packaging Material Costs." in this document. Raw material and packaging material prices may fluctuate or be affected by inflation or changes of weather in the future. We may not be able to offset all price increases by raising the prices of our products. Moreover, we may lose competitive advantage if the prices of our products increase significantly. If the prices of raw materials and packaging materials increase in the future and we cannot pass on such increases to our distributors and/or our consumers, we may not be able to maintain our current gross profit margins and our business, financial condition and results of operations may be materially and adversely affected.

Our entry into international markets may expose us to certain risks.

We currently sell substantially all of our products in China. We may in the future expand into selected international markets in which we identify a strong market opportunity. The marketing, distribution and sale of our products overseas and the international operations related thereto will expose us to certain risks, including, among other things:

- changes in or interpretations of foreign regulations that may limit our ability to sell certain products or repatriate profits to China;
- exposure to currency fluctuations;
- difficulty in engaging and retaining distributors and agents who are knowledgeable about, and can function effectively in, overseas markets;
- increased costs associated with maintaining marketing, distribution and sales activities in various countries;
- potential imposition of trade or foreign exchange restrictions or increased tariffs; and
- difficulty in collecting international accounts receivable.

If we are unable to effectively manage these risks, our ability to conduct or expand our business abroad would be impaired, which may in turn have a material adverse effect on our business, financial condition, results of operations and prospects.

The recent global financial crisis and economic downturn had and may continue to have a material and adverse effect on our business, results of operations and financial condition.

The recent global financial crisis and economic downturn adversely affected economies and businesses around the world, including China. As a result, our business, results of operations and financial condition have been and may continue to be adversely affected in a number of ways, including:

- consumers may seek to reduce discretionary spending by delaying or foregoing their purchases of our products;
- our distributors may decide not to purchase our products at similar volumes as in the past or at all;
- our distributors may experience deterioration of their financial condition, such as bankruptcy, insolvency or other credit failure, and they may therefore not be able to meet their financial obligations to us or may delay payment to us; and
- financing and other sources of liquidity may not be available to us on acceptable terms or at all.

We have not experienced any withdrawal of any banking facilities, request for early payments of outstanding loans from banks, request to increase the amount of pledge for secured borrowings or default on the part of any customers or suppliers as a result of the global financial crisis and economic downturn.

It is uncertain how long the challenging global economic conditions in the financial services and credit markets will continue and how much of an adverse impact it will have on the global economy in general and the Chinese economy specifically. If the current economic downturn continues, our business, financial condition and results of operations could be materially and adversely affected.

We may need additional capital and any failure by us to raise additional capital on terms favorable to us, or at all, could limit our ability to grow our business.

We may, however, need to sell additional equity or debt securities or obtain a credit facility if our expenditures exceed our current expectations. The sale of additional equity securities could result in dilution to our Shareholders. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financing covenants that would restrict our operations. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could limit our ability to grow our business and develop or enhance our product offerings to respond to market demand or competitive challenges.

We rely on an independent third-party employment agency to provide contract personnel for our operation, sales and promotional activities. We have limited control over these contract personnel and we may be liable for this employment agency's violation of applicable PRC labor laws.

We engage a substantial number of our on-the-ground sales personnel through an employment agency, which is an independent third party. As of December 31, 2009 and June 30, 2010, we had 916 and 938 employees retained through this employment agency representing 34.0% and 34.7% of our total employees (excluding temporary and short-term personnel), respectively. We also hire, through this independent third-party employment agency, short-term or temporary personnel on an as-needed basis to help our promotion or event-related activities. The number of person-days[(1)] of our temporary and short-term staff totaled 9,177, 25,098, 51,510 and 37,809 person-days in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively. Since these contract personnel are not directly employed by us, our control over them is limited. For example, it may be difficult for us to enforce our business guidelines or our agreement with the employment agency directly against our contract personnel. If any contract personnel fail to perform in accordance with our business guidelines, our market reputation, brand images and results of operations could be materially and adversely affected.

Since we depend on the employment agency to meet our staffing requirements, we rely on them for the performance of their respective obligations under our agreements with them and in accordance with all applicable laws in China. Although we are entitled to contractual indemnification rights against the employment agency, under the PRC Labor Contract Law (中華人民共和國勞動合同法), we may be jointly liable for the employment agency's failure to comply with all applicable labor laws relating to the contract personnel provided to us. Accordingly, if the employment agency violates any relevant requirements under the applicable PRC labor laws or otherwise, we may incur legal liability, and our business, financial condition and results of operations could be materially and adversely affected.

The majority of our production facilities are located at one single location, and any natural disaster or other event affecting these facilities may severely disrupt our business.

The majority of our production facilities are located at a single location in Fangshan District, Beijing. There are no backup facilities for such production facilities. We do not have a formal business continuity or disaster recovery plan. In the event of an earthquake, fire, drought or flood or other natural disaster, political instability, localized extended outages of critical utilities or transportation systems, terrorist attack or other event that limits our ability to operate these facilities, we may need to incur substantial additional expenses to repair or replace the damaged equipment or facilities, our ability to manufacture and supply products and our ability to meet our delivery obligations to our distributors would be significantly disrupted, and our relationships with our distributors, suppliers and partners could be damaged, in which case our business, results of operations and financial condition would be adversely impacted.

Outbreaks of infectious diseases, such as the recent H1N1 influenza, severe acute respiratory syndrome (SARS) or avian influenza, in China may materially and adversely affect our business and operations.

Our business could be materially and adversely affected by a severe outbreak of H1N1 influenza, commonly known as swine flu, avian influenza, severe acute respiratory syndrome, or SARS, or other epidemic. In recent years, China has experienced a number of major health scares, including the 2003 outbreak of SARS, which caused significant disruption to economic activity, and the 2009 outbreak of swine flu. In June 2009, the World Health Organization declared the outbreak of swine flu a pandemic. Any outbreak of avian influenza, SARS, swine flu, or other adverse public health developments in China may have a material and adverse effect on our business operations. These occurrences could require the temporary closure of our production facilities or distribution and sales network, which would disrupt our business operations and adversely affect our results of operations.

Our insurance coverage may not completely cover the risks related to our business and operations.

Although we maintain property insurance coverage for our vehicles and manufacturing facilities and equipment, we do not have third-party liability or business interruption insurance coverage for our operations. If we experience any business disruption, litigation or natural disaster, we might incur substantial costs and diversion of resources.

---

(1) *Person-days are calculated by dividing number of hours worked by eight to show the equivalent number of eight-hour days worked.*

A system failure or breakdown of our information technology infrastructure may cause interruptions of our business and operations.

We depend on our information technology infrastructure to conduct our production activities, manage risks, implement our internal control systems and manage and monitor our business and operations. We rely on third-party information technology service providers to maintain and upgrade our systems, and we have contracted reputable information technology companies widely accepted in our industry to construct and improve our information technology infrastructure. A failure or breakdown of any part of our information technology system may interrupt our normal business or operations, result in a slowdown in operational and management efficiency and adversely affect our ability to meet our production schedules.

Our legal right to lease certain properties could be challenged by property owners or other third parties.

As of September 9, 2010, we rented 85 properties for our offices, warehouses, sales offices and for residential purpose of the sales persons. While we have requested the lessors to provide the building ownership certificate of the leased properties, 18 lessors out of 85 leases can not provide the building ownership certificates as required. The gross floor area of such properties is approximately 4,243 square meters. If such lessors are not the ultimate owners of the leased properties, no consents or permits were obtained from the ultimate owners, or there are any third parties who otherwise have rights to or interests in such properties, the validity of the leases will be adversely affected. In any such case, we may terminate the lease, but locating a new lease may disrupt our operations. Any challenge to our legal rights to the leased properties, if successful, could affect our business operations in such properties. We could also be subject to the risk of potential disputes with property owners or third parties who otherwise have rights to or interests in such properties. In addition, most of our leases have not been registered with the relevant local government authority, as required under PRC laws. Although we have been advised by our PRC legal advisor that, as a general principle, lack of registration of a lease agreement does not affect the validity of rights existing under such lease agreements, both our lessors and us may be subject to potential monetary fines imposed by relevant government authorities.

RISK FACTORS RELATING TO DOING BUSINESS IN CHINA

Adverse changes in political and economic policies of the PRC Government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our products and materially and adversely affect our competitive position.

Substantially all of our business operations are conducted in China, and substantially all of our turnover derives from sales in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many respects, including: the degree of government involvement, the level of development, the growth rate, the control of foreign exchange, access to financing, and the allocation of resources.

While the PRC economy has grown significantly in the past 30 years, the growth has been uneven, both geographically and among various sectors of the economy. The PRC Government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. However, the PRC Government still exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Furthermore, as the PRC economy has become increasingly linked with the global economy, China is affected in various respects by downturns and recessions of major economies around the world. Any adverse change in the economic conditions in China, in policies of the PRC Government or in laws and regulations in China, could have a material adverse effect on the overall economic growth of China and market demand for our products and our competitive position.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has significantly enhanced the protections afforded to various forms of foreign investments in China. We conduct our business primarily through our subsidiaries established in China. These subsidiaries are generally subject to laws and regulations applicable to foreign investment in China. However, the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us. In addition, some regulatory requirements issued by certain PRC Government authorities may not be consistently applied. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners, customers and suppliers. In addition, such uncertainties, including the inability to enforce our contracts, together with any development or interpretation of PRC law that is adverse to us, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the more developed countries. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

A failure by the beneficial owners of our Shares who are PRC residents to comply with certain PRC foreign exchange regulations could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities and subject us to liability under PRC laws.

The PRC State Administration of Foreign Exchange (中華人民共和國國家外滙管理局), or SAFE, issued a public notice in October 2005, or the Circular 75, requiring PRC residents, including both legal persons and natural persons, to register with an appropriate local SAFE branch before establishing or controlling any company outside of China, referred to as an "offshore special purpose company," for the purpose of acquiring any assets of or equity interest in PRC companies and raising fund from overseas. When a PRC resident contributes the assets or equity interests it holds in a PRC company into the offshore special purpose company, or engages in overseas financing after contributing such assets or equity interests into the offshore special purpose company, such PRC resident shall modify its SAFE registration in light of its interest in the offshore special purpose company and any change thereof. In addition, any PRC resident that is the shareholder of an offshore special purpose company is required to amend its SAFE registration with the local SAFE branch, with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in China. If the PRC resident shareholder fails to comply with Circular 75, the PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to their offshore parent company and the offshore parent company may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Moreover, failure to comply with the above SAFE registration requirements could result in liabilities under PRC laws for evasion of foreign exchange restrictions.

All of our PRC citizen or resident shareholders have completed their required registrations with SAFE. We are committed to complying, and to ensuring that our Shareholders, who are PRC citizens or residents, comply with the SAFE Circular 75 requirements. However, we may not at all times be fully aware or informed of the identities of all our beneficial owners who are PRC citizens or residents, and we may not always be able to compel our beneficial owners to comply with the SAFE Circular 75 requirements. As a result, we cannot assure you that all of our Shareholders or beneficial owners who are PRC citizens or residents will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by, SAFE Circular 75 or other related regulations. Failure by any such Shareholders or beneficial owners to comply with SAFE Circular 75 could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

Governmental control of currency conversion may limit our ability to use our turnover effectively and the ability of our PRC subsidiaries to obtain financing.

The PRC Government imposes control on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive a majority of our turnover in Renminbi, which currently is not a freely convertible currency. Restrictions on currency conversion imposed by the PRC Government may limit our ability to use turnover generated in Renminbi to fund our expenditures denominated in foreign currencies or our business activities outside China. Under China's existing foreign exchange regulations, Renminbi may be freely converted into foreign currency for payments relating to "current account transactions," which include among other things dividend payments and payments for the import of goods and services, by complying with certain procedural requirements. Our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from the SAFE, by complying with certain procedural requirements. Our PRC subsidiaries may also retain foreign currency their respective current account bank accounts for use in payment of international current account transactions. However, we cannot assure you that the PRC Government will not take measures in the future to restrict access to foreign currencies for current account transactions.

Conversion of Renminbi into foreign currencies, and of foreign currencies into Renminbi, for payments relating to "capital account transactions," which principally includes investments and loans, generally requires the approval of SAFE and other relevant PRC Government authorities. Restrictions on the convertibility of the Renminbi for capital account transactions could affect the ability of our PRC subsidiaries to make investments overseas or to obtain foreign currency through debt or equity financing, including by means of loans or capital contributions from us. In particular, if our PRC subsidiaries borrow foreign currency from us or other foreign lenders, they must do so within approved limits that satisfy their approval documentation and PRC debt to equity ratio requirements. Further, such loans must be registered with the SAFE or its local counterpart. In practice, it could be time-consuming to complete such SAFE registration process.

Fluctuations in the value of the Renminbi may have a material adverse impact on our financial condition and results of operations and the value of your investment.

Substantially all of our turnover and expenditures are denominated in Renminbi, while any dividends we pay on our Shares will be in Hong Kong Dollars. Fluctuations in the exchange rate between the Renminbi and the Hong Kong Dollar or US Dollar will affect the relative purchasing power. Fluctuations in the exchange rate may also cause us to incur foreign exchange losses and affect the relative value of any dividend issued by our PRC subsidiaries. In addition, appreciation or depreciation in the value of the Renminbi relative to the Hong Kong Dollar or US Dollar would affect our financial results in Hong Kong Dollar or US Dollar terms without giving effect to any underlying change in our business or results of operations.

Movements in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and China's foreign exchange regime and policy. The People's Bank of China (中國人民銀行) regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rate and achieve certain exchange rate targets and policy goals. From mid-2008 to mid-2010 the Renminbi traded within a narrow range against the US Dollar at approximately 6.83 Renminbi per US Dollar. In June 2010 the People's Bank of China announced the removal of the de facto peg. Following this announcement, the Renminbi has appreciated modestly. However, the Renminbi may appreciate or depreciate significantly in value against the Hong Kong Dollar or the US Dollar in the medium to long term if and when the PBOC changes its current intervention policy.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risks. In any event, the availability and effectiveness of these hedging instruments may be limited and we may not be able to hedge our exposure successfully, or at all.

The increase in the PRC enterprise income tax and the discontinuation of the preferential tax treatments available to us could decrease our net income and materially and adversely affect our financial condition and results of operations.

Our PRC subsidiaries are incorporated in the PRC and are governed by applicable PRC income tax laws and regulations. Prior to January 1, 2008, entities established in the PRC were generally subject to a 30% state and 3% local enterprise income tax rate. Various preferential tax treatments promulgated by national tax authorities were available to foreign-invested enterprises. Beijing Outsell, as a foreign-invested enterprise, was granted a five-year tax holiday commencing from 2007, which entitles it to a two-year income tax exemption followed by a three-year 50% enterprise income tax rate reduction.

Under the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), or the PRC EIT Law, and its implementation rules, both effective on January 1, 2008, the PRC has adopted a uniform enterprise income tax rate of 25% for all PRC enterprises (including foreign-invested enterprises) and revoked the previous tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, the PRC EIT Law also permits enterprises to continue to enjoy their existing tax incentives, adjusted by certain transitional phase-out rules, under which enterprises established before the promulgation date of the PRC EIT Law that were granted tax holidays under the then effective tax laws or regulations may continue to enjoy their tax holidays until their expiration. Beijing Outsell, as an enterprise established before the promulgation date of the PRC EIT Law, is entitled to enjoy its exemption of enterprise income tax in 2007 and 2008 and 50% tax rate reduction in 2009, 2010 and 2011. The PRC EIT Law and its implementation rules also permit qualified "New and Hi-Tech Enterprises," or NHTEs, to enjoy a reduced 15% enterprise income tax rate. Beijing Outsell had obtained the qualification certificates of NHTE status in 2008 with a valid period of three years until

December 23, 2011, and therefore it is eligible to enjoy a preferential tax rate of 15% as long as it maintains its qualification as an NHTE. However, the continued qualification of an NHTE during the period of such qualification certificate is subject to annual evaluation by the relevant government authority in China. In addition, Beijing Outsell will need to apply for an additional three-year extension three months prior to the expiration of the current qualification certificate if it desires to continue to enjoy the reduced tax rate for NHTEs. As a result, Beijing Outsell is exempted from enterprise income tax for 2007 and 2008 and is subject to enterprise income tax at a rate of 12.5% for 2009, 2010 and 2011 as a foreign-invested enterprise, and is subject to enterprise income tax of 15% from 2012 onwards subject to the continuous qualification as a NHTE.

Preferential tax treatments granted to us by PRC Government authorities are subject to review and may be adjusted or revoked at any time in the future. The discontinuation of any preferential tax treatments available to us will cause our effective tax rate to increase, which will decrease our net income and materially and adversely affect our financial condition and results of operations.

We may be classified as a "resident enterprise" for PRC enterprise income tax purposes; such classification could result in unfavorable tax consequences to us and our non-PRC Shareholders.

The PRC EIT Law provides that enterprises established outside of China whose "de facto management bodies" are located in China are considered PRC "tax resident enterprises" and will generally be subject to the uniform 25% PRC enterprise income rate on their global income. Although under the implementation rules to the PRC EIT Law, a "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and other assets of an enterprise, the circumstances under which an enterprise's "de facto management body" would be considered to be located in China are currently unclear. A tax circular issued by the SAT on April 22, 2009, or Circular 82, provides that certain foreign enterprises controlled by a PRC company or a PRC company group will be classified as "resident enterprises" if the following are located or resident in China: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, company seal, and minutes of board meetings and shareholders' meetings; and half or more of the senior management or directors having voting rights.

Currently, a substantial majority of the members of our management team as well as the management team of some of our offshore holding companies are located in China. Although our offshore holding companies are not controlled by any PRC company or company group, we may be deemed to be a PRC resident enterprises if the related criteria under Circular 82 are referred to and applied to us by the PRC tax authorities. If our company or any of our overseas subsidiaries is considered a PRC tax resident enterprise for PRC tax purposes, a number of unfavorable PRC tax consequences could follow. First, our company or our overseas subsidiary will be subject to the uniform 25% enterprise income tax rate as to our global income as well as tax reporting obligations. Second, although under the PRC EIT Law and its implementing rules dividends paid to us from our PRC subsidiaries would qualify as "tax-exempted income," we cannot assure you that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC tax purposes. Finally, dividends payable by us to our investors and gain on the sale of our Shares may become subject to PRC withholding tax.

We rely on dividends paid by our subsidiaries for our cash needs, and limitations under PRC laws on the ability of our PRC subsidiaries to distribute dividends to us could adversely affect our ability to utilize such funds.

As a holding company, we conduct substantially all of our business through our consolidated subsidiaries incorporated in China. We rely on dividends paid by these PRC subsidiaries for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our Shareholders, to service any foreign currency debt we may incur and to make any offshore acquisitions. The payment of dividends by entities established in China is subject to limitations. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the aggregate amount of such reserves reaches 50% of its respective registered capital. As a result, our PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to us in the form of dividends, loans or advances. We anticipate that in the foreseeable future our PRC subsidiaries will need to continue to set aside 10% of their respective after-tax profits to their statutory reserves. These limitations on the ability of our PRC subsidiaries to transfer funds to us limit our ability to receive and utilize such funds.

PRC tax laws on dividend distribution may materially and adversely affect our business and results of operations and dividends payable by us to our foreign investors and gains on the sale of our Shares may be subject to withholding taxes under PRC tax laws.

Dividends received by foreign investors from foreign-invested enterprises were exempt from withholding income tax prior to January 1, 2008. Therefore, we were exempt from withholding tax on dividends we received from our PRC subsidiaries. Under the PRC EIT Law, a withholding income tax at the rate of 20% is applicable to dividends derived from sources within China paid by foreign-invested enterprises to their non-PRC parent companies. However, pursuant to the implementation rules of the PRC EIT Law, a reduced withholding income tax rate of 10% shall be applicable in such case. In addition, due to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income, signed on August 21, 2006 (the “Hong Kong Tax Treaty”), a company incorporated in Hong Kong, such as Besunyen HK, will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in that particular PRC subsidiary, or 10% if it holds less than a 25% interest in that subsidiary. In addition, the SAT promulgated a tax notice on October 27, 2009 (“Circular 601”), which provides that tax treaty benefits will be denied to “conduit” or shell companies without business substance, and a beneficial ownership analysis will be used based on a “substance-over-the-form” principle to determine whether or not to grant tax treaty benefits. It is unclear at this early stage whether Circular 601 applies to dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary. It is possible however, that under Circular 601 Besunyen HK would not be considered as the “beneficial owner” of any such dividends, and that such dividends would as a result be subject to income tax withholding at the rate of 10% rather than the favorable 5% rate applicable under the Hong Kong Tax Treaty.

If tax benefits relating to the withholding income tax on the dividends received from Besunyen HK become unavailable as a result of the changes in the tax arrangement between the PRC and Hong Kong or for any other reason as mentioned above, our financial condition and results of operations could be adversely affected. Moreover, our historical results of operations may not be indicative of our results of operations for future periods as a result of the expiration of the tax benefits currently available to us.

In addition, due to ambiguities in the PRC EIT Law and its implementation rules, a withholding tax at the rate of 10% may also be applicable to dividends payable to investors (excluding individual natural persons) that are non-resident enterprises to the extent such dividends are sourced within China. Similarly, any gain realized on the transfer of our Shares by such investors is also subject to a withholding tax at the rate of 10% if such gain is regarded as income derived from sources within China. If we are considered a resident enterprise in the PRC, it is unclear whether the dividends we pay with respect to our Shares, or the gain you may realize from the transfer of our Shares, would be treated as income derived from sources within China and be subject to PRC income tax. If we are required under the PRC EIT Law to withhold PRC income tax on our dividends payable to our foreign Shareholders, or if you are required to pay PRC income tax on the transfer of the Shares, the value of your investment in our Shares may be materially and adversely affected. See the section headed "Risk Factors — We may be classified as a 'resident enterprise' for PRC enterprise income tax purposes; such classification could result in unfavorable tax consequences to us and our non-PRC Shareholders." in this document.

It may be difficult to effect service of process upon us or our Directors or executive officers who reside in China or to enforce against them in China any judgments obtained from non-PRC courts.

We are incorporated in the Cayman Islands. The majority of our Directors and all our executive officers reside within China. Almost all of our assets and some of the assets of those persons are located within China. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside China.

China has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On July 14, 2006, Hong Kong and China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned, or the Arrangement, pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in China. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in China if the parties in dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service or process against our assets, directors or executive officers in China in order to seek recognition and enforcement for foreign judgments in China.

Furthermore, China does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of the United States, the United Kingdom, or most other western countries or Japan. Hence, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

We are subject to environmental regulations and may be exposed to liability and potential costs for environmental compliance.

We are subject to the PRC laws and regulations concerning the discharge of waste water and solid waste during our manufacturing processes. We are required to obtain certain clearances and authorizations from government authorities for the treatment and disposal of such discharge. Any violation of these regulations may result in substantial fines, criminal sanctions, revocation of operating permits, shutdown of our facilities and obligation to take corrective measures.

We are in full compliance with currently applicable environmental regulations. However, the PRC Government may take steps towards the adoption of more stringent environmental regulations, and we may not be able to remain at all times in full compliance with these regulatory requirements. Due to the possibility of unanticipated regulatory or other developments, the amount and timing of future environmental expenditures may vary substantially from those currently anticipated. If there is any unanticipated change in applicable environmental regulations, we may need to incur substantial capital expenditures to install, replace, upgrade or supplement our pollution control equipment or make operational changes to limit any adverse impact or potential adverse impact on the environment in order to comply with the new environmental regulations. Our cost of complying with current and future environmental regulations, and liabilities which may potentially arise from the discharge of waste water and solid waste, may materially adversely affect our business, financial condition and results of operations.

DIRECTORS

DIRECTORS

Name	Address	Nationality
Executive Directors		
ZHAO Yihong (趙一弘)	706 Beijing Fragrant Hill No. 81 Yard Xiangshan Road Haidian District Beijing 100093 PRC	Chinese
GAO Yan (高雁)	706 Beijing Fragrant Hill No. 81 Yard Xiangshan Road Haidian District Beijing 100093 PRC	Chinese
Non-executive Directors		
ZHUO Fumin (卓福民)	Room 1301, Bldg. 3 No. 258 Puming Rd. Pudong District Shanghai PRC	Chinese
WANG Bing (王兵)	Yosemite A 3-1, 4 Yuyang Road Houshayu Town Shunyi District Beijing 101302 PRC	Chinese
Independent Non-executive Directors		
HUANG Jingsheng (黃晶生)	No. 2, Lane 188, Mingyue Road, Room 1802, Shanghai, PRC	American
WONG Lap Tat Arthur (黃立達)	1208 Dragon Bay Villa Hou Sha Yu Shunyi District Beijing 101302 PRC	British
XIN Katherine Rong (忻榕)	Apartment 3719 Convention Plaza 1 Harbour Road Wanchai Hong Kong	Chinese

DIRECTORS

Auditor and Reporting Accountants	Deloitte Touche Tohmatsu Certified Public Accountants 35/F One Pacific Place 88 Queensway Hong Kong
Property Valuer	Savills Valuation and Professional Services Limited 23rd Floor, Two Exchange Square, Central Hong Kong

CORPORATE INFORMATION

Principal place of business and address of headquarters	No. 1 Qiushi Industry Park, Doudian Town Fangshan District, Beijing 102433, PRC
Registered office in Cayman Islands	Portcullis TrustNet (Cayman) Ltd. The Grand Pavilion Commercial Centre Oleander Way, 802 West Bay Road P.O. Box 32052 Grand Cayman KY1-1208 Cayman Islands
Place of business in Hong Kong registered under Part XI of the Hong Kong Companies Ordinance	Suites 1903-5, 19/F Shui On Centre 6-8 Harbour Road, Wanchai Hong Kong
Website of the Company*	www.besunyen.com
Company Secretary	Mr. Au Lap Ming, CPA, ACIS, ACS
Authorized Representatives	Mr. Zhao Yihong 706 Beijing Fragrant Hill No. 81 Yard Xiangshan Road Haidan District, Beijing 100093 China Mr. Au Lap Ming Flat D, 39/F, Block 7, Bauhinia Garden Tseung Kwan O New Territories Hong Kong

* *Information contained on the website does not form part of this document.*

CORPORATE INFORMATION

Principal Bankers	Bank of Beijing Fangshan Branch Ground Floor Longjian Building No. 3 Yue Hua Street Liang Xiang Fangshan District, Beijing
	Beijing Rural Commercial Bank Co., LTD. Liangxiang Branch 26 Liangxiang Middle Road Fangshan District, Beijing

SOURCES OF INFORMATION

About Euromonitor International

Euromonitor International Plc., founded in 1972, is a private independent provider of business intelligence on industries, countries and consumers. The information disclosed in this document from Euromonitor is extracted from a research study commissioned by us for a fee of RMB314,438 and is disclosed with the consent of Euromonitor. The Euromonitor Study is based on a variety of research techniques, including desk research, site visits and industry interviews. Euromonitor used multiple secondary and primary sources to validate any data or information collected with no reliance on any single source. Furthermore, a test of each respondent's information and views against those of others is applied to ensure reliability and to eliminate bias from various sources. Therefore, the data in the Euromonitor Study reflects the consensus of industry for historic data including market size and shares. For the forecasting, Euromonitor adopted its standard practice of both quantitative as well as qualitative forecast in terms of the market size, growth trends, etc, on the basis of a comprehensive and in-depth review over the historical market development, and a cross-check with established government/industry figures or trade interviews. The Euromonitor Study is based on the following principal assumptions: that current trends in disposable income and consumer tastes in China will not change significantly over the study forecast period and that there will not be significant changes to current PRC Government policy in relation to health food products.

About Frost & Sullivan

Frost & Sullivan, founded in 1961, conducts research and analyzes new market opportunities for corporate growth. The information disclosed in this document from the Frost & Sullivan Health Problem Prevalence Study is extracted from a research study commissioned by us for a fee of RMB100,000 and is disclosed with the consent of Frost & Sullivan. All the historic data in the Frost & Sullivan Health Problem Prevalence Study is from epidemiology studies conducted by Chinese official and other leading medical societies or academic institutions in recent years. Major data resources include the nutrition and health status of Chinese residents studies by the MOH, over-weight and obesity prevalence studies by the Chinese Center of Disease Control and Prevention, hypertension prevalence studies by leading hospitals, Chinese disease prevention and treatment guidelines by the Chinese Medical Society, including guidelines on hypertension, Hepatitis B, fatty liver, constipation, and other major diseases; literature on sub-health prevalence in professional medical journals and large-scale sub-health study by Institute of Psychology, Chinese Academy of Science. The forecast in the Frost & Sullivan Health Problem Prevalence Study is based on the following principal assumptions: that no substantial changes of epidemiology status in China will happen during 2010 to 2014 and that most of the Chinese people will keep their current lifestyle and habits during 2010 to 2014. We also commissioned Frost & Sullivan, for a fee of RMB320,000, to conduct a brand awareness survey for our 碧生源 (Besunyen) brand.

About SMERI

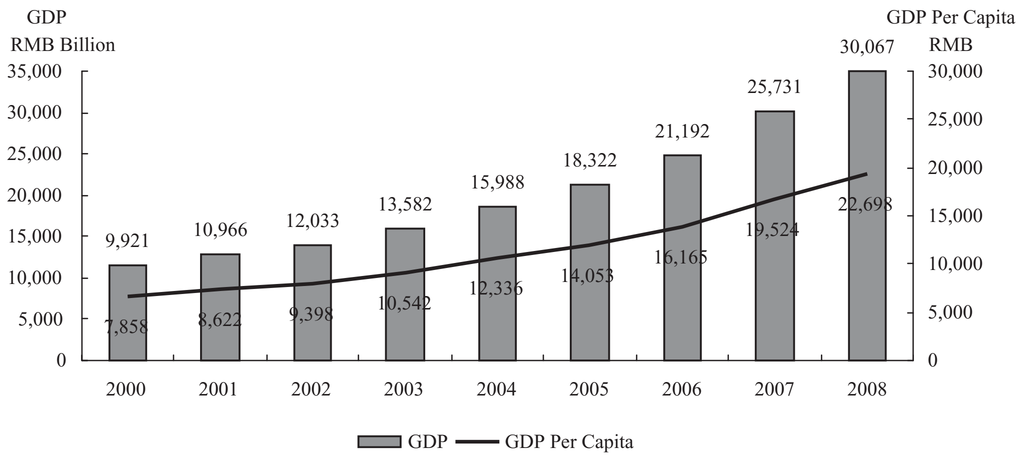
SMERI, a research institute affiliated with the SFDA, conducts research and studies on the retail pharmaceutical industry and retail pharmacies in China. The information disclosed in this document from SMERI is extracted from a research study commissioned by us for a fee of RMB100,000 and is disclosed with the consent of SMERI. The SMERI Study is conducted through extrapolation of data automatically collected through point-of-sale terminals that are covered by SMERI's on-line monitoring system and verification from site visits.

OVERVIEW OF CHINA'S ECONOMY

Strong Growth of China's Economy

China's economy has expanded rapidly since the adoption of reform and market liberalization policies by the PRC Government beginning in the late 1970's. China's economy has demonstrated strong and steady growth over the last three decades and has become one of the largest economies in the world. From 2000 to 2008, according to the National Bureau of Statistics of China, China's nominal GDP grew from RMB9.9 trillion to RMB30.1 trillion and its nominal GDP per capita grew from RMB7,858 to RMB22,698, representing a CAGR of approximately 14.9% and 14.2%, respectively. The following charts set out the nominal GDP and GDP per capita of China between 2000 and 2008.

GDP and GDP Per Capita

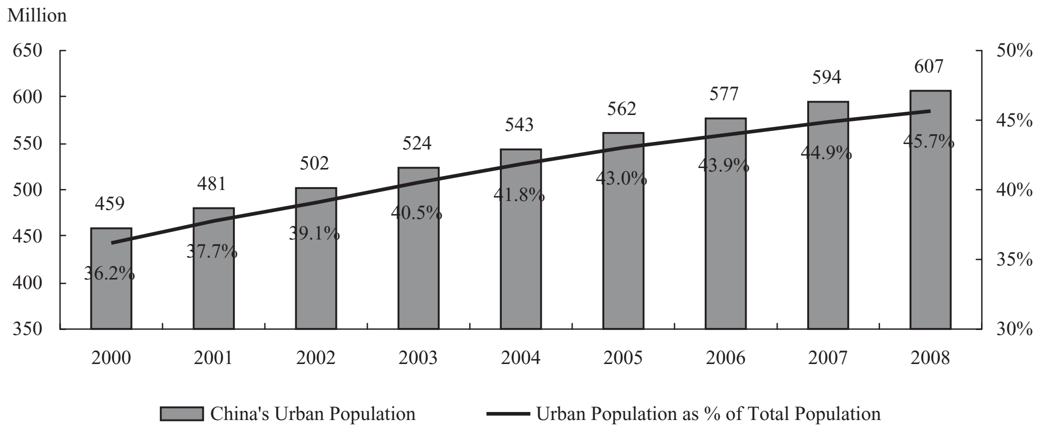


Source: National Bureau of Statistics of China

Rapid Urbanization and Increasing Disposable Income

Industrialization and economic growth in China have resulted in rapid urbanization in China through the migration of rural populations to urban areas and the development of towns into cities. According to the National Bureau of Statistics of China (中華人民共和國國家統計局), the total urban population in the PRC increased from 459 million as of the end of 2000 to 607 million as of the end of 2008, representing an increase of 32.2% over this eight-year period. During the same period, the urban population as a percentage of the total population increased from 36.2% to 45.7%, and is projected to continue to increase rapidly over the next decade or more. The following chart sets forth the growth of the urban population in China and the percentage of urban population to the total population from 2000 to 2008.

Urban Population and Urban Population as Percentage of Total Population

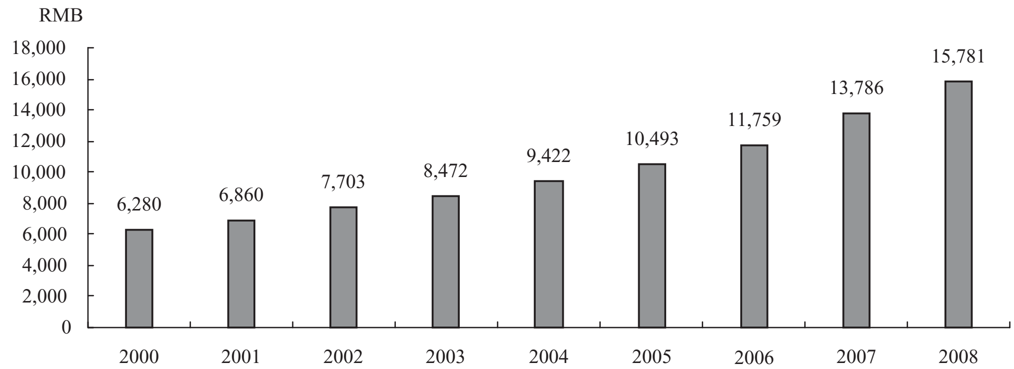


Source: National Bureau of Statistics of China

Along with China's rapid economic growth, disposable income levels have grown significantly. According to the National Bureau of Statistics of China, per capita annual disposable income of urban households in China has increased from RMB6,280 in 2000 to RMB15,781 in 2008, representing a CAGR of 12.2%. During the same period, per capita annual disposable income of rural households increased from RMB2,253 in 2000 to RMB4,761 in 2008, representing a CAGR of 9.8%.

The following chart sets forth per capita annual disposable income of urban households in China from 2000 to 2008.

Per Capita Annual Disposable Income of Urban Households



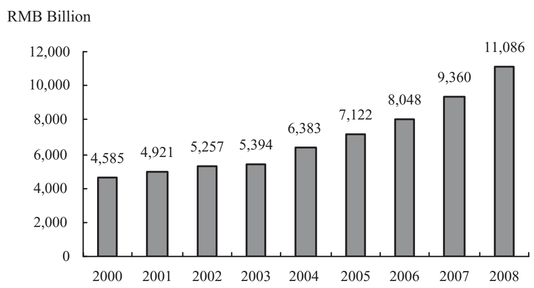
Source: National Bureau of Statistics of China

STRONG CONSUMPTION GROWTH AND CHANGING CONSUMPTION PATTERNS

Strong Consumption Growth

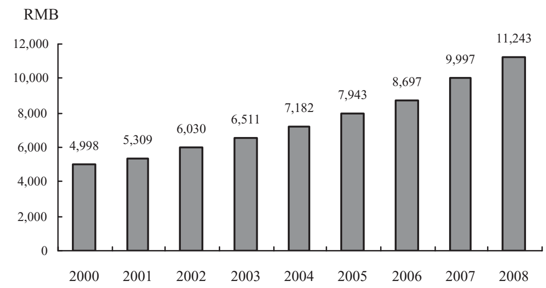
Rising personal income and rapid urbanization have driven strong growth in consumer spending in China. According to the National Bureau of Statistics of China, total retail sales of consumer goods in China increased from RMB4.6 trillion in 2000 to RMB11.1 trillion in 2008, representing a CAGR of 11.7%, while per capita consumption expenditure of urban households increased from RMB4,998 in 2000 to RMB11,243 in 2008, representing a CAGR of 10.7%. The following charts show the growth of total retail sales of consumer goods in China and per capita consumption expenditure of urban households from 2000 to 2008.

Total Retail Sales Expenditure on Consumer Goods



Source: National Bureau of Statistics of China

Per Capita Consumption Expenditure of Urban Households

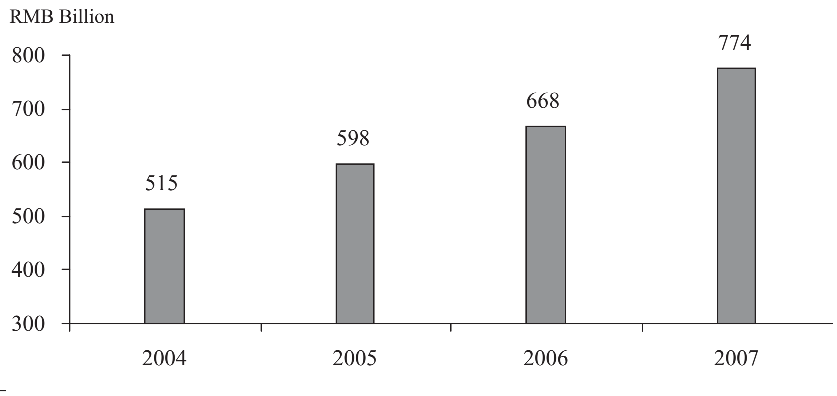


Source: National Bureau of Statistics of China

Changing Consumption Patterns

As the Chinese population becomes increasingly prosperous, its attention to healthcare and demand for health care products and services continue to increase. This is reflected in the stable growth of spending on healthcare from RMB515 billion in 2004 to RMB774 billion in 2007, representing a CAGR of 14.6%, according to the National Bureau of Statistics of China. Health-related product spending was approximately 8% of total consumer spending during 2004 to 2007 and has been relatively stable during that period. The following chart shows the growth of health-related product spending from 2004 to 2007.

Health-related Product Spending



Source: National Bureau of Statistics of China

HEALTH FOOD PRODUCT MARKET IN CHINA

The PRC health food product market consists of a wide variety of products designed to help people with mild chronic or recurring health problems as well as those seeking to maintain a healthy body and lifestyle. These products are generally produced primarily from Chinese medicinal herbs and other natural materials. All health food products must be approved by the SFDA. The SFDA approval process requires conducting human or animal testing of the product, and obtaining SFDA approval can take up to two years. Upon approval, a "health" ("健") mark may be affixed on the product's packaging to identify it as an SFDA-approved health food product. For further details on the approval process and relevant requirements, see the section headed "Regulatory Overview" in this document. The SFDA approves health food products for the following 27 categories of health benefits:

facilitating excretion of lead
(促進排鉛)

sleep improvement
(改善睡眠)

facilitating milk secretion
(促進泌乳)

weight loss and slimming
(減肥)

alleviating nutritional anemia
(改善營養性貧血)

enhance immune system
(增強免疫力)

assisting in lowering blood lipid level
(輔助降血脂)

assisting in lowering blood sugar level
(輔助降血糖)

anti-oxidant
(抗氧化)

assisting in improving memory
(輔助改善記憶)

ameliorating eyestrain
(緩解視疲勞)

alleviating sore throat
(清咽)

assisting in lowering blood pressure
(輔助降血壓)

alleviating physical fatigue
(緩解體力疲勞)

improving anoxia tolerance
(提高缺氧耐受力)

assisting in protection against radiation damage
(對輻射危害有輔助保護功能)

improving growth and development in children
(改善生長發育)

increasing bone mineral density
(增強骨密度)

assisting in liver protection against toxicity
(對化學性肝損傷有輔助保護功能)

reducing acne
(祛痤瘡)

reducing skin age spots
(祛黃褐斑)

skin moisturizer
(改善皮膚水份)

improving skin oil content
(改善皮膚油份)

regulating gastrointestinal flora
(調節腸道菌群)

promoting digestion
(促進消化)

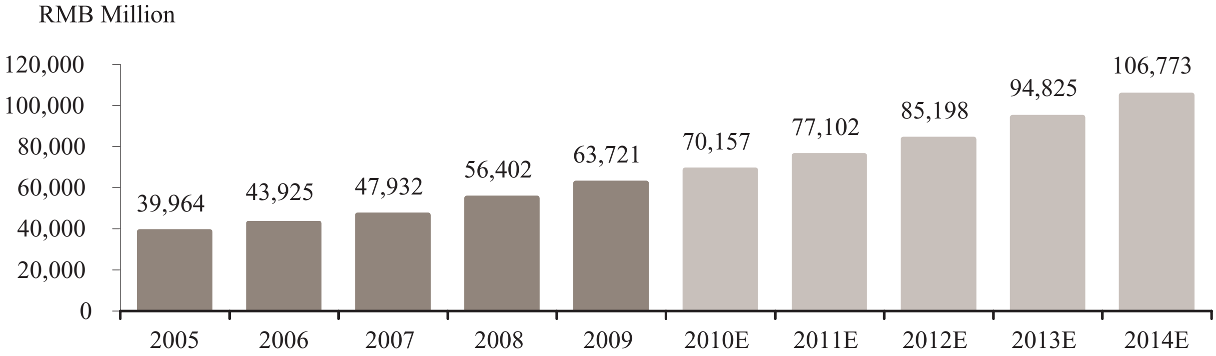
laxative
(通便)

assisting in protection of gastric mucosa
(對胃粘膜有輔助保護功能)

Our two currently marketed and four SFDA-approved but not yet launched health food products cover six of the 27 health benefit categories, including laxatives, slimming products, and products to assist in lowering blood lipid level, improve sleep, assist in lowering blood sugar level, and protect the liver against toxicity.

According to the Euromonitor Study, sales of health food products in these six health benefit categories grew from RMB20.7 billion in 2005 to RMB34.3 billion in 2009, representing a CAGR of 13.4% and are expected to reach RMB55.8 billion by 2014, representing a CAGR of 10.2% from 2009 to 2014. The sales of the overall health food product market (including all 27 health benefit categories) have grown from RMB40.0 billion in 2005 to RMB63.7 billion in 2009, representing a CAGR of 12.4% and are expected to reach RMB106.8 billion by 2014, according to the Euromonitor Study, representing a CAGR of 10.9% from 2009 to 2014. The following chart shows the growing sales of health food products for the periods indicated.

Sales of Health Food Products in China

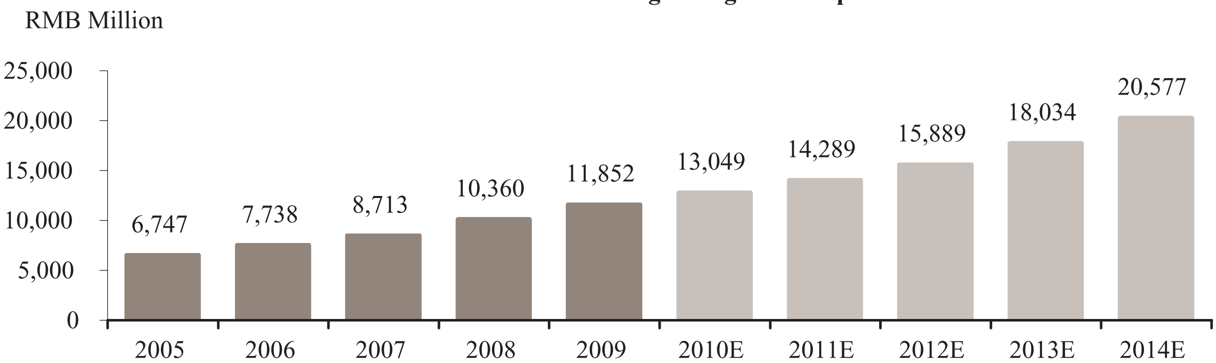


Source: Euromonitor Study

Based on the Euromonitor Study, our market share, in terms of retail sales value, in the overall health food product markets has grown from 0.4% in 2007 to 0.7% in 2008 and further to 1.2% in 2009.

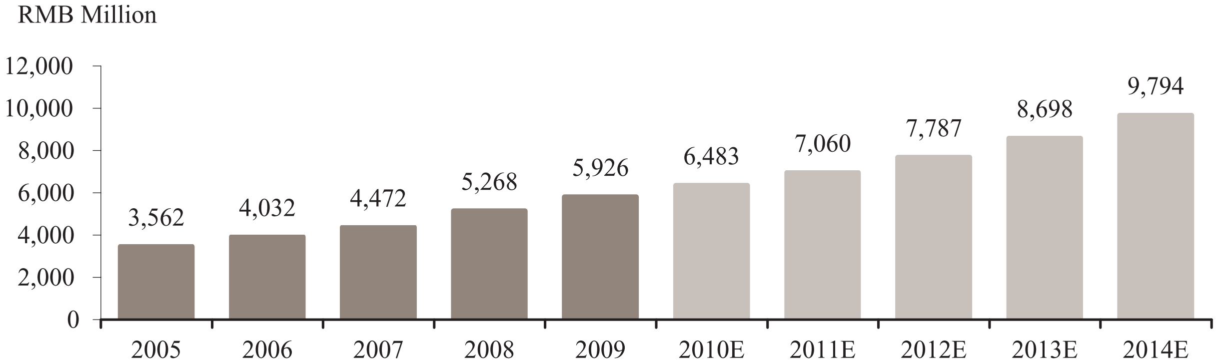
According to the Euromonitor Study, sales of each of the four categories that our current SFDA-approved health food product candidates cover have grown noticeably in the past five years and are expected to continue to grow. The following charts show, for the periods indicated, the growth of the sales of health food products for each of the four categories that our current SFDA-approved health food product candidates cover.

Sales of Health Food Products Regulating Blood Lipid level in China



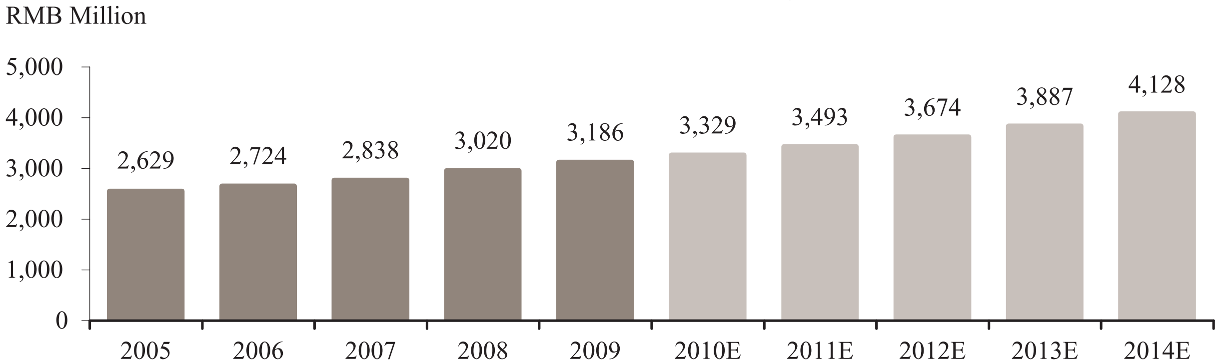
Source: Euromonitor Study

Sales of Health Food Products Regulating Blood Sugar Level in China



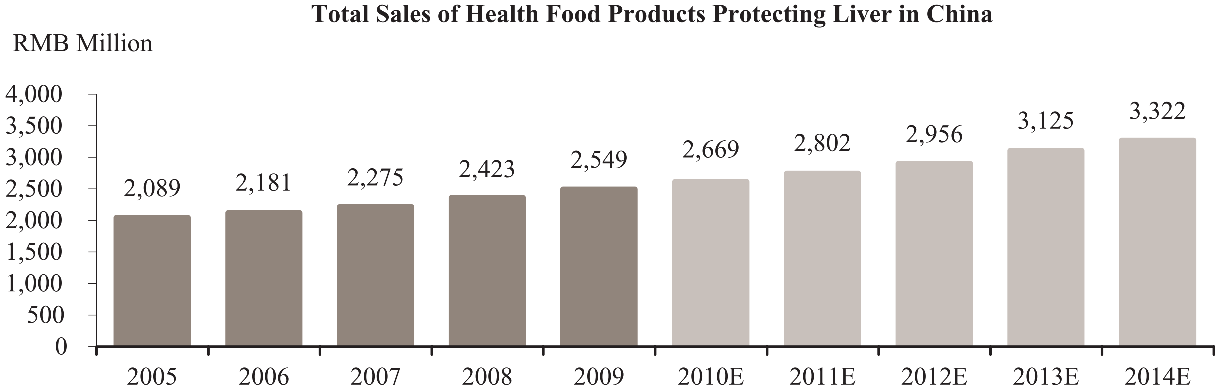
Source: Euromonitor Study

Sales of Health Food Products Improving Sleep in China



Source: Euromonitor Study

Total Sales of Health Food Products Protecting Liver in China



Source: Euromonitor Study

Drivers of the Health Food Product Market in China

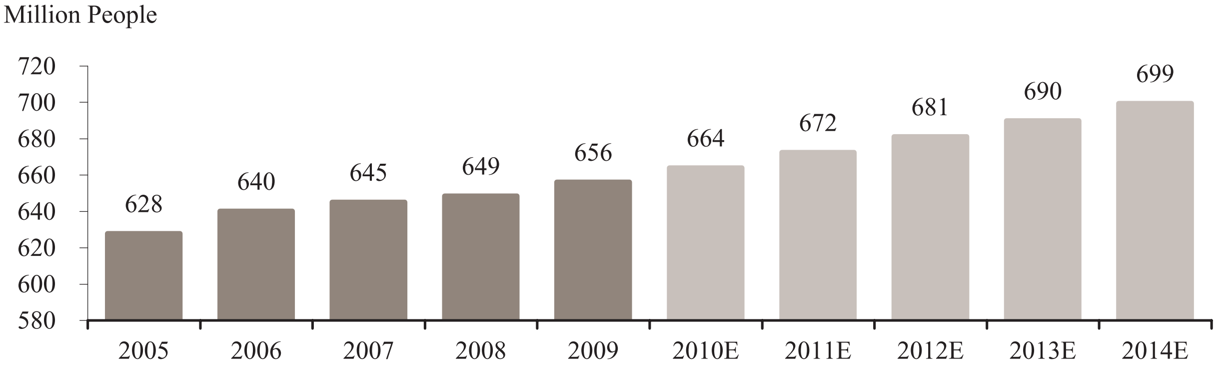
Rising health consciousness and prevalence of self-medication

With improved living standards and higher disposable income, consumers in China are becoming more familiar with the concepts of wellness and holistic health, partly as a result of consumer education programs and campaigns by health product and drug providers, medical practitioners and the government. Increased access to information through widespread Internet usage in China has also played an important role in boosting consumers’ knowledge and awareness of health and well-being issues. This increased sophistication and awareness have led to an increased confidence in self-medication, whereby a person seeks remedies to mild chronic or recurring health issues without seeing a doctor or getting a drug prescription. Many Chinese consumers prefer self-medication in order to avoid the time and expenses associated with visiting a doctor. These trends are particularly pronounced in urban areas, where living standards are relatively higher and access to healthcare and health products is relatively greater compared with rural areas.

Rising levels of health problems

China's industrialization, economic growth and urbanization have been accompanied by rising pollution levels, reductions in physical activity and labor intensity, an increasingly fast-paced and stressful lifestyle and the charges in diet, which in turn have led to an increasing prevalence of certain health problems. According to the Frost & Sullivan Health Problem Prevalence Study, the number of people in China experiencing reduction in vitality and tolerance against illness without having been diagnosed as suffering a defined disease (a condition known as "sub-health") increased from 628 million in 2005 to 656 million in 2009 and is expected to increase to 699 million in 2014. This population group is increasingly drawn to the benefits of health food products. The following chart shows the growth of the sub-health population for the periods indicated.

Sub-Health Patient Population in China



Source: Frost & Sullivan Health Problem Prevalence Study

Among the most common health problems afflicting the sub-health population are constipation, obesity and hypertension, the relative populations of which are shown in the following table for the periods indicated.

	2005	2006	2007	2008	2009	2014E
			(in millions)			
Constipation	74	75	76	76	77	80
Obesity and Overweight[(1)]	293	303	313	324	335	396
Hypertension	179	185	192	198	205	238
Liver Disease[(2)]	197	211	225	239	254	311

(1) *According to the World Health Organization, a person is overweight if his or her body mass index (BMI) is between 25kg/m² and 30kg/m² and is obese if his or her BMI is greater than 30kg/m².*

(2) *Includes fatty liver and hepatitis.*

Source: Frost & Sullivan Health Problem Prevalence Study

Increasing demand for Chinese medicinal herb-based health food products

Traditional Chinese wisdom favors the concept of prevention of disease through healthy living and eating habits. Chinese people are inclined to take Chinese medicinal herb-based health food products in order to maintain or improve their health and avoid becoming seriously ill. Moreover, Chinese medicinal herbs are widely viewed by Chinese as safe, effective and affordable alternatives to western medicines when addressing mild health issues.

THERAPEUTIC TEA MARKET IN CHINA

The therapeutic tea market is a sub-set of the health food product market. Therapeutic teas are composed of a blend of Chinese medicinal herbs and teas. Therapeutic teas offer consumers an affordable, convenient-to-use and tasty way of achieving their health goals.

According to the Euromonitor Study, the therapeutic tea market in China grew from RMB3.1 billion in 2005 to RMB4.1 billion in 2009 and is expected to reach RMB5.8 billion in 2014, representing a CAGR of 7.1% from 2009 to 2014. In addition, the aggregate sales of therapeutic tea products in the slimming and laxative health benefit categories grew from RMB611.5 million in 2005 to RMB1.4 billion in 2009 and are expected to reach RMB2.3 billion in 2014, representing a CAGR of 9.9% from 2009 to 2014.

For 2008 and 2009, we were the market leader in China's overall therapeutic tea market with a market share of 11.2% and 18.8% in terms of retail sales value, respectively, according to the Euromonitor Study. In 2009, our next-closest competitor had less than one third of our market share and the remaining three of the top five brands had aggregate market share of less than half of our market share. The following table sets forth the market share of the top five providers of therapeutic tea products in terms of retail sales value for the periods indicated.

		Market Share (%)	
	Company name	Year ended December 31, 2008	Year ended December 31, 2009
1	Beijing Outsell Health Product Development Co Ltd.[(1)]	11.2	18.8
2	Guangdong Great Impression (Group) Co Ltd (廣東大印象（集團）有限公司)	6.7	5.5
3	Perfect (China) Co Ltd (完美（中國）日用品有限公司)	3.3	3.4
4	Jiangxi Xiushui Miraculous Tea Industry Co Ltd (江西省修水神茶集團公司)	1.9	2.8
5	Sichuan Shin pre Lingzhi Group Co Ltd (四川安都保健品有限責任公司)	2.3	2.5
	Total	25.4	33.0

(1) *Beijing Outsell Health Product Development Co Ltd. is our subsidiary that is conducting our business in the PRC.*

Source: Euromonitor Study

LAXATIVE AND SLIMMING PRODUCT MARKETS IN CHINA

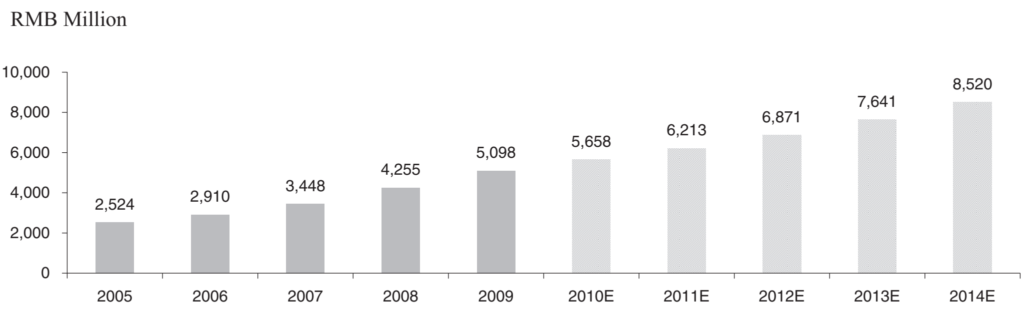
Overview of Laxative and Slimming Product Markets

The markets for health food products with laxative or slimming functions have grown recently along with the increased population who suffer constipation or weight problems. According to the Euromonitor Study, sales of health food products having laxative function grew from RMB2.5 billion in 2005 to RMB5.1 billion in 2009, representing a CAGR of 19.2%, and are expected to increase to RMB8.5 billion in 2014, representing a CAGR of 10.8% from 2009 to 2014. Sales of health products having the slimming function also increased from RMB3.2 billion in 2005 to RMB5.7 billion in 2009, representing a CAGR of 15.8%, and are expected to continue the growth to reach RMB9.5 billion in 2014, representing a CAGR of 10.6% from 2009 to 2014.

INDUSTRY OVERVIEW

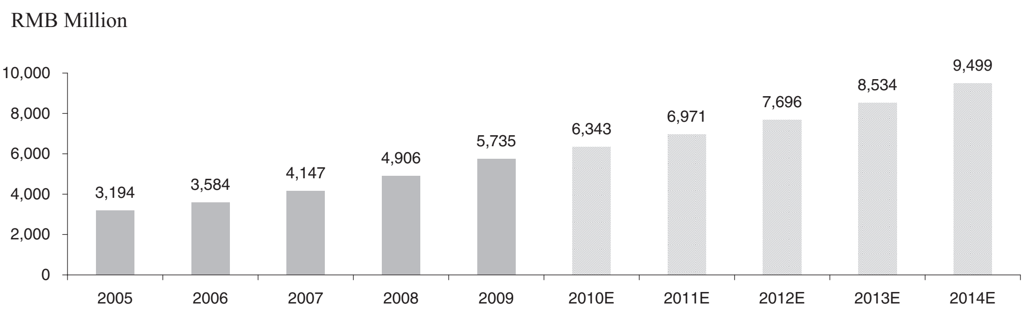
The following charts show the historical and expected growth of the laxative health food product and slimming health food product markets in China for the periods indicated.

Total Sales of Laxative Health Food Products in China



Source: Euromonitor Study

Total Sales of Slimming Health Food Products in China



Source: Euromonitor Study

Competitive Landscape of Laxative and Slimming Product Markets

Our Besunyen Detox Tea and Besunyen Slimming Tea compete with other laxative and slimming products, including health food products, OTC drugs and other products, in particular those sold in retail pharmacies. According to the SMERI Study, our Company was the leading provider of laxative products sold through retail pharmacies in both 2008 and 2009 in terms of retail sales value, enjoying a market share of 20.9% and 25.2% in 2008 and 2009, respectively. In 2008 and 2009, our next-closest competitor, Yunnan Panlong Yunhai Pharmaceutical Co., Ltd. (雲南盤龍雲海藥業) had a market share of 19.9% and 23.7%, respectively. Beijing Yu Sheng Tang Pharmaceutical Group Limited (北京禦生堂藥業集團有限公司) ranked third in the laxative product market in both 2008 and 2009, having a market share of 4.1% and 6.8%, respectively. In the market for slimming products sold through retail pharmacies, our market share increased rapidly from 4.3% in 2007 to 8.1% in 2008 and further to 15.9% in 2009, ranking as the second largest provider of slimming products and the largest provider of slimming tea in terms of retail sales value in 2009. The next-closest provider of slimming tea is Beijing Tian Long Health Tea Co., Ltd. (北京天龍保健茶有限公司), which had a market share of 1.6% in 2009. Tai Ji Group (太極集團涪陵製藥), which produces and sells Qu Mei (Sibutramine), a prescription drug and slimming product, was the largest provider of slimming products in China, having a market share of 28.4% and 30.1% in 2008 and 2009, respectively.

Trends of Laxative and Slimming Product Markets in China

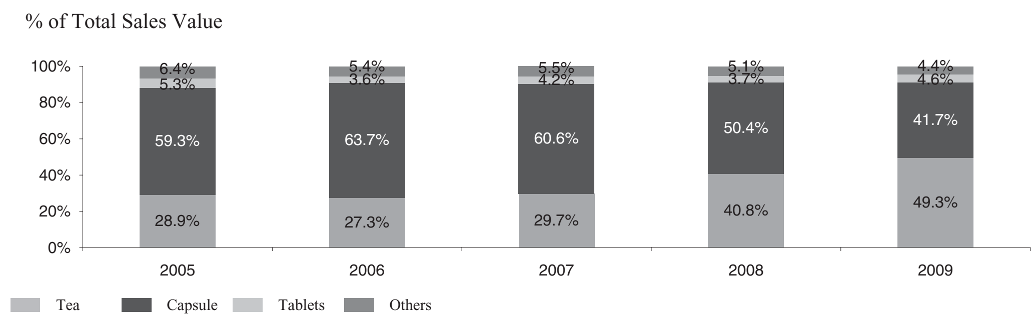
Increasing population with weight or constipation problems

China's continuing modernization has resulted in reductions in physical activity levels in both urban and rural areas. People are spending less energy on traditional forms of transportation such as walking and cycling, and the popularity of cars, buses, and motorcycles is increasing. According to the Frost & Sullivan Health Problem Prevalence Study, obesity is a growing health concern in China as the rate of obesity in China has doubled in the past 10 years. The overweight and obese population in China increased from 293 million in 2005 to 335 million in 2009 and is expected to increase steadily in the near future to 396 million in 2014, according to the Frost & Sullivan Health Problem Prevalence Study. The Frost & Sullivan Health Problem Prevalence Study also states that about 5% of the total population under 60 and about 11.5% of the population over 60 have constipation.

Increasing prevalence of therapeutic tea products

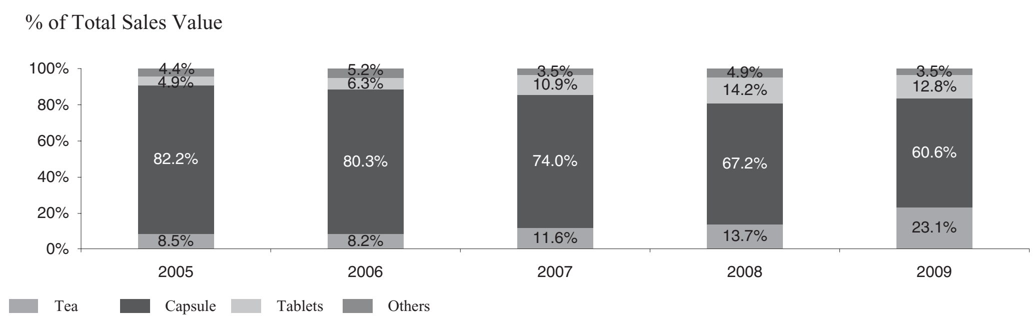
According to the SMERI Study, retail sales of therapeutic tea products with laxative function grew from 28.9% of all laxative products sold in retail pharmacies in 2005 to 49.3% in 2009. A similar preference for therapeutic tea products is also reflected in the slimming product markets, where the retail sales of slimming tea grew from 8.5% of all slimming products sold in retail pharmacies in 2005 to 23.1% in 2009. This growth trend is expected to continue, with the percentage of those markets attributable to therapeutic teas increasing to 54.3% of the laxative market and 42.1% of the slimming product market, respectively, by 2014. The following charts show total sales of laxative products and slimming products sold through retail pharmacies by product type from 2005 to 2009.

Total Retail Sales of Laxative Products in a Retail Pharmacies by Product Type



Source: SMERI Study

Total Retail Sales of Slimming Products in Retail Pharmacies by Product Type



Source: SMERI Study

OVER-THE-COUNTER TRADITIONAL CHINESE MEDICINE MARKET IN CHINA

According to the Euromonitor Study, the market size of OTC traditional Chinese medicine increased from RMB24.1 billion in 2005 to RMB32.7 billion in 2009 and is expected to grow further to RMB45.4 billion in 2014, according to the Euromonitor Study.

Drivers of OTC Traditional Chinese Medicine Market in China

Traditional Chinese medicine has wide acceptance among Chinese consumers, who have trusted traditional Chinese medicines for centuries. Many Chinese consumers believe that traditional Chinese medicines are very effective while being milder and having fewer side effects as compared with western medicines. They are also valued for their prophylactic properties. Due to its close ties with many aspects of Chinese culture, most Chinese are familiar with the concepts and usage techniques of traditional Chinese medicines. As a result, many Chinese are more comfortable using traditional Chinese medicines than western medicines when facing minor health issues.

Demand for OTC traditional Chinese medicines is also being driven by similar factors as those driving demand for health food products, including rising health consciousness and prevalence of self-medication and rising levels of health problems.

Medical reform policies adopted by the PRC Government strongly support the use of traditional Chinese medicine with an emphasis on prevention over curing. In addition, the PRC Government has issued several regulations, including Certain Opinions of the State Council on Supporting and Promoting the Development of the Traditional Chinese Industry (國務院關於扶持和促進中醫藥事業發展的若干意見) promulgated by the State Council on April 21, 2009, and Notice of the State Council on Printing and Distributing the Plan on Recent Priorities in Carrying out the Reform of Health Care System (2009-2011) (國務院關於印發醫藥衛生體制改革近期重點實施方案(2009-2011年)的通知) promulgated by the State Council on March 18, 2009, which promote the development of the traditional Chinese medicine market in China.

REGULATORY SYSTEM RELATING TO THE HEALTH FOOD INDUSTRY

The PRC Government has established a regulatory system and promulgated a series of laws and regulations, governing the food health industry. Under this regulatory system, health food products are subject to specific regulatory requirements. Before June 1, 2009, the regulatory system for the food industry was set forth in the Food Hygiene Law of the PRC (中華人民共和國食品衛生法), promulgated by the National People's Congress Standing Committee (全國人民代表大會常務委員會) in 1995, and its administrative and implementation measures, including the Administrative Measures on Food Hygiene Permits (食品衛生許可證管理辦法), promulgated by the MOH on December 25, 2005 and effective on June 1, 2006, which was repealed in May 1, 2010.

On June 1, 2009, the Food Hygiene Law of the PRC was abolished and replaced by the Food Safety Law of the PRC (中華人民共和國食品安全法), promulgated by the National People's Congress Standing Committee on February 28, 2009. The Food Safety Law of the PRC provides that the health food product industry shall be strictly supervised pursuant to specific measures separately formulated by the State Council. The State Council is currently drafting the specific measures regarding the health food product industry based on a preliminary draft initially named the Regulations for the Supervision and Administration of Health Food (保健食品監督管理條例) that has been released for public comment. As of the date hereof, there is no official notice about the issuance date of such measures. As those specific measures have not been promulgated, the administrative measures governing health food industry promulgated according to the Food Hygiene Law of the PRC remain valid, principally including:

- The Administrative Measures on Health Food Products (保健食品管理辦法) promulgated by MOH on March 15, 1996 and effective as of June 1, 1996; and

- The Administrative Measures on the Registration of Health Food Products (for Trial Implementation) (保健食品註冊管理辦法(試行)) promulgated by the SFDA on April 30, 2005 and effective as of July 1, 2005.

The SFDA, the SAIC, the MOH and the AQSIQ and their local counterparts are the principal administrative and regulatory bodies implementing the PRC regulatory system governing the food industry.

Regulations on Manufacture and Sale of Health Food Products

Health food products approval and registration

Pursuant to the Administrative Measures on the Registration of Health Food Products (for Trial Implementation), if a manufacturer wishes to announce that its food product has certain particular health benefits, the food product must be approved by and registered with the SFDA as a health food product. Upon completion of the approval and registration of the product, the product will receive an approval certificate with a health food product registration number and a "health" ("健") mark may be affixed on the product's packaging. If a manufacturer fails to complete the health food product approval and registration while manufacturing or selling a food product claiming to have health benefit functions, such manufacturer is subject to various penalties including suspension of operations, confiscation of illegal earnings and imposition of a fine in an amount between one and five times of the illegal earnings.

Pursuant to the Supplementary Regulations on Submission and Examination of Health Food Products (for Trial Implementation) (保健食品申報與審評補充規定（試行）) promulgated by the SFDA on May 20, 2005, the SFDA can approve the health food products falling into the following 27 categories of health benefits:

facilitating excretion of lead
(促進排鉛)

sleep improvement
(改善睡眠)

facilitating milk secretion
(促進泌乳)

weight loss and slimming
(減肥)

alleviating nutritional anemia
(改善營養性貧血)

enhance immune system
(增強免疫力)

assisting in lowering blood lipid level
(輔助降血脂)

assisting in lowering blood sugar level
(輔助降血糖)

anti-oxidant
(抗氧化)

assisting in improving memory
(輔助改善記憶)

ameliorating eyestrain
(緩解視覺疲勞)

alleviating sore throat
(清咽)

assisting in lowering blood pressure
(輔助降血壓)

alleviating physical fatigue
(緩解體力疲勞)

improving anoxia tolerance
(提高缺氧耐受力)

assisting in protection against radiation damage
(對輻射危害有輔助保護功能)

improving growth and development in children
(改善生長發育)

increasing bone mineral density
(增強骨密度)

assisting in liver protection against toxicity
(對化學性肝損傷有輔助保護功能)

reducing acne
(祛痤瘡)

reducing skin age spots
(祛黃褐斑)

skin moisturizer
(改善皮膚水份)

improving skin oil content
(改善皮膚油份)

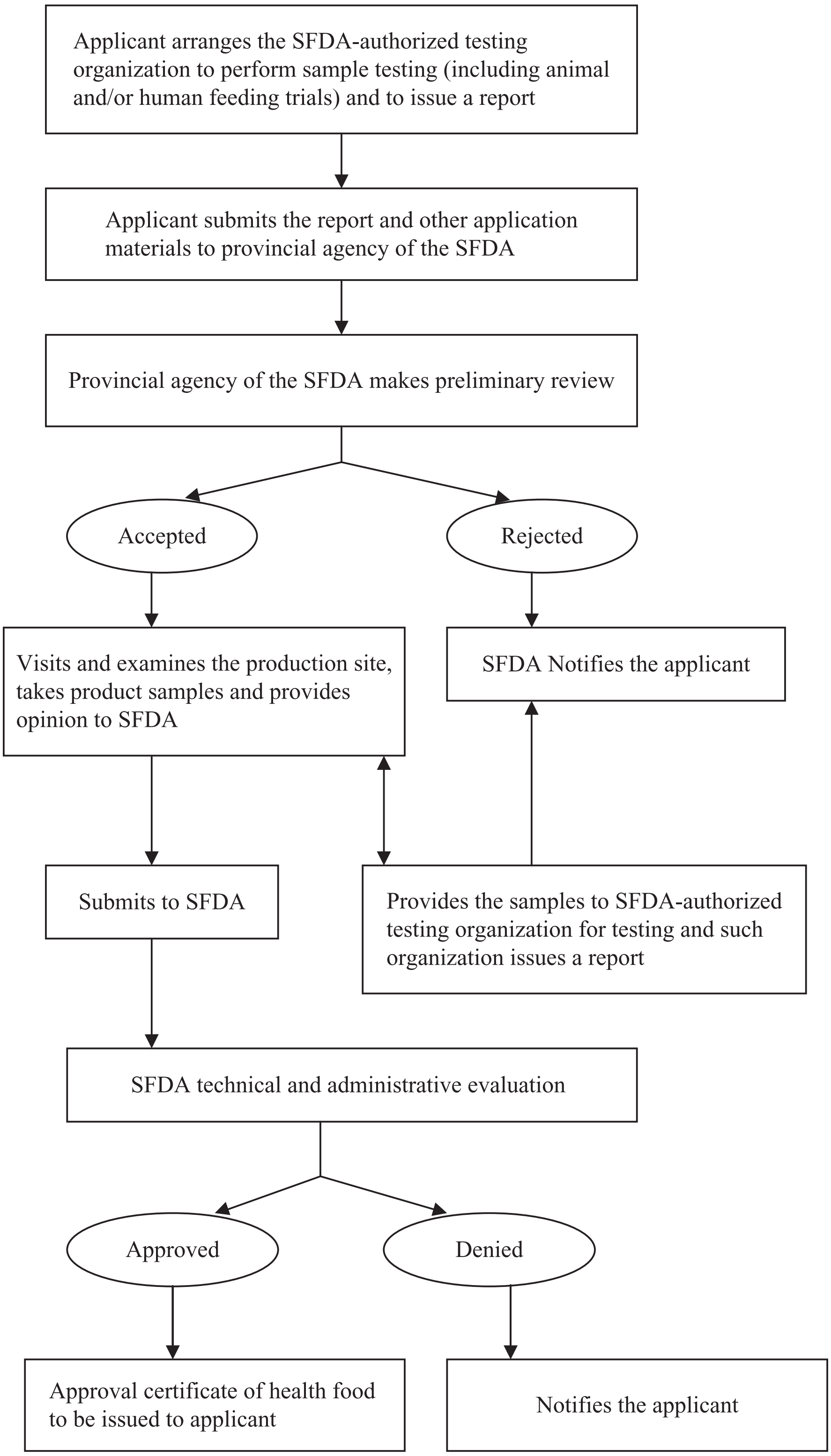
regulating gastrointestinal flora
(調節腸道菌群)

promoting digestion
(促進消化)

laxative
(通便)

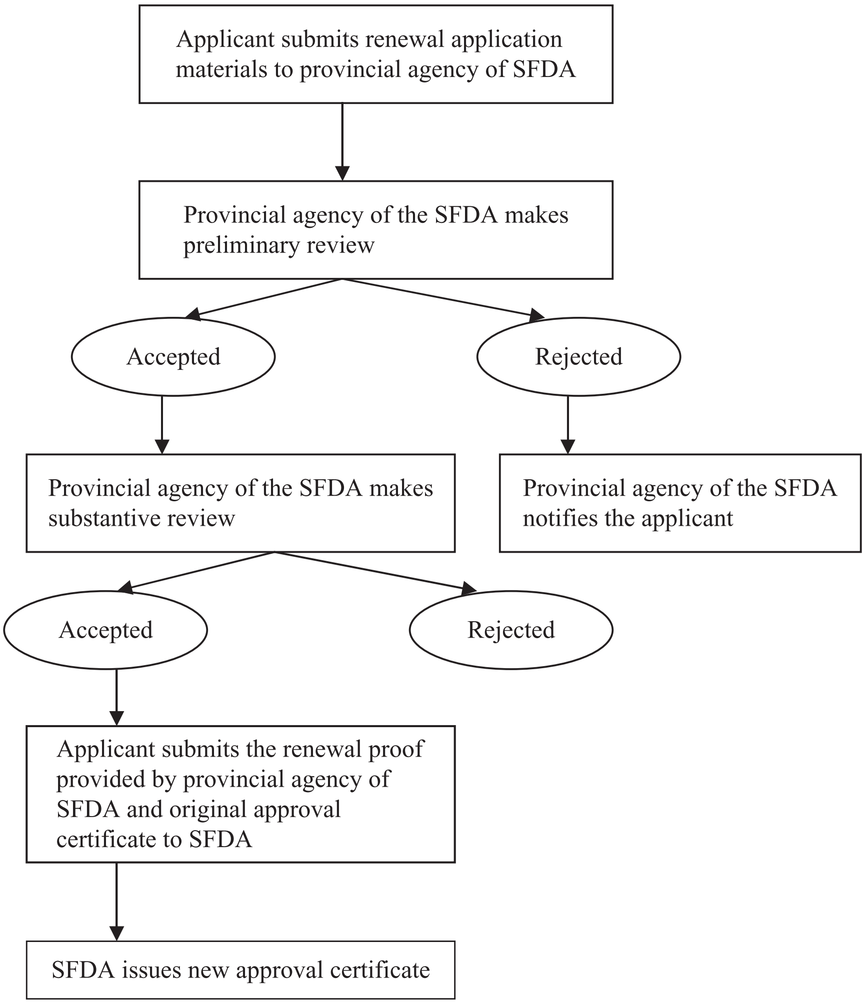
assisting in protection of gastric mucosa
(對胃粘膜有輔助保護功能)

The following chart sets forth the application procedure for approval and registration of a health food product based on applicable PRC laws and regulations:



The approval certificates for health food products granted by SFDA before July 1, 2005 do not specify an expiry date and the approvals for health food products obtained after July 1, 2005 have a five-year validation period and shall be renewed at least three months before its expiration. The approval certificates for our best selling products, Besunyen Detox Tea and Besunyen Slimming Tea, were granted prior to July 1, 2005 and do not specify an expiry date. Our PRC legal adviser, Global Law Office, has advised us that it has consulted with the Division of Health Food under the Department of Food Licence of the SFDA which confirmed that approval certificates for Besunyen Detox Tea and Besunyen Slimming Tea remain valid and informed that SFDA will commence the replacement work of all certificates granted prior to July 1, 2005 after the promulgation of the Regulations for the Supervision and Administration of Health Food, the promulgation date of which is yet to be determined. We are not aware of the replacement procedures and requirements which are expected to be set out in subsequent regulations, but are informed that the SFDA will allow reasonable sufficient time for the relevant companies to replace their respective certificates. In addition, the PRC legal advisers are of the view that the official being consulted is competent and appropriate to give such confirmation. We will apply for renewal for all our SFDA approved products upon request by the SFDA to ensure continuity in keeping valid approvals and registrations required for the manufacture and sale of our products in China.

The following chart sets forth the renewal procedure of an approval certificate for health food products, based on applicable PRC laws and regulations:



Health food hygiene permit

Pursuant to the Administrative Measures on Food Hygiene Permits, a manufacturer or seller of health food products must obtain a food hygiene permit which includes manufacturing or distribution of "health food" in the permitted business scope from the health administrative department. Pursuant to the Food Safety Law of the PRC, the food hygiene permits issued before the effectiveness of this law remain valid until expiration. Although the Administrative Measures on Food Hygiene Permits were repealed as of May 1, 2010, pursuant to the Administrative Measures on Health Food Hygiene Permits of Beijing (北京市保健食品衛生許可證管理辦法) promulgated by the Beijing Drug Administration (北京市藥品監督管理局) on May 31, 2006 and effective on July 1, 2006, manufacturers or sellers of health food products must apply for and obtain health food hygiene permits issued by the Beijing Drug Administration or its agencies before commencement of manufacturing or selling health food products. The health food hygiene permit has a four-year validity period.

Health food GMP standards

Pursuant to Good Manufacturing Practice of Health Food Products (保健食品良好生產規範) promulgated by the MOH on May 5, 1998 and effective as of January 1, 1999 and the Censoring Method and Valuating Criterion of Good Manufacture Practice for Health Food Products (保健食品良好生產 規範審查辦法和評價準則) issued by the MOH on April 2, 2003, manufacturers of health food products shall meet GMP standards. GMP standards cover the qualifications and standards relating to manufacture premises, facilities and staff, raw material, management, hygiene and quality control. According to the Administrative Measures on Health Food Hygiene Permits of Beijing, the satisfaction of GMP Standards is one of the conditions to apply for the health food hygiene permit. Therefore, there are no separately issued GMP certificates.

REGULATION SYSTEM RELATING TO THE PHARMACEUTICAL INDUSTRY

The Administrative Law on the Pharmaceuticals of the PRC (中華人民共和國藥品管理法) promulgated by the National People's Congress Standing Committee on February 28, 2001 and effective on December 1, 2001, provides the basic legal framework for the administration of the manufacture and sale of pharmaceuticals in the PRC, which covers the manufacturing, distributing, relevant advertisement and other aspects regarding pharmaceuticals. Its implementing regulations set forth further detailed rules with respect to the administration of pharmaceuticals in the PRC. The primary regulatory authority of pharmaceutical industry in the PRC is the SFDA, together with its local branch.

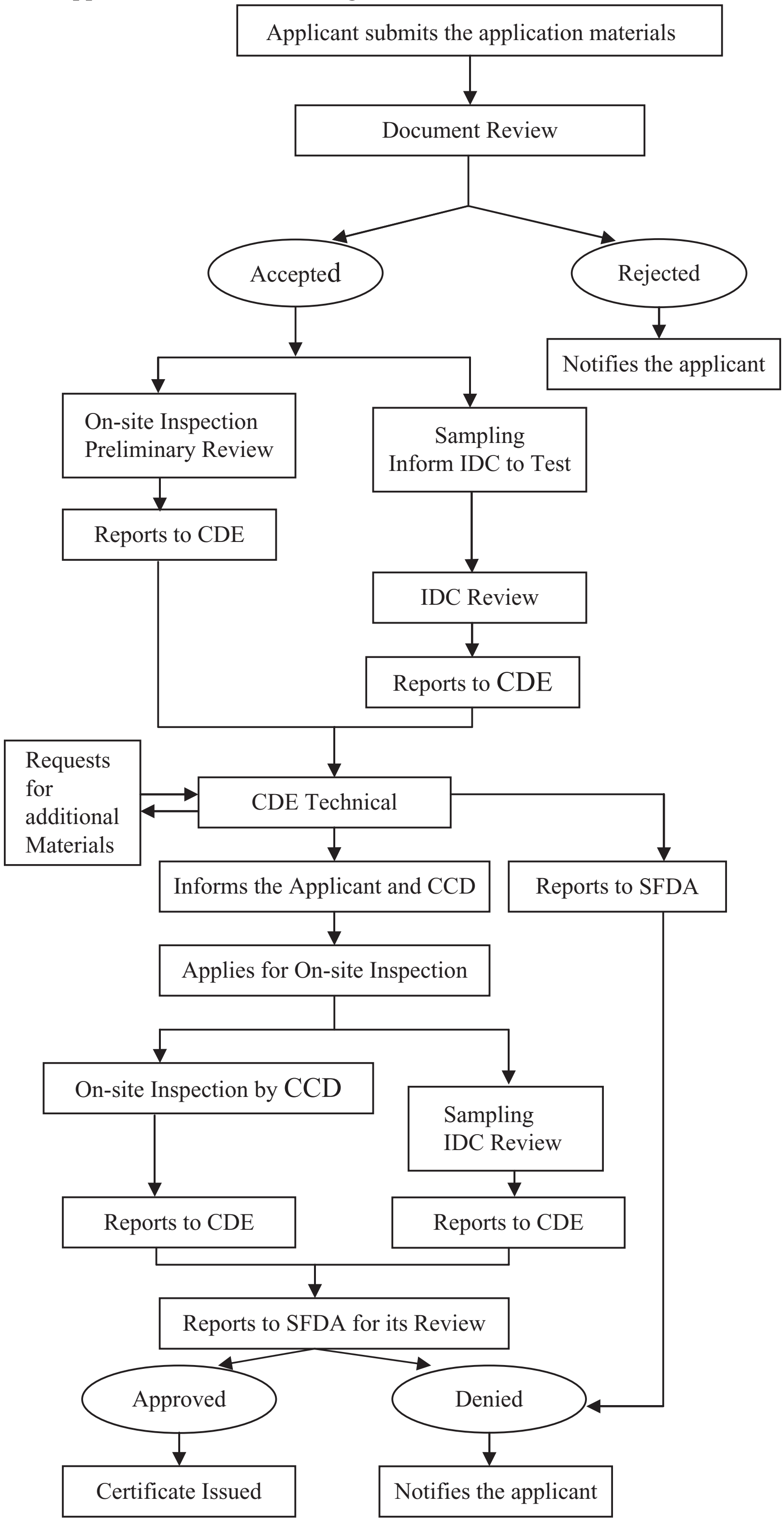
Regulations on Pharmaceutical Manufacturers

Pharmaceutical products registration

According to the Administrative Measures on the Pharmaceuticals Registration (藥品註冊管理辦法) promulgated by the SFDA on July 10, 2007 and effective on October 1, 2007, and the pharmaceutical manufacturers are required to register each of their products with the SFDA before commencement of the manufacture. The manufacturer shall submit to the SFDA a registration application containing detailed information concerning the efficacy and quality of the pharmaceutical products, the manufacturing process and the manufacture facilities the manufacturer expects to use. The registration is valid for a term of five years and must be renewed within six months prior to expiration by submitting application materials to the SFDA or its local counterparts. According to the Circular on the Related Issues of Implement the Re-Registration Acception Work for Pharmaceutical Products (關於開展藥品再註冊受理工作有關事宜的通知), promulgated by the SFDA on March 9, 2007, SFDA will establish re-registration procedures separately and the approvals for the pharmaceutical products, whose re-registration application is accepted by the SFDA, can continue to be used during the re-registration period. The manufacturer of pharmaceutical products may apply for the following registrations, including new pharmaceutical products registration, generic pharmaceutical products registration, imported pharmaceutical products registration, renewal registration and supplementary registration.

The pharmaceuticals which have not been previously sold in the PRC at the time of application for registration can be registered as new pharmaceuticals. Such registration application needs to be supported by clinical trial data. Any pharmaceutical company intending to undertake clinical trials on a new pharmaceutical product must first apply for an approval from the SFDA for the clinical trials of the medicine. After the completion of successful clinical trials, the applicant will then need to apply for an approval from the SFDA to manufacture the new pharmaceuticals. If the SFDA is satisfied with the application, a new pharmaceuticals certificate (新藥証書) will be issued to the applicant.

The following chart sets forth the application procedure for registration of new pharmaceutical product pursuant to applicable PRC laws and regulations:



CDE: Center for Drug Evaluation under SFDA (國家食品藥品監督管理局藥品評審中心)
IDC: Institute for Drug Control (藥品檢驗所), institutions established or certified by SFDA or its local counterparts
CCD: Certification Committee for Drugs under SFDA (國家食品藥品監督管理局藥品認證管理中心)

Pharmaceutical manufacture permit

A pharmaceutical manufacturer must obtain a pharmaceutical manufacture permit from the SFDA's relevant provincial agencies. According to the Administrative Law on the Pharmaceuticals of the PRC (中華人民共和國藥品管理法), the Implementation Regulation of Law on the Administration of Pharmaceuticals of the PRC (藥品管理法實施條例) promulgated by State Council on August 4, 2002 and effective on September 15, 2002, and the Measures for the Supervision over and Administration of Pharmaceutical Manufacture (藥品生產監督管理辦法) promulgated by the SFDA on August 5, 2004 and effective on August 5, 2004, the permit shall be issued upon the completion of inspection of the relevant manufacture facilities and satisfaction to the required standards relating to staffs, hygienic conditions, quality control systems and equipment. The pharmaceutical manufacture permit shall be valid for five years. The extension shall be applied by the pharmaceutical manufacturing enterprise prior to the expiration of the permit, and shall be granted upon completion of reevaluation by the relevant authority.

GMP certificate

Pursuant to the Good Manufacturing Practice for Pharmaceuticals (藥品生產質量管理規範) promulgated by the SFDA on June 18, 1999 and effective on August 1, 1999, and Administrative Measures on Certification of Good Manufacturing Practices for Pharmaceuticals (藥品生產質量管理規範認證管理辦法) promulgated by the SFDA on September 7, 2005 and effective on October 1, 2005, a pharmaceutical manufacturer must meet the GMP Standards for its manufacture in the PRC in respect of each form of pharmaceutical products it produces. GMP Standards include staff qualifications, manufacture premises and facilities, equipment, raw materials, environmental hygiene, manufacture management, quality control and customer complaint administration. If a manufacturer meets the GMP Standards, the SFDA shall issue to the manufacturer a Good Manufacturing Practice certificate ("GMP Certificate") with a five-year validity period. The renewal of such certificate shall be subject to reassessment by the SFDA or its provincial counterparts.

Pharmaceutical manufacturers in the PRC are subject to continuing regulation by the SFDA. For the enforcement of the laws and regulations, the SFDA has a variety of administrative measures, including fines and injunctions, recall or seizure of products, the imposition of operating restrictions, partial suspension or complete shutdown of manufacture.

Regulations on Pharmaceutical Distributors

Pharmaceutical distribution permit

According to the Administrative Measures on Pharmaceutical Distribution Permits (藥品經營許可證管理辦法) promulgated by the SFDA on February 4, 2004 and effective on April 1, 2004, a distributor of pharmaceutical products in the PRC must obtain a pharmaceutical distribution permit from local counterparts of the SFDA. The local counterparts of the SFDA shall inspect the distributor's facilities, warehouse, hygiene environment, quality control systems, personnel and equipment. A pharmaceutical distribution permit is valid for five years. Pharmaceutical manufacturers, however, are permitted to distribute self-manufactured products without the pharmaceutical distribution permit.

GSP certificate

The SFDA applies Good Supply Practice standards ("GSP standards") to all pharmaceutical wholesale and retail distributors to ensure the quality of distribution in the PRC. According to the Administrative Measures on Certification of Good Supply Practice for Pharmaceuticals (藥品經營質量管理規範認證管理辦法) promulgated by the SFDA on April 24, 2003 and effective on April 24, 2003, the currently applicable GSP standards include staff qualifications, distribution premises, warehouses, inspection equipment and facilities, management and quality control. A certificate for GSP standards ("GSP Certificate") is valid for five years.

REGULATION ON MANUFACTURE AND SALE OF GENERAL FOOD PRODUCTS (EXCLUDING HEALTH FOOD PRODUCTS)

Food hygiene permit

Pursuant to the Administrative Measures on Food Hygiene Permits, a manufacturer or seller of general food products must obtain a food hygiene permit issued by the local health administrative department for general food manufacturing and operating activities. The Food Safety Law of the PRC (中華人民共和國食品安全法) abolished the food hygiene permit requirement from June 1, 2009, replacing it with a new regulatory regime requiring manufacturers to obtain a food manufacturing permit, traders to obtain a food circulation permit, and catering service providers to obtain a food catering service permit. However, food hygiene permits issued to manufacturers, traders or catering service providers before June 1, 2009 remain valid until expiration.

Food manufacture permit

Under the Implementation Rules for Administration and Supervision of Quality and Safety in Food Manufacture of Enterprises (for Trial Implementation) (食品生產加工企業質量安全監督管理實施細則（試行）) promulgated and effective on September 1, 2005 by the AQSIQ, a manufacturer of general food products, including packaged tea, products with tea ingredient and tea substitutes and beverages, must apply for an industrial manufacture permit with the provincial department of the AQISQ. The industrial manufacture permit is valid for three years.

The Food Safety Law of the PRC and the Administrative Measures on Food Manufacture Permits (食品生產 許可管理辦法) promulgated by the AQSIQ on April 7, 2010 and effective as of June 1, 2010, provide that general food manufacturing enterprises must obtain a food manufacture permit. However, pursuant to the Food Safety Law of the PRC, the industrial manufacture permits issued prior to the effectiveness of the Food Safety Law remain valid until the expiration of such permit.

Food circulation permit

The Administrative Measures on Food Circulation Permits (食品流通許可證管理辦法) promulgated by the SAIC on and effective as of July 30, 2009, provides that a trader of general food products must obtain a food circulation permit from local agencies of the SAIC. However, a general food product trading enterprise may operate relying on a food hygiene permit issued prior to July 30, 2009 until the permit's expiration or cancellation.

Regulations on Food Safety

According to the Food Safety Law of the PRC, and the Measures for Archival Filing of the Enterprises Food Safety Standards (食品安全企業標準備案辦法), promulgated by the MOH of the PRC on and effective on June 10, 2009, the health administrative department of the State Council and its provincial counterparts shall be responsible for enacting and promulgating national food safety standards and local food safety standards, respectively. In the event of absence of national food safety standards or local food safety standards, enterprises must formulate their own enterprise food safety standards to regulate their food manufacture process. Manufacturers of food products must file their food safety standards with provincial health administrative departments. Such filing is valid for a term of three years and must be renewed prior to the expiration of that term. The food safety standards filed with health administrative departments before June 1, 2009 remain valid until expiration.

Pursuant to the Regulations on the Implementation of the Food Safety Law of the PRC (中華人民共和國食品安全法實施條例), promulgated by the State Council on and effective as of July 20, 2009, food manufacturers and traders must be in compliance with the laws, regulations and food safety management systems and are responsible for the safety of the foods they produce or trade.

POLICIES RELATING TO THE FOREIGN-INVESTED FOOD INDUSTRY

The MOFCOM and NDRC promulgated the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) ("Catalogue") on October 31, 2007, effective on December 1, 2007, pursuant to which foreign investments in various industries in the PRC are classified into four categories, including "encouraged industries," "permitted industries," "restricted industries" and "prohibited industries." According to the Catalogue, the health food and general food industry fall into the catalogue of "encouraged industries" or "permitted industries" in the PRC, depending on the type of the products to be produced.

ADVERTISING LAWS AND REGULATIONS

The advertising of general food products, health food products and OTC drug are mainly regulated by the SFDA, the SAIC, the MOH and State Administration of Radio Film and Television of the PRC (國家廣播電影電視總局). The relevant PRC laws and regulations, governing the advertising of health food products and pharmaceutical products, include Advertising Law of the PRC (中華人民共和國廣告法) promulgated by the National People's Congress Standing Committee on October 27, 1994 and effective on February 1, 1995, the Administrative Regulations on Advertising (廣告管理條例) promulgated by the State Council on October 26, 1987 and effective on December 1, 1987, Interim Regulations on Publication of Food Advertisement (食品廣告發佈暫行規定) promulgated by SAIC on December 3, 1998 and effective on December 3, 1998, Interim Regulations on the Review of Advertisements of Health Food (保健食品廣告審查暫行規定) promulgated by SFDA on May 24, 2005 and effective on July 1, 2005, Measures on the Examination of Pharmaceuticals Advertisement (藥品廣告審查辦法) jointly promulgated by the SFDA and the SAIC on March 13, 2007 and effective on May 1, 2007 and the Measures for the Administration of Radio and Television Advertising (廣播電視廣告播出管理辦法) promulgated by State Administration of Radio, Film and Television of the PRC (國家廣播電影電視總局) on September 8, 2009, which became effective as of January 1, 2010.

An enterprise shall file with the SFDA or its local counterparts to obtain the approval for the advertising of health food products or OTC drugs ("Advertising Approval"). The Advertising Approval has a one-year validation period. Without the Advertising Approval, no enterprise or institution can publish or broadcast any advertisement relating to health food products or pharmaceutical products. Prescription drugs can only be introduced in the pharmaceutical or medical periodicals designated by PRC Governments, but can not be advertised through public media or other methods.

The contents of advertisement for health food products and OTC drugs shall be true and accurate, and shall not be misleading. The advertisement of health food products shall not include false description, the assertions or assurances of any particular function or exaggeration of function or benefit and the SFDA or its local agencies may give a warning and even revoke the Advertising Approval. The SFDA or its local agencies can order to stop using the advertisement which includes misleading information or exaggerates an OTC drug's therapeutic effect, revoke the Advertising Approval, suspend approval for new advertisement of same product within one year and even order to cease the sale of such OTC drug within certain designated markets.

The SFDA, the SAIC and other PRC Governments may impose different penalties on the persons or enterprises in violation of these laws and regulations, including fines ranging from one to five times advertising fees, orders to stop advertising, orders to publicly correct the misleading information and criminal liabilities.

For acts of publishing false advertisements to deceive or mislead consumers, thus causing damages to the lawful rights and interests of consumers who have bought the commodities or accepted the services, the advertisers shall bear civil responsibility.

The Administrative Measures on Credibility of Enterprises Publishing Advertisements of Pharmaceutical Products, Medical Apparatus and Health Food (藥品、醫療器械、保健食品廣告發佈企業信用管理辦法) promulgated by the SFDA on October 16, 2007 and effective as of January 1, 2008, provides that the enterprises which engage in publishing advertisements of pharmaceutical products, medical apparatus and health food products will be regarded as trustworthy, untrustworthy and serious untrustworthy upon yearly review. An enterprise is regarded as trustworthy if none of its advertisements in a given year violated any laws or regulations governing advertisement by the supervision of the SFDA. An enterprise is regarded as untrustworthy if its advertisement in a given year violated such laws and regulation, although such violations are not serious. An enterprise is regarded as very trustworthy if its advertisement in a given year seriously violated such laws and regulations, such as provision of false suitability in the advertisement, assertions or assurances of any health benefit. SFDA and its local agencies shall order the enterprises which are regarded as untrustworthy or serious untrustworthy to correct the illegal acts within a prescribed period, publish their credit rates, and put emphasis on inspection of their advertisement and relevant sales.

PRODUCT QUALITY AND CONSUMER PROTECTION LAWS AND REGULATIONS

Pursuant to the Product Quality Law of the PRC (中華人民共和國產品質量法) promulgated by the National People's Congress Standing Committee in 1993 and amended in 2000 and 2009, a manufacturer shall establish a comprehensive internal management system for product quality, and implement internal policies of quality, responsibility and assessment. Violation of the Product Quality Law of the PRC may result in various penalties, including imposition of fines, suspension of business operations, revocation of business licenses and criminal liabilities.

The Consumer Protection Law of the PRC (中華人民共和國消費者權益保護法) promulgated by the National People's Congress Standing Committee on October 31, 1993, which became effective on January 1, 1994, prescribes that businesses must comply with laws and regulations regarding personal safety and protection of property. Consumer shall be provided with truthful information in relation to goods and services. Consumers who suffer personal injury or property damage due to product defects may demand compensation from either the manufacturer or the seller.

TORT LIABILITY LAW

Pursuant to the Tort Liability Law of the PRC (中華人民共和國侵權責任法) promulgated by the National People's Congress Standing Committee on December 26, 2009, which became effective on July 1, 2010, manufacturers are liable for damages caused by defects in their products and sellers are liable for damages attributable to their fault. If the defects are caused by the fault of third parties such as the transporter or storekeeper, manufacturers and sellers are entitled to claim for compensation from these third parties after paying the compensation amount. The manufactures and sellers are obligated to take remedial measures such as issuing warnings or recalling the products in a timely manner if defects are found in products which are in circulation. If the products are manufactured and sold with known defects that cause death or severe personal injury to others, the infringed person has the right to claim punitive compensation.

ONLINE COMMODITY TRANSACTIONS

The Interim Measures on Administration of Online Commodity Transactions and Related Services (網絡商品交易及有關服務行為管理暫行辦法) promulgated by the SAIC on May 31, 2010 and effective on July 1, 2010 provide that the traders in any online commodity transaction and operators of online service must comply with relevant laws and regulations. Such measures further provide that the traders in any online commodity transaction who obtained business licenses must disclose the information of their business licenses or electronic link to their business licenses on the homepage or prominent position of the transaction webpage, or submit the individual's name and address to the operators of the online transaction platform.

INTELLECTUAL PROPERTY LAWS AND REGULATIONS

China has adopted legislation related to intellectual property rights, including trademarks, patents and copyrights. China is a signatory to all major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, Madrid Agreement on the International Registration of Marks and Madrid Protocol, Patent Cooperation Treaty, Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure and the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPs").

Regulations on Patents

Under the revised Patent Law of the PRC (中華人民共和國專利法) was promulgated on December 27, 2008 and effective on October 1, 2009, there are three types of patents, including invention patents, design patents and utility model patents. Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment.

The patent prosecution system in China is different in many ways from that in other countries. The patent system in China uses the "first to file" principle, which means when more than one person files a patent application for the same invention, the patent will be granted to the person who files the application first. In addition, China requires absolute novelty for the sake of an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of China. Furthermore, patents issued in China are not enforceable in Hong Kong, Taiwan or Macau, each of which has an independent patent system.

Although patent rights are national rights, the Patent Cooperation Treaty ("PCT") to which China is a signatory, allows applicants in one country to seek patent protection for an invention that may simultaneously exist in a number of other member countries by filing a single international patent application. The fact that a patent application is pending is no guarantee that a patent will be granted, and even if granted, the scope of a patent may not be as broad as the subject of the initial application.

Regulations on Trademarks

Both Trademark Law of the PRC (中華人民共和國商標法) promulgated by the National People's Congress Standing Committee in 1982 and amended in 2001, and the Regulation on Implementation of Trademark Law of the PRC (中華人民共和國商標法實施條例) promulgated by the State Council in 2002 give protection to the holders of registered trademarks. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks. The Trademark Office under the State Administration for Industry and Commerce (國家工商行政管理總局商標局) handles trademark registrations and grants a term of ten years to registered trademarks, renewable every ten-years where a registered trademark needs to be used after the expiration of its validity term, a registration renewal application shall be filed within six months prior to the expiration of the term.

Under the Trademark Law, any of the following acts may be regarded as an infringement upon the right to exclusive use of a registered trademark, including (i) using a trademark which is identical with or similar to the registered trademark on the same or similar commodities without authorization; (ii) selling the commodities that infringe upon the right to exclusive use of a registered trademark; (iii) forging, manufacturing the marks of a registered trademark of others without authorization, or selling the marks of a registered trademark forged or manufactured without authorization; and (iv) causing other damage to the right to exclusive use of a registered trademark of another person.

Violation of the Trademark Law of the PRC may result in the imposition of fines, confiscation and destruction of the infringing commodities.

Trademark license agreements must be filed with the Trademark Office under the State Administration for Industry and Commerce or its regional counterparts. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities.

TAX

The PRC taxes that are levied on our subsidiary in the PRC mainly include enterprise income tax ("EIT"), value added tax ("VAT") and business tax ("BT"). Under PRC law, our PRC subsidiary is also required to withhold taxes on dividends payable to us.

PRC EIT Tax

Prior to January 1, 2008, the foreign-invested enterprises shall pay EIT pursuant to the Foreign-Invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) promulgated by the National People's Congress Standing Committee in 1991 ("Prior EIT Laws") and related implementation regulations. Pursuant to the Prior EIT Law, except for the preferential tax rates, a foreign-invested enterprise was subject to EIT at a statutory rate of 33%. In addition, certain foreign-invested enterprises were exempted from EIT for two years starting from the first profit-making year and followed by a fifty percent reduction of the EIT in the next three consecutive years.

On March 16, 2007, the National People's Congress (全國人民代表大會) passed the PRC EIT Law, with effect from January 1, 2008. The PRC EIT Law adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, according to the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy (國務院關於實施企業所得稅過渡優惠政策的通知) issued on December 26, 2007 and effective on January 1, 2008, there is a transition period for enterprises, whether foreign-invested or domestic, that received preferential tax treatments granted by relevant tax authorities prior to the effectiveness of the PRC EIT Law. Enterprises that were subject to an enterprise income tax rate lower than 25% before the effectiveness of the PRC EIT Law may continue to enjoy the lower rate and gradually transit to the new tax rate within five years after the effective date of the PRC EIT Law. Enterprises that were granted preferential EIT treatments before the effectiveness of the PRC EIT Law may continue to enjoy the preferential EIT treatments until their expiration.

Under the PRC EIT Law, enterprises are classified as either "resident enterprises" or "non-resident enterprises." Pursuant to the PRC EIT Law and its implementation rules, besides enterprises established within the PRC, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and subject to the uniform 25% EIT rate for their global income. According to the implementation rules of the PRC EIT Law, "de facto management body" refers to a managing body that exercises, in substance, overall management and control over the manufacture and business, personnel, accounting and assets of an enterprise. In our circumstance, substantially our management is currently based in China and is expected to remain in China in the future. It is not clear whether we would be deemed as "resident enterprises" or not. In addition, although the PRC EIT Law provides that dividend income between "qualified resident enterprises" is exempted income, and the implementing rules refer to "qualified resident enterprises" as enterprises with "direct equity interest," it is not clear whether dividends we receive from our subsidiary are eligible for such exemption if we are deemed to be a PRC "resident enterprise." If we are considered a PRC "resident enterprise" and thus required to withhold income tax for any dividends we pay to our non-PRC resident enterprise investors, the amount of dividends we can pay to our Shareholders could be materially reduced. In addition, any gain realized on the transfer of Shares by our non-PRC resident investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC.

Furthermore, the PRC EIT Law provides that a non-resident enterprise refers to an entity established under foreign law whose "de facto management bodies" are not within China but which have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income sourced within the PRC. The implementation rules of the PRC EIT Law provide that after January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC. The income tax on the dividends may be reduced pursuant to a tax treaty between China and the jurisdictions in which our non-PRC Shareholders reside.

PRC VAT tax

Pursuant to the Interim Regulation on the Value Added Tax of the PRC (中華人民共和國增值稅暫行條例) promulgated by the State Council on December 13, 1993 and amended on November 10, 2008 ("VAT Regulation"), and its implementation rules, any entity or individual engaged in the sale of goods, the provision of specified services or the importation of goods in China is generally required to pay VAT on the added value derived during the process of manufacture, sale or service provided. Unless stated otherwise, for VAT payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%.

PRC Business Tax

Pursuant to the Interim Regulations of the People's Republic of China on Business Tax (中華人民共和國營業稅暫行條例) promulgated by the State Council on December 13, 1993, amended on November 5, 2008, and implemented on January 1, 2009, and the Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Business Tax (中華人民共和國營業稅暫行條例實施細則) issued by the Ministry of Finance (中華人民共和國財政部) on December 25, 1993 and amended and implemented on January 1, 2009, business tax is imposed on income derived from the furnishing of specified services and transferring of immovable property or intangible property at rates ranging from 3% to 20%, depending on the activities.

In accordance with the Notice on Implementing Certain Taxation Policies relating to Decision of Strengthening Innovation of Technology, Development of High Technology and Industrial Realization from the State Council (財政部、國家稅務總局關於貫徹落實《中共中央國務院關於加強技術創新，發展高科技，實現產業化的決定》有關稅收問題的通知) jointly issued by the Ministry of Finance and the SAT on November 2, 1999 and various other tax regulations, the business tax is exempted for revenues generated from qualified technology transfers, technology development, and relevant technology consulting services.

REGULATION OF FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

Foreign Currency Exchange

Pursuant to the Foreign Currency Administration Rules of the PRC (中華人民共和國外匯管理條例) promulgated by State Council on January 29, 1996 and amended on August 1, 2008 and various regulations issued by SAFE and other PRC regulatory agencies, Renminbi is freely convertible only to the extent of current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Capital account items, such as direct equity investment, loans and repatriation of investment, require the prior approval from or registration with the SAFE or its local branch for conversion of Renminbi into a foreign currency, and remittance of the foreign currency outside the PRC.

Dividend Distribution

The principal regulations governing distribution of dividends of foreign holding companies include the Company Law of the PRC (中華人民共和國公司法) promulgated by the National People's Congress Standing Committee in 1993 and amended in 1999, 2004 and 2005, the Foreign Investment Enterprise Law of the PRC (中華人民共和國外資企業法) promulgated by the National People's Congress Standing Committee in 1986 and amended in 2000, and the Administrative Rules under the Foreign Investment Enterprise Law (外資企業法實施細則) promulgated by the State Council in 1990 and amended in 2001.

Under these laws and regulations, foreign investment enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in China, like our PRC Subsidiary, are required to allocate at least 10% of their respective accumulated profits after tax each year, if any, to fund certain reserve funds unless these accumulated reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

SAFE REGULATIONS ON OVERSEAS INVESTMENT OF PRC RESIDENTS

Notice 75

On October 21, 2005, the SAFE issued the Notice on Relevant Issues Relating to the Administration of Foreign Exchange of Financing and Return Investment Activities by Domestic Residents Conducted via Offshore Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) ("Notice 75"), which became effective as of November 1, 2005. According to Notice 75, (a) a PRC citizen (a "PRC Citizen") must register with the local SAFE branch before he or she establishes or controls a SPV for the purpose of conducting overseas equity financing; (b) when a PRC Resident contributes assets or equity interests to an overseas SPV, or engages in overseas financing after contributing assets or equity interests in a domestic enterprise to an overseas SPV, such PRC Citizen must register his or her interest in the overseas SPV or any change to his or her interest in the overseas SPV with the local SAFE branch; and (c) when the overseas SPV undergoes a material change in capital outside the PRC, such as a change in share capital or merger and acquisition, the PRC Citizen must, within 30 days after the occurrence of such event, register such change with the local SAFE branch. Moreover, Notice 75 applies retroactively.

Under the relevant rules, failure to comply with the registration procedures set forth in Notice 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

ENVIRONMENTAL LAWS AND REGULATIONS

The major environmental laws and regulations applicable to us include the Environmental Protection Law of the PRC (中華人民共和國環境保護法) promulgated by the National People's Congress Standing Committee in 1989, the Law on the Prevention and Control of Water Pollution of the PRC (中華人民共和國水污染防治法) promulgated by the National People's Congress Standing Committee in 1984 and amended in 2008, the Law on the Prevention and Control of Air Pollution of the PRC (中華人民共和國大氣污染防治法) promulgated by the National People's Congress Standing Committee in 1987, and amended in 1995 and 2008, , the Law on the Prevention and Control of Solid Waste Pollution of the PRC (中華人民共和國固體廢物污染環境防治法) promulgated by the National People's Congress Standing Committee in 1995, and amended in 2004, and the Law on the Prevention and Control of Noise Pollution of the PRC (中華人民共和國環境雜訊污染防治法) promulgated by the National People's Congress Standing Committee in 1996. These laws and regulations set out detailed procedures that must be implemented throughout a project's construction and operation phases.

Pursuant to the above environmental laws and regulations, any company or enterprise which causes environmental pollution and discharges polluting materials that endanger the public shall implement environmental protection methods and procedures into their business operations. Enterprises must prepare environmental impact study report setting forth the impact the proposed construction project may have on the environment and the measures to prevent or mitigate the impact for approval by the government authority prior to commencement of construction of the relevant project. New facilities built pursuant to this approval are not permitted to operate until the relevant environmental authority has performed an inspection and is satisfied that the facilities comply with environmental standards.

Enterprises are also required to apply to the competent environmental authority and file information on the types and quantities of liquid, solid and gaseous wastes they plan to discharge, and the manner of discharge and disposal, as well as industrial noise and other related issues. If the authorities find that these types of wastes and noises are within regulated levels, they will issue renewable discharge permits for a specified period. If enterprises discharge liquid, solid and gaseous waste at levels above the permitted levels, they may be subject to penalties such as fines. Further, if they do not correct such activities within a specified period, PRC authorities may suspend their operations.

LABOR LAWS AND REGULATIONS

In accordance with the Labor Contract Law of the PRC (中華人民共和國勞動合同法) promulgated by the National People's Congress Standing Committee on June 29, 2007, effective from January 1, 2008, employers and employees shall enter into written employment contracts to establish their employment relationship with the employers. Employers are required to inform the employees about their job duties, working conditions, occupational hazards, manufacture safety conditions, remuneration and other matters with which employees may be concerned. Employers shall pay remuneration to employees on time and in full in accordance with the commitments set forth in the employment contracts and the PRC regulations.

Under applicable regulations, including the Interim Regulations Concerning the Levy of Social Insurance Fees (社會保險費徵繳暫行條例) promulgated by the State Council, implemented from January 22, 1999 and the Administrative Regulation on Housing Fund (住房公積金管理條例) promulgated by the State Council, implemented since April 3, 1999 and amended on March 24, 2002, employers in the PRC shall make contributions to the basic pension insurance fund, basic medical insurance fund, occupational injury insurance, unemployment insurance fund, and housing fund for their employees.

As of September 9, 2010, as confirmed by our Directors and advised by our PRC legal advisor, except as disclosed in the sections headed "Risk Factors — Risk Factors Relating to Our Business and Industry — The health food product and medicinal product industries are heavily regulated in China, and any failure to comply with, and changes in, the regulatory requirements or any regulatory actions against us or our products could adversely affect our business prospects and results of operations-Regulations on product advertising" and "Risk Factors — Risk Factors Relating to Our Business and Industry — Our legal right to lease certain properties could be challenged by property owners or other third parties" in this document, we are currently in compliance with the relevant PRC regulatory requirements and have obtained all necessary approvals, permits and licenses with regard to our existing operations in all material aspects. In order to ensure compliance with applicable laws and regulations and to prevent any breaches in future, we have adopted the following measures to enhance our internal compliance management:

- we have an internal compliance department. We have designated a vice president as compliance officer to lead such department and monitor the status of compliance of such regulations;

- we have retained outside legal advisers and compliance consultants in relation to the compliance issues and our compliance department regularly consults with the outsider professionals; and

- we have a quick update system. The compliance department, with the assistance from the outsider professionals, will constantly check the publications from the PRC and Hong Kong authorities to ensure we have obtained all the permits and licenses for our business development and operation. Our management and employees will report to the compliance department when they encounter any legal and regulatory issues.

HISTORY AND DEVELOPMENT

Corporate History

Our primary operating entity Beijing Outsell was established by Mr. Zhao Yihong in September 2000 through Ruilongxiang, a PRC domestic company controlled by Mr. Zhao. Since our inception, we have been focusing on the development, manufacture and sales of therapeutic tea products in China.

Our trademark "碧生源" was originally registered by Ruilongxiang in 2001 and subsequently transferred to us in 2004 in connection with the increase of Ruilongxiang's registered capital in Beijing Outsell. We acquired the formula of our Besunyen Detox Tea from Huaiyin Huayi, an independent third party, in 2001 and commenced the production and sale of Besunyen Detox Tea in the same year. In 2004, we acquired the formula of our Besunyen Slimming Tea from Beijing Ruipule, a company controlled by Mr. Zhao Yihong and commenced the production and sale of Besunyen Slimming Tea in the same year. Beijing Ruipule was deregistered in December 2007.

Prior to mid-2007, we engaged two third-party manufacturers to handle the processing of raw materials into semi-finished products for a portion of our products. Following the expansion of our production facilities in Fangshan District, Beijing in 2007, we moved the production process for our products in-house. As of June 30, 2010, our production facility had an effective annual production capacity of approximately 1.3 billion tea bags based on two eight-hour shifts per day and 250 working days per year. We obtained our ISO9001:2000 quality management certificate for our manufacturing facility in Beijing in 2002 and have maintained such certificate since then. From 2000 to 2006, we gradually expanded our operations in and focused on four geographic markets. Prior to 2006, Beijing Outsell had been loss-making as its distribution and sales network and customer recognition of its products were not sufficient to generate turnover greater than costs and expenses. Beijing Outsell made a profit for the first time in 2006 and recovered all historical losses in 2007, primarily due to the rapid geographical expansion of our distribution and sales network and improved gross margins as a result of moving our production process in-house.

In order to raise funds for our long-term growth and to benefit from GGV's knowledge and experience in business strategy development, corporate governance, mergers and acquisitions and capital markets, on September 9, 2009, the Company, GGV, Foreshore and Mr. Zhao Yihong entered into the Series A Preferred Shares Purchase Agreement, pursuant to which GGV subscribed for 712,000 Series A Preferred Shares for a total consideration of US$15,000,000 in cash. In addition, with a view to enhancing our in-house research and product development capability, we strategically acquired Jian Shi Xing, a Shanghai-based company focused on the research and development of tea and Chinese medicinal herbal products, in May 2010. Details of the Series A investment and our acquisition of Jian Shi Xing are described in the subsections headed "Series A Investment by GGV" and "Acquisition of Jian Shi Xing," respectively.

History of Beijing Outsell

Beijing Outsell is our primary operating entity and has undergone several shareholding changes since its incorporation in 2000. The following chart summarizes the changes in the shareholding and registered capital of Beijing Outsell.

Date of Shareholding Change	Ruilongxiang		Wang Xian		Xue Jiaxin		Cui Shan		Besunyen HK		Total Registered Capital
	US$'000	%	US$'000	%	US$'000	%	US$'000	%	US$'000	%	US$'000
September 26, 2000	225	75%	75	25%							300
September 24, 2001	225	75%			75	25%					300
July 18, 2002	425	53%			375	47%					800
September 24, 2004	1,500	75%			500	25%					2,000
April 15, 2005							2,000	100%			2,000
May 29, 2006							4,000	100%			4,000
December 26, 2008							8,000	100%			8,000
July 23, 2009							33,000	100%			33,000
September 9, 2009									33,000	100%	33,000
December 11, 2009									46,500	100%	46,500

The following table sets forth a summary of the transactions in connection with each shareholding change.

Date of Shareholding Change	Summary of Transaction in Connection with Shareholding Change
September 26, 2000	In order to pursue opportunities in the therapeutic tea market in China, Ruilongxiang, a PRC domestic company controlled by Mr. Zhao Yihong, and Mr. Wang Xian, a Hong Kong citizen and an independent third party, jointly incorporated Beijing Outsell as a Sino-foreign equity joint venture. Ruixinglong contributed US$225,000 and Mr. Wang Xian contributed US$75,000 into the registered capital of Beijing Outsell. These capital contributions were arrived at after arms-length negotiations between the parties with reference to the future capital need of Beijing Outsell. Except for his prior investment in Beijing Outsell, Mr. Wang Xian does not have any relationship with Mr. Zhao Yihong.
September 24, 2001	Mr. Wang Xian decided to exit his investment in Beijing Outsell and transferred his equity interest in Beijing Outsell to Ms. Xue Jiaxin, a Singapore citizen and an independent third party. The parties agreed, after arms-length negotiations, that such equity interest transfer shall be made for no consideration as, at the time of the transfer, Beijing Outsell was loss-making. Except for her prior investment in Beijing Outsell, Ms. Xue Jiaxin does not have any relationship with Mr. Zhao Yihong.
July 18, 2002	The registered capital of Beijing Outsell was increased to US$800,000, with Ruilongxiang and Ms. Xue Jiaxin owning approximately 53% and 47% of the equity interest of Beijing Outsell, respectively.
September 24, 2004	The registered capital of Beijing Outsell was increased to US$2,000,000, with Ruilongxiang and Ms. Xue Jiaxin owning 75% and 25% of the equity interest of Beijing Outsell, respectively.

Date of Shareholding Change	Summary of Transaction in Connection with Shareholding Change
April 15, 2005	Ruilongxiang and Ms. Xue Jiaxin transferred their respective equity interests in Beijing Outsell to Mr. Cui Shan for no consideration pursuant to a trust arrangement for the benefit of Mr. Zhao Yihong the detail of which is described below. Mr. Cui Shan is a Singapore citizen and the cousin of Ms. Gao Yan, Mr. Zhao Yihong's wife. Upon the completion of such transfers, Beijing Outsell transformed from a Sino-foreign equity joint venture to a wholly foreign-owned company. Ms. Xue Jiaxin and Mr. Cui Shan agreed, after arms-length negotiations, that the transfer of Ms. Xue Jiaxin's equity interest in Beijing Outsell shall be made for no consideration as, at the time of the transfer, Beijing Outsell was loss-making. Ruilongxiang and Mr. Cui Shan agreed that the transfer of Ruilongxiang's equity interest in Beijing Outsell shall be made for no consideration because of the trust arrangement described below and the fact that, at the time of the transfer, Beijing Outsell was loss-making. Since he became a shareholder of Beijing Outsell and before the Reorganization, Mr. Cui Shan held the entire equity interest of Beijing Outsell on behalf of Mr. Zhao Yihong pursuant to a trust arrangement and did not own any beneficial interest in Beijing Outsell. On July 8, 2006, Mr. Zhao Yihong and Mr. Cui Shan entered into an equity entrustment agreement to confirm and document such trust arrangement. Our PRC legal advisor, Global Law Office, has confirmed that such trust arrangement does not violate applicable PRC laws, rules or regulations. Mr. Cui Shan has not received any benefits, consideration or advantages from entering into such trust arrangement. Immediately following the completion of the Reorganization discussed below, Mr. Cui Shan became the beneficial owner of 15.85% of the equity interest of Beijing Outsell (indirectly through his interest in Foreshore as described below) as Mr. Zhao Yihong donated such equity interest to him in connection with the Reorganization as a gift for personal reasons.
May 29, 2006	The registered capital of Beijing Outsell was increased to US$4,000,000.
December 26, 2008	The registered capital of Beijing Outsell was increased to US$8,000,000.
July 23, 2009	The registered capital of Beijing Outsell was increased to US$33,000,000.
September 9, 2009	In connection with the Reorganization, Mr. Cui Shan transferred all of his equity interest in Beijing Outsell to Besunyen HK for a consideration RMB230,591,269, which is the RMB equivalent of the then registered capital of Beijing Outsell.
December 11, 2009	The registered capital of Beijing Outsell was increased to US$46,500,000.

According to our PRC legal advisor, Global Law Office, Beijing Outsell has obtained all necessary approvals from the relevant PRC authorities for each of these shareholding changes.

History of Subsidiaries of Beijing Outsell

Outsell Trade

Outsell Trade was established by Beijing Outsell as a PRC domestic company with limited liability on May 26, 2008 with the registered capital of RMB5,000,000. Since its incorporation, Outsell Trade's registered capital has remained unchanged.

Besunyen Trade

Besunyen Trade was established by Beijing Outsell as a PRC domestic company with limited liability on May 26, 2008 with the registered capital of RMB5,000,000. Since its incorporation, Besunyen Trade's registered capital has remained unchanged.

Guangzhou Outsell

Guangzhou Outsell was established by Beijing Outsell as a PRC domestic company with limited liability on September 19, 2008 with the registered capital of RMB5,000,000. Since its incorporation, Guangzhou Outsell's registered capital has remained unchanged.

Besunyen Food and Beverage

Besunyen Food and Beverage was established by Ms. Zhang Hongli, a Singapore citizen and Mr. Cui Shan's wife, as a wholly foreign-owned company on June 29, 2007 with the registered capital of US$300,000. Ms. Zhang Hongli held the equity interest of Besunyen Food and Beverage on behalf of Mr. Zhao Yihong pursuant to a trust agreement dated June 1, 2007, Ms. Zhang Hongli did not hold any beneficial interest in Besunyen Food and Beverage and has not received any benefits, consideration or advantages in entering into such trust arrangement. This trust arrangement was entered into based on an understanding that, through such arrangement, it would be easier and more efficient to obtain and arrange financing offshore in the future as Besunyen Food and Beverage would already be approved as a wholly foreign-owned enterprise prior to such financing. Our PRC legal advisor, Global Law Office, has confirmed that such trust arrangement does not violate PRC laws, rules or regulations. On November 6, 2008, Ms. Zhang Hongli reached an agreement with BSYI, a PRC domestic company controlled by Mr. Zhao Yihong, to transfer all of her equity interest in Besunyen Food and Beverage to BSYI for a consideration of US$300,000. The consideration for such equity transfer to BSYI was arrived at after arms-length negotiations between the parties with reference to the then registered capital of Besunyen Food and Beverage. Following this equity transfer, Besunyen Food and Beverage transformed from a wholly foreign-owned company to a PRC domestic company with the registered capital of RMB2,200,000. On October 9, 2009, BSYI transferred all of its equity interest in Besunyen Food and Beverage to Beijing Outsell for a consideration of RMB2,200,000. Such consideration for the equity transfer to Beijing Outsell was arrived at after arms-length negotiations between the parties with reference to the then registered capital of Besunyen Food and Beverage. On October 22, 2009, the registered capital of Besunyen Food and Beverage was increased to RMB20,000,000. On January 18, 2010, Besunyen Food and Beverage changed its name from Beijing Besunyen Food and Beverage Limited Liability Company (北京碧生源食品飲料有限責任公司) to Beijing Besunyen Food and Beverage Limited Co. (北京碧生源食品飲料有限公司).

Dissolved Subsidiaries

To facilitate the hiring and retaining of our on-the-ground sales and marketing employees in our sales offices across China, Beijing Outsell established 12 domestic subsidiaries during the Track Record Period. As we gradually turned to an independent third party employment agency for the hiring and retaining of our on-the-ground sales and marketing employees, we dissolved 11 of these 12 subsidiaries during the Track Record Period and the remaining subsidiary Xian Benefit Trading Co., Ltd. in August 2010. None of these dissolved subsidiaries has any outstanding liabilities as of the date of its dissolution. For more details about these dissolved subsidiaries, please see the Accountants' Report in Appendix I of this document.

Acquisition of Zhuhai Qi Jia

On January 13, 2010, Beijing Outsell, Zhuhai Qi Jia, Ms. Zhang Guiying and Mr. Wang Hongshan entered into an equity acquisition agreement, under which Beijing Outsell agreed to acquire all equity interest of

Zhuhai Qi Jia, a PRC domestic company established in Zhuhai, Guangdong on July 6, 2001, for a consideration of up to RMB19,050,000 (consisting of RMB2,000,000 as a purchase consideration and RMB17,050,000 as a capital injection), subject to minor adjustments, in a three-step transaction:

- Step one: Pursuant to a resolution approved by the shareholders of Zhuhai Qi Jia on January 19, 2010, the registered capital of Zhuhai Qi Jia was increased to RMB12,000,000, with Beijing Outsell contributing the first installment of the consideration, RMB10,000,000, to the registered capital (representing 83.33% of Zhuhai Qi Jia's enlarged equity interest). This step was completed in January 2010.

- Step two: Within five business days from obtaining the building ownership certificate of Zhuhai Qi Jia's factory and the satisfaction of other customary closing conditions, such as representations and warranties being accurate, execution of capital contribution agreement and amendment to articles of association, Beijing Outsell will contribute the second installment of RMB6,550,000 (reflecting an adjustment of RMB50,000 increase based on the status for the termination of certain business contracts) to the registered capital (representing 89.22% of Zhuhai Qi Jia's enlarged equity interest). This step is expected to be completed prior to September 29, 2010.

- Step three: Within five business days from the satisfaction of customary closing conditions, such as representations and warranties being accurate, execution of capital contribution agreement and equity transfer agreement and amendment to articles of association, and six months from the completion of the second step, Beijing Outsell will contribute the third installment of RMB500,000 to the registered capital and acquire all the equity interests held by Ms. Zhang Guiying and Mr. Wang Hongshan for a consideration of RMB2,000,000. Following the completion of the third step, Beijing Outsell will become the sole shareholder of Zhuhai Qi Jia. We expect to complete this step in February 2011.

Zhuhai Qi Jia is primarily engaged in the research, development, manufacture and sale of Chinese medicinal herbal tea products including MaiShuPing Tea, which had been sold on the market before the acquisition. For the year ended December 31, 2009, the total revenue of Zhuhai Qi Jia was RMB1.4 million among which RMB0.2 million was attributable to sales of MaiShuPing Tea and the remaining RMB1.2 million was attributable to OEM services provided by Zhuhai Qi Jia to its clients. The amount of goodwill arising as a result of the Group's acquisition of Zhuhai Qi Jia was RMB5.3 million. Upon the Group's acquisition of Zhuhai Qi Jia, the amount of appraised net liabilities of Zhuhai Qi Jia was RMB3.3 million.

Prior to the acquisition, Zhuhai Qi Jia was held by Ms. Zhang Guiying and Mr. Wang Hongshan, with each holding 45% and 55%, respectively, of the equity interest of Zhuhai Qi Jia, the registered capital of which was RMB2,000,000. Each of Ms. Zhang Guiying and Mr. Wang Hongshan is an independent third party and they agreed in the equity acquisition agreement to indemnify Zhuhai Qi Jia for claims and liabilities resulting from the activities of Zhuhai Qi Jia prior to the acquisition. To the knowledge of our Directors, prior to the acquisition, Zhuhai Qi Jia had neither received any material complaints or claims against, nor did Zhuhai Qi Jia have any outstanding liabilities as of the date of our acquisition of Zhuhai Qi Jia in relation to the sales of, MaiShuPing Tea. On June 28, 2010, Guangdong SFDA revoked the approvals for three advertisements with respect to MaiShuPing Tea created in 2009 on the basis that advertisements for MaiShuPing Tea, the production of which we were not involved in, were misleading and improperly claimed the effect of MaiShuPing Tea. Pursuant to applicable PRC laws and regulations, such revocation of approvals will cause us to be unable to obtain SFDA approvals for new advertisements for MaiShuPing Tea until June 28, 2011. Under the equity acquisition agreement, we can bring claims against Ms. Zhang Guiying and Mr. Wang Hongshan for the loss suffered as a result of the revocation of the three advertisements, but currently have no intention to bring such claims for business and marketing considerations.

The consideration for the Zhuhai Qi Jia acquisition was arrived at after arms-length negotiations between the parties after a rigorous valuation process using several valuation methods which took into account all key financial aspects, including the net liabilities, of Zhuhai Qi Jia. In particular, we value the future earning capacity of Zhuhai Qi Jia, which is a key assumption in the discounted cash flow analysis, and believe that such capacity will not be materially affected by the delayed launch of Besunyen MaiShuPing Tea. In addition, we believe the Zhuhai Qi Jia acquisition is commercially justifiable because its business and product match our future expansion strategy.

Acquisition of Jian Shi Xing

In May 2010, in order to enhance our in-house research and product development capability, we acquired Jian Shi Xing and its parent Ever Assure, a company incorporated in Hong Kong on April 23, 2010 solely for the purpose of holding the equity interest in Jian Shi Xing. During the Track Record Period, Jian Shi Xing was solely engaged in the research and development of tea and Chinese medicinal herbal products. Prior to the acquisition, Jian Shi Xing was owned by High Star Limited, a company incorporated in the Cayman Islands.

Pursuant to the Share Exchange Agreement dated May 21, 2010 entered into by and among our Company, Besunyen Investment (formerly known as Tea-Care Holding Co. Universal Ltd), High Star Limited, Dr. Cai Ya, GGV, Qiming, Ignition, NewMargin, FMCG and Mr. Zhao Xiaoluo (an independent third party), on May 31, 2010, Besunyen Investment acquired all of the issued and outstanding shares of Ever Assure from High Star Limited in consideration of the allotment and issuance of 53,241, 5,916, 94,652, 15,212 and 48,292 Shares to Qiming, Ignition, NewMargin, FMCG and Dr. Cai Ya, respectively, each a shareholder of High Star Limited, in proportion to its interest in High Star Limited. These Shares were valued, among the parties, at US$4.5 million. Based on the aggregate consideration for the Jian Shi Xing acquisition valued at US$4.5 million, and taking into account the Share Subdivision, the cost per Share paid by each of Qiming, Ignition, NewMargin, FMCG and Dr. Cai Ya was US$0.17. Such consideration for the acquisition was arrived at after arms-length negotiations between the parties with reference to the financial position and future earning capacity of the Group and Jian Shi Xing. Neither Qiming, Ignition, NewMargin, FMGC or Dr. Cai Yai, nor these Shares acquired by them, have been granted any special rights that are different from those of our other Shareholders. The amount of goodwill arising as a result of the Group's acquisition of Jian Shi Xing was RMB15.5 million. Upon the Group's acquisition of Jian Shi Xing, the amount of appraised net assets of Jian Shi Xing was RMB15.4 million.

In addition, concurrently with the closing of the acquisition of Jian Shi Xing and Ever Assure contemplated under the Share Exchange Agreement, NewMargin and FMCG subscribed for an aggregate of 144,876 new Shares at an aggregate purchase price of US$3,000,000. Based on the aggregate purchase price of US$3,000,000, and taking into account the Share Subdivision, the cost per Share paid by each of NewMargin and FMCG was US$0.17. The consideration for the subscription was arrived at after arms length negotiations among us and each of NewMargin and FMCG with reference to the financial position and future earning capacity of the Group. We use the proceeds from the investment by NewMargin and FMCG for capital contribution to Jian Shi Xing and working capital and general corporate purposes.

Qiming

Qiming Venture Partners, L.P. and Qiming Managing Directors Fund, L.P. are exempted limited partnerships registered in the Cayman Islands. Each of Qiming Venture Partners, L.P. and Qiming Managing Directors Fund L.P. is a venture capital fund which focuses on investment in select, high growth Chinese companies in the sectors of media and Internet, information technology, consumer and retail, healthcare and clean technology. The general partner of Qiming Venture Partners, L.P. is Qiming GP, L.P., a Cayman Islands exempted limited partnership. The general partner of both Qiming Managing Directors Fund, L.P. and Qiming GP, L.P. is Qiming Corporate GP, Ltd., a Cayman Islands limited company. Voting and investment power of the shares held by Qiming Venture Partners, L.P. and Qiming Managing Directors Fund, L.P. is exercised by the investment committee of Qiming Corporate GP, Ltd., which consists of Duane Kuang, Gary Rieschel, JP Gan and Robert Headley. The registered address of Qiming Venture Partners, L.P., Qiming Managing Directors Fund, L.P., Qiming GP, L.P. and Qiming Corporate GP, Ltd. is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. Each of Qiming Venture Partners, L.P. and Qiming Managing Directors Fund, L.P. is an independent third party of our Group.

Ignition

Ignition Venture Partners III, L.P. is a limited partnership registered in the State of Delaware. Ignition Managing Directors Fund III, LLC is a limited liability company registered in the State of Delaware. Each of Ignition Venture Partners III, L.P. and Ignition Managing Directors Fund III, LLC Ignition is a venture capital fund which focuses on early stage high-technology investments. The registered office of Ignition Venture Partners III, L.P. and Ignition Managing Directors Fund III, LLC is 2711 Centerville Road, Suite 400, Wilmington, New Castle County, Delaware 19808. Ignition is an independent third party of our Group.

NewMargin

NewMargin Growth Fund, L.P. is a venture capital fund which focuses on investment in the sectors of broader IT, sustainable growth technology, healthcare, consumer goods and high margin manufacturing. NewMargin Growth Ventures LLC is the sole general partner of NewMargin Growth Fund, L.P. Messrs. Feng Tao, Greg W. Ye, Zhou Shuiwen, Cary Zhou and Hans Xu are members of the investment committee of NewMargin Growth Ventures LLC and share voting and dispositive power over all such shares held by NewMargin Growth Fund, L.P. NewMargin Growth Fund, L.P.'s business address is Radisson Plaza (Xing Guo) Hotel, 78 Xing Guo Road, Villa 3, 200052, Shanghai, China. NewMargin is an independent third party of our Group.

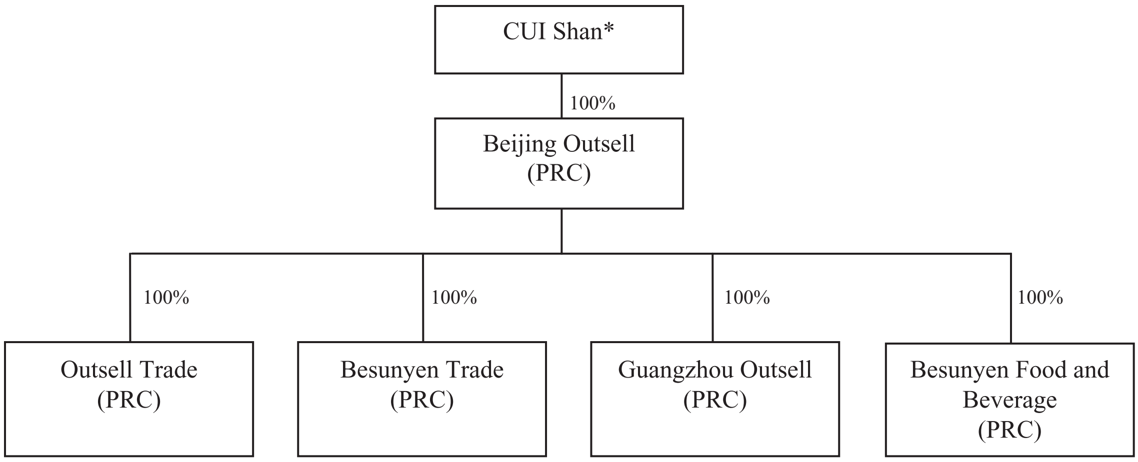
FMCG

International FMCG Investments Ltd. is an investment company. FMCG is a private equity fund which focuses on investment in the fast moving consumer products sector. Mr. Wang Yaping is the sole managing director of FMCG. Messrs. Wang Yaping, Frank Fang and Chen Zhaoming are the members of the investment committee of FMCG. The business address of International FMCG Investments Ltd is Akara Bldg, 24 De Castro Street, Wickhams Cay I, Road Town, Tortola, British Virgin Islands. Mr. Wang Yaping and FMCG are independent third parties of our Group.

REORGANIZATION

In 2009, we commenced the Reorganization of our Group in preparation for the Series A investment described below. Immediately prior to the Reorganization, Mr. Cui Shan held the equity interest of Beijing Outsell on behalf of Mr. Zhao Yihong pursuant to a trust agreement dated July 8, 2006. Mr. Cui Shan is a Singapore citizen and the cousin of Ms. Gao Yan, Mr. Zhao Yihong's wife. This trust arrangement was entered into based on an understanding that, through such arrangement, it would be easier and more efficient to obtain and arrange financing offshore as Beijing Outsell would already be approved as a wholly foreign-owned enterprise prior to such financing. Our PRC legal advisor, Global Law Office, has confirmed that such trust arrangement does not violate applicable PRC laws, rules or regulations. In October 2009, Mr. Cui Shan returned the entrusted equity interest of Beijing Outsell to Mr. Zhao Yihong through the transfer of the entire equity interest in Beijing Outsell to Besunyen HK in connection with the Reorganization. Mr. Zhao Yihong donated 15.85% of the equity interest of Foreshore to Mr. Cui Shan as a gift for personal reasons.

The following chart illustrates the corporate structure of our Group immediately prior to the Reorganization.



* Note: Mr. Cui Shan held the equity interest in Beijing Outsell on behalf of Mr. Zhao Yihong.

Incorporation of Our Company

Our Company was incorporated in the Cayman Islands with limited liability on August 5, 2009. On the same day, one Share was issued to Stockton Nominees Limited, and such Share was transferred to Mr. Zhao Yihong. On September 25, 2009, such Share was transferred to Foreshore and subsequently cancelled. On October 21, 2009, 9,288,000 Shares (representing approximately 92.88% of the then issued share capital of the Company) were issued to Foreshore and 712,000 Series A Preferred Shares (representing approximately 7.12% of the then issued share capital of the Company) were issued to GGV in connection with the Series A investment described below. In June 2010, the name of our Company was changed from Tea-Care Group Ltd to Besunyen Holdings Company Limited (碧生源控股有限公司).

Establishment of Offshore SPVs

Foreshore

Foreshore was incorporated in the BVI with limited liability on August 11, 2009 as an investment holding vehicle. On August 26, 2009, one share was issued to Mr. Zhao Yihong. On September 25, 2009, an additional 8,414 shares were issued to Mr. Zhao Yihong and 1,585 shares were issued to Mr. Cui Shan.

Besunyen Investment

Besunyen Investment was incorporated in the BVI with limited liability on August 11, 2009 as an intermediate holding vehicle. One share was issued to Mr. Zhao Yihong on August 11, 2009, and such share was transferred to our Company on September 25, 2009. On June 9, 2010, the name of Besunyen Investment was changed from Tea-Care Holding Co. Universal Ltd to Besunyen Investment (BVI) Co., Ltd.

Besunyen HK

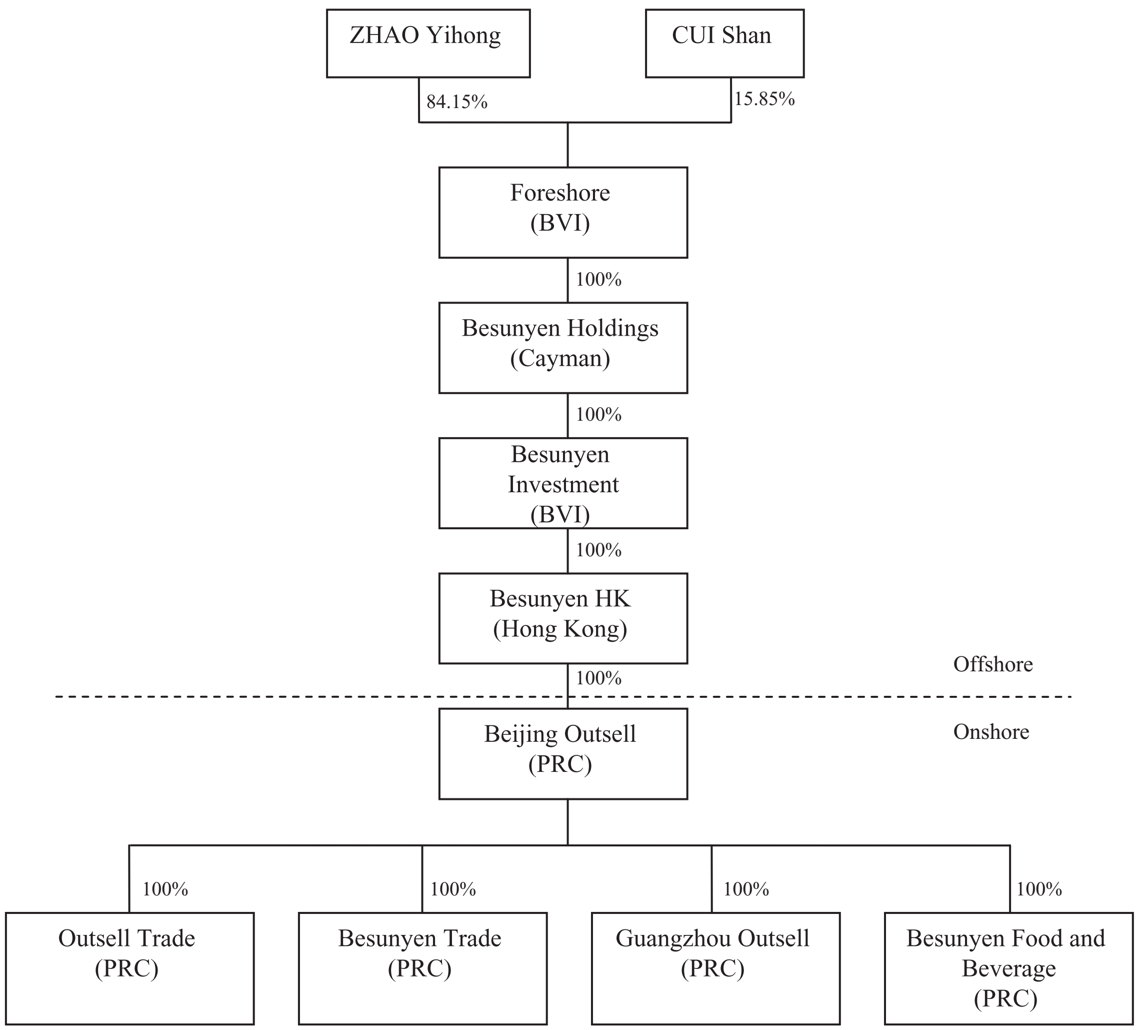
Besunyen HK was incorporated in Hong Kong with limited liability on June 10, 2009 as an intermediate holding vehicle. One share was issued to Mr. Cui Shan on June 10, 2009, and such share was transferred to Besunyen Investment on October 5, 2009. On May 18, 2010, the name of Besunyen HK was changed from Outsel Herbal Tea Limited to Besunyen (Hong Kong) Co., Limited (碧生源（香港）有限公司).

As disclosed above, the above three offshore SPVs have not carried out other business activities since their respective establishment.

Corporate Structure after Reorganization

Following completion of the above steps of the Reorganization, Mr. Zhao Yihong and Mr. Cui Shan collectively hold 100% Shares of our Company through Foreshore, of which Mr. Zhao Yihong holds 84.15% of the issued and outstanding Shares and Mr. Cui Shan holds 15.85% of the issued and outstanding Shares. Mr. Cui Shan is the beneficial owner of such 15.85% Shares as Mr. Zhao Yihong has donated such Shares to him in connection with the Reorganization as a gift for personal reasons.

Immediately after the completion of the above steps of the Reorganization, the corporate structure of the relevant entities is illustrated as follows:



SERIES A INVESTMENT BY GGV

In order to raise funds for our long-term growth and to benefit from GGV's knowledge and experience in business strategy development, corporate governance, mergers and acquisitions and capital markets, on September 9, 2009 the Company entered into the Series A Preferred Shares Purchase Agreement with strategic investors, GGV, Foreshore and Mr. Zhao Yihong, pursuant to which GGV subscribed for 712,000 Series A

Preferred Shares for a total consideration of US$15,000,000 in cash. The consideration for the subscription of our Series A Preferred Shares was arrived at after arms-length negotiations between the Group and GGV with reference to the then financial position and future earning capacity of the Group. We used the proceeds from the GGV investment for purchase of equipments, capital expenditures for factory construction, and working capital and general corporate purposes. The main strategic benefit brought to us by the GGV investment is that it assisted us with the successful acquisition of Jian Shi Xing which added our new research and development team led by Dr. Cai Ya and improved our research and development capability. In particular, GGV assisted us by (i) identifying Jian Shi Xing as our acquisition candidate through its connections and resources within the venture capital community and China-based enterprises, (ii) helping and coordinating our negotiations with multiple venture capital shareholders of Jian Shi Xing, and (iii) facilitating the smooth and prompt closing of the acquisition of Jian Shi Xing.

Under the Series A Preferred Shares Purchase Agreement, as supplemented and amended by the supplement agreement dated May 31, 2010 by and between the Company, Foreshore, GGV and Mr. Zhao Yihong, the number of Series A Preferred Shares that GGV is entitled to receive is subject to earnings adjustment determined based on our consolidated net profit for 2009. On May 31, 2010, 125,010 additional Series A Preferred Shares were allotted and issued to GGV at a par value per share in accordance with the exercise by GGV of such earnings adjustment right. Such earnings adjustment were arrived at based on our Company's consolidated net profit for 2009. Pursuant to such earnings adjustment, GGV's earnings adjustment right was fully exercised and there will be no further adjustment to the Series A Preferred Shares held by GGV.

Under the Series A Preferred Shares Purchase Agreement, GGV is entitled to an anti-dilution protection with respect to the acquisition of Jian Shi Xing. On May 31, 2010, 19,562 Series A Preferred Shares were allotted and issued to GGV at a par value per share in accordance with GGV's anti-dilution protection.

In connection with the Series A investment by GGV, our Company, Mr. Zhao Yihong and Foreshore entered into a shareholders' agreement with GGV in October 2009. Under this shareholders' agreement and our amended and restated memorandum of association and articles of association, we have granted GGV a series of preferences and rights, including information and inspection rights, rights of first refusal and rights of co-sale with respect to transfers of shares by our Shareholders, drag-along rights, veto rights with respect to certain important corporate actions, dividends preference, liquidation preference, redemption rights and board representation rights. Series A shareholders are also granted pre-emptive rights with respect to any of our future issuance of new shares as well as a demand registration right if we intend to complete a Qualified IPO (as defined below) in the United States of America.

Each of our Series A Preferred Shares shall automatically be converted immediately upon the earlier of (i) the consummation of a Qualified IPO, (ii) immediately prior to the closing of an acquisition by, merger or other combination with another entity where our Company is not the surviving entity and where such surviving entity is listed on an internationally recognized stock exchange, or (iii) the date specified by written consent or agreement of the holders of a majority of the then outstanding Series A Preferred Shares.

A Qualified IPO means the closing of the first firm commitment, underwritten public offering to the general public of the securities of the Company which (i) results in such securities being listed on the New York Stock Exchange, the Nasdaq Global Market System, the Main Board or the Growth Enterprise Market of the Hong Kong Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, or any other internationally recognized exchange or quotation system that is approved in writing by the Series A shareholders holding at least a majority of the then outstanding Series A Preferred Shares, (ii) is effected pursuant to (A) an effective registration statement under the U.S. Securities Act or (B) the securities laws or rules applicable to an offering of securities on a qualified exchange as described in the foregoing sentence, and (iii) yields aggregate proceeds to the Company and any selling shareholders in excess of US$100,000,000 before deduction of underwriting commissions and offering expenses, or such other initial public offering as otherwise approved by the Series A shareholders holding at least a majority of the then outstanding Series A Preferred Shares.

GGV

GGV is a venture capital fund focusing on expansion stage investments across the United States and China. GGV's sector coverage includes consumer growth, healthcare and technology (including clean technology). Granite Global Ventures L.L.C. is the sole general partner of GGV. Messrs. Scott Bonham, Hany Nada, Glenn Soloman, Thomas Ng, Jixun Foo, Jenny Lee, Jessie Jin and Zhuo Fumin are managing directors of Granite Global Ventures L.L.C. and share voting and dispositive power over all such shares held by GGV. As Mr. Zhuo Fumin is one of our Directors, GGV is not an independent third party of our Group. As Mr. Zhuo Fumin does not individually control GGV, GGV is not a connected person of our Group. The business address of GGV is 2494 Sand Hill Road, Suite 100, Menlo Park, CA 94025, United States.

SHAREHOLDING AND GROUP STRUCTURE

Transfer of Shares to Ding Tian

On May 31, 2010, Ding Tian acquired 169,495 Shares from Foreshore for an aggregate purchase price of US$3,000,000 pursuant to a share transfer agreement dated March 4, 2010 by and between Foreshore and Ding Tian. The consideration for such transfer was arrived at after arms-length negotiations between Foreshore and Ding Tian with reference to the Group's financial performance in 2009. The shareholders of Foreshore used the US$3,000,000 purchase price for personal purposes that are not related to the Group.

As Ding Tian is controlled by Mr. Wang Bing, one of our Directors, Ding Tian is a connected person, and not an independent third party, of our Group.

Ding Tian

Ding Tian is a mutual fund focusing on investment in listed companies. Ding Tian Capital Management (Cayman) Limited is the sole investment manager of Ding Tian. Mr. Wang Bing, one of our Directors, holds voting and dispositive power over the majority of such shares held by Ding Tian. The business address of Ding Tian is c/o Campbell Corporate Services Limited, 4th Floor, Scotia Centre, P.O. Box 268, George Town, Grand Cayman KY1-1104, Cayman Islands, British West Indies.

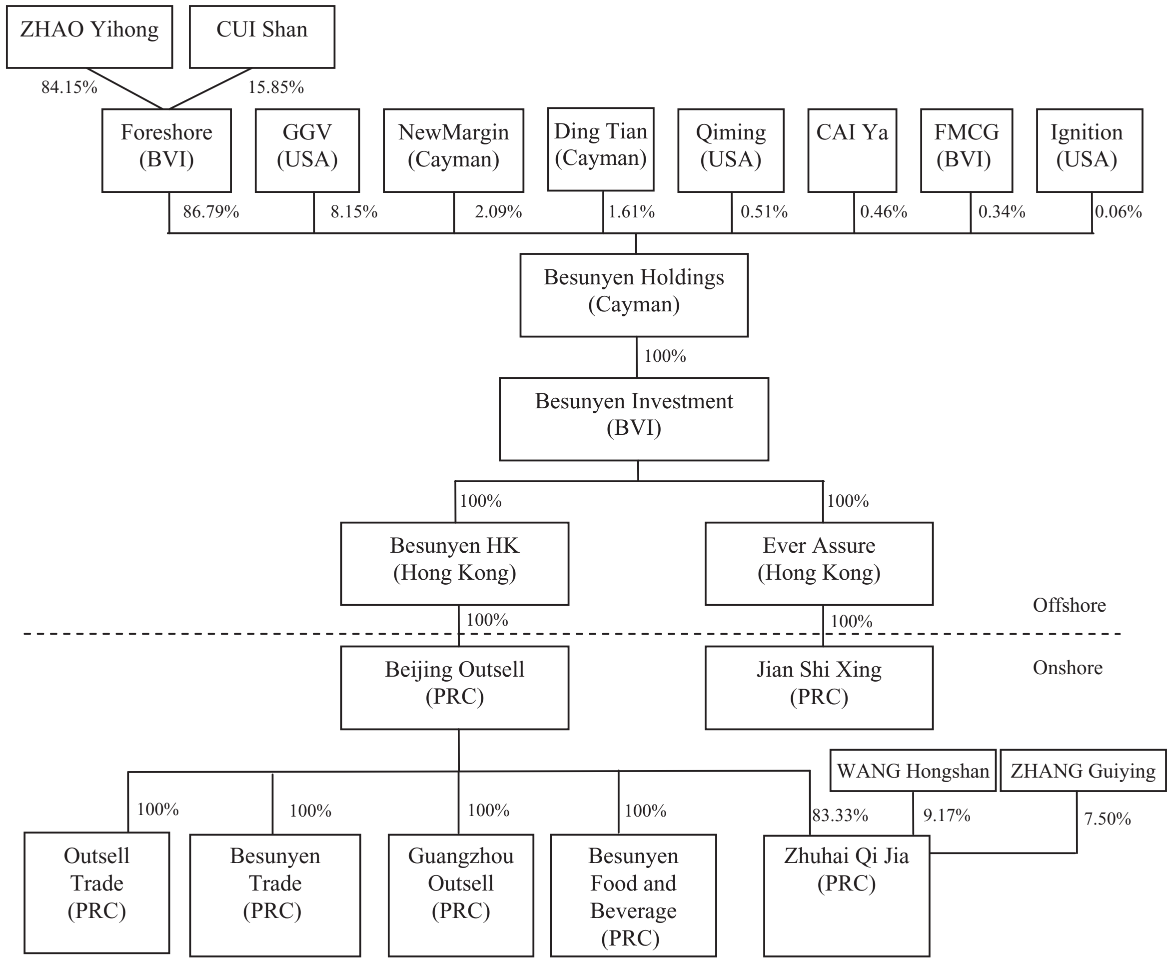
The following table summarizes the details of the investments in the Company made by each of GGV, Ding Tian and certain original shareholders of High Star Limited:

Investor	Date of investment	Consideration	Cost per Share
GGV	September 9, 2009	US$15,000,000	US$0.15
Ding Tian	March 4, 2010	US$ 3,000,000	US$0.15
Qiming	May 31, 2010	US$ 1,102,486[(1)]	US$0.17
Ignition	May 31, 2010	US$ 122,505[(1)]	US$0.17
Cai Ya	May 31, 2010	US$ 1,000,005[(1)]	US$0.17
NewMargin	May 31, 2010	US$ 1,960,002[(1)]	US$0.17
	May 31, 2010	US$ 2,587,912[(2)]	US$0.17
FMCG	May 31, 2010	US$ 315,002[(1)]	US$0.17
	May 31, 2010	US$ 412,088[(2)]	US$0.17

(1) *Being the consideration for the Jian Shi Xing acquisition pursuant to the Share Exchange Agreement dated May 21, 2010. This figure is for reference only. The consideration for the Jian Shi Xing acquisition was satisfied by the allotment and issuance of Shares to the investors, details of which are described in the section headed "Acquisition of Jian Shi Xing" in this document*

(2) *In addition to Shares obtained pursuant to the Jian Shi Xing acquisition, NewMargin and FMCG subscribed for additional Shares in cash concurrently with the closing of the Jian Shi Xing acquisition, details of which are described in the section headed "Acquisition of Jian Shi Xing" in this document*

The following chart illustrates the shareholding structure and corporate structure of the Group after the investments made by each of the investors.



OVERVIEW

We are the leading provider of therapeutic tea (功能保健茶) products[(1)] in China, engaging in the development, production, sales and marketing of therapeutic tea and other health food products. According to the Euromonitor Study, which was commissioned by us, we had the largest market share among all therapeutic tea providers in China in terms of retail sales value in 2008 and 2009, with a market share of 11.2% and 18.8%, respectively. Produced using our proprietary blends of high quality Chinese medicinal herbs and teas, our products are designed and marketed as effective, safe, affordable and convenient-to-use health products for people with mild chronic or recurring health problems as well as those seeking to maintain a healthy body and lifestyle. We believe our 碧生源 (Besunyen) brand is a leading therapeutic tea brand in China. According to the Frost & Sullivan Brand Survey, a study commissioned by us and conducted in June 2010, our 碧生源 (Besunyen) brand has the highest brand awareness and is the first choice among consumers amongst all slimming and laxative products sold in China. In March 2010, the China Health Care Association (中國保健協會) selected our brand as one of the "Ten Most Trustworthy Health Food Product Brands" in China. Our market leadership position, national brand recognition and established nationwide distribution and sales network, along with our strong product pipeline, provide us with significant competitive advantages in China's large and rapidly growing therapeutic tea market, which increased in size from RMB3.1 billion in 2005 to RMB4.1 billion in 2009, according to the Euromonitor Study.

Our best selling products, Besunyen Detox Tea (碧生源常潤茶) and Besunyen Slimming Tea (碧生源減肥茶), were the leading therapeutic tea products sold through retail pharmacies in China in the laxative product and slimming product markets in terms of retail sales value in 2009, respectively, according to the SMERI Study, a study commissioned by us. According to the SMERI Study, we were the leading provider of laxative products sold through retail pharmacies in 2009 in terms of retail sales value, enjoying a 25.2% market share. In the market for slimming products sold through retail pharmacies, our market share increased rapidly from 8.1% in 2008 to 15.9% in 2009, ranking as the second largest provider of slimming products and the largest provider of slimming tea in terms of retail sales value in 2009. Leveraging upon the success of our 碧生源 (Besunyen) brand, we plan to continue to expand our product offerings. We are expanding into the OTC tea market with the planned launch of our Besunyen MaiShuPing Tea (碧生源脈舒平袋泡茶), which we acquired through our acquisition of Zhuhai Qi Jia in January 2010. Because of the revocation of approvals for three advertisements, the production of which we were not involved in, with respect to MaiShuPing Tea by Guangdong SFDA in June 2010, we are not permitted to advertise our Besunyen MaiShuPing Tea until June 28, 2011. Taking into account market and business considerations, we currently expect to launch Besunyen MaiShuPing Tea some time after June 2011. Our product pipeline also includes four SFDA-approved health food products that we are planning to launch, starting in late 2010. We believe that our market-leading position and strong national brand name have allowed us to develop a broad customer base in China, which in turn will facilitate more rapid acceptance of our new products.

Our products are sold in over 100,000 retail outlets across China, more than 95% of which are retail pharmacies, through our nationwide network of distributors. Our network of distributors[(2)] has grown from 151 distributors covering four provinces and centrally administered municipalities in China as of December 31, 2007 to 409 distributors covering 30 provinces and centrally administered municipalities as of June 30, 2010. We also have expanded our presence in supermarkets and convenience stores, in particular large chains such as Wal-Mart and Watsons. Our on-the-ground sales teams, consisting of approximately 1,260 full-time employees in our 81

(1) *As used in this document, therapeutic tea products are tea-based health food products approved by the SFDA as providing certain health benefits. The SFDA currently approves therapeutic tea products and other health food products for 27 categories of health benefits. For more information on the 27 categories of health benefits, please see the section headed "Industry Overview — Health Food Product Market in China" in this book .Upon approval by the SFDA, a "health" ("健") mark may be fixed on such product's packaging.*

(2) *These distributors operated in geographic markets covered by our on-the-ground local sales teams. During the Track Record Period prior to 2010, we also sold a small portion of our products to distributors located in markets which our local sales teams did not yet cover.*

sales offices across China as of June 30, 2010, interact closely with and monitor our distributors and retail outlets to ensure consistency and quality in our sales promotion and brand-building while still tailoring their marketing efforts to local preferences. To strengthen our control over distribution channels, improve the efficiency of distribution, ensure quality control and maximize our profit margin, we operate a "flat" distribution system in which there is generally only one layer, or at most two layers, of distributors between our company and the retail outlet. We market our products and enhance our brand awareness through a wide range of targeted advertising activities, including primarily television commercials on selected national and regional satellite television networks and other media advertisements as well as sponsorships of television shows and events. In 2007, 2008, 2009 and the six months ended June 30, 2010, our total advertising expenses amounted to RMB49.1 million, RMB118.2 million, RMB196.7 million and RMB117.1 million, respectively, representing 30.1%, 33.0%, 30.4% and 31.8% of our total turnover in the relevant period.

Most members of our senior management team have been in the consumer or health food product industry for over 15 years, and they collectively have a strong proven track record of delivering growth and profitability. In particular, our core management team, including Mr. Zhao Yihong, our founder, Chairman and Chief Executive Officer, Mr. Mou Wenjun, our Vice President in charge of sales, and Mr. Yu Hongjiang, our Vice President in charge of internal control, have been instrumental to our Company's development during almost the entire history of our Company. Other members of our senior management also have significant relevant experience in key aspects of our operations, including marketing, advertising, human resource and corporate financial management. To strengthen our expertise in Chinese medicinal herbal product development, in May 2010 we acquired a Shanghai-based research and development team led by Dr. Cai Ya, the director of the PRC research center of Unilever from 2002 to 2008, with extensive experience in the development of herbal food and tea products, including products sold under the Lipton brand.

We believe our market-leading position, strong national brand name and nationwide distribution and sales network in China, coupled with our experience and knowledge of the strict PRC regulatory requirements for health food products, create strong barriers to entry in our markets. We believe it is difficult for other market participants to replicate our success within a short period of time due to the significant investment and time required to establish strong brand awareness, a long safety record and a nationwide distribution and sales network. Furthermore, obtaining SFDA approval for health food products can take up to two years and we expect the regulatory approval process to become more stringent for new entrants as China's health food product standards and testing regime continue to develop. Our established market reputation, experienced product development team, extensive distribution network and pipeline of SFDA-approved products give us a competitive advantage in bringing new products to the market.

Our turnover has increased rapidly during the Track Record Period, growing from RMB163.1 million in 2007 to RMB358.2 million in 2008 and RMB646.5 million in 2009, representing a CAGR of 99.1%, and from RMB223.7 million in the six months ended June 30, 2009 to RMB368.7 million in the six months ended June 30, 2010 representing a year-to-year growth of 64.8%. Our gross profit increased from RMB115.4 million in 2007 to RMB298.1 million in 2008 and RMB578.1 million in 2009, representing a CAGR of 123.9% over that period and from RMB201.7 million in the six months ended June 30, 2009 to RMB330.7 million in the six months ended June 30, 2010, while our total comprehensive income increased from RMB47.6 million in 2007 to RMB122.0 million in 2008 and RMB141.7 million in 2009, representing a CAGR of 72.6%. Our total comprehensive income in 2009 was decreased from RMB68.9 million in the first six months of 2009 to RMB21.1 million in the first six months of 2010.

OUR STRENGTHS

We believe the following strengths have contributed to our rapid growth and success and will continue to position us for future growth and success as the leader in China's therapeutic tea and overall health food product markets:

Market leader in the therapeutic tea segment of China's large and fast-growing health food product market

We are the leading provider of therapeutic tea products in China in terms of turnover, according to the Euromonitor Study. For 2008 and 2009, we were the market leader in China's overall therapeutic tea market with a market share of 11.2% and 18.8% in terms of retail sales value, respectively. In 2009, our next-closest competitor had less than one third of our market share and the remaining three of the top five brands had an aggregate market share of less than half of our market share. We believe our 碧生源 (Besunyen) brand is the leading therapeutic tea brand in China. According to the SMERI Study, our Besunyen Detox Tea was the leader in laxative products sold through retail pharmacies in both 2008 and 2009 in terms of sales, enjoying a 20.9% and 25.2% of the market share in 2008 and 2009, respectively. In 2009, our Besunyen Slimming Tea also ranked first among slimming tea products, and second among all slimming products, sold through retail pharmacies in terms of sales, having a market share of 15.9% for all slimming products sold through retail pharmacies. In March 2010, these two products were selected by the China Health Care Association as among the "Most Trustworthy Health Food Products" in China.

China's therapeutic tea market and overall health food product market are growing rapidly, with sales of health food products in the six categories of health benefits covered by our two currently marketed products and four SFDA-approved pipeline products growing from RMB20.7 billion in 2005 to RMB34.3 billion in 2009, representing a CAGR of 13.4%, according to the Euromonitor Study, while China's overall therapeutic tea market in China grew from RMB3.1 billion in 2005 to RMB4.1 billion in 2009 and China's overall health food product market grew from RMB40.0 billion in 2005 to RMB63.7 billion in 2009, representing a CAGR of 12.4%. As a leading therapeutic tea brand in China, we are well positioned to take advantage of the expected rapid growth of China's therapeutic tea market and overall health food product market.

Strong nationwide brand recognition and effective brand marketing strategy

We have established our 碧生源 (Besunyen) brand and reputation as a premier provider of effective, safe, affordable and convenient-to-use therapeutic tea products. According to the Frost & Sullivan Brand Survey, our 碧生源 (Besunyen) brand has the highest brand awareness and is also the first choice among consumers amongst all slimming and laxative products sold in China. In March 2010, the China Health Care Association selected our brand as among the "Ten Most Trustworthy Health Food Product Brands" in China. We have developed our strong 碧生源 (Besunyen) brand since we started our business in 2000 through advertising, marketing and continuous emphasis on product quality. The growing market shares of our Besunyen Detox Tea and Besunyen Slimming Tea products demonstrate the success of our marketing and advertising campaigns. Our current marketing strategy focuses on associating our brand with a healthy lifestyle and with the health benefits of Chinese medicinal herbal products. Used for centuries in traditional Chinese medicines, Chinese medicinal herbs are widely recognized by Chinese as effective in relieving many mild chronic or recurring health problems, such as gastro-intestinal problems, excess body fat, eyestrain and mild hypertension, and are often favored as safer alternatives to western medicines with fewer side effects. We market our products through a wide range of targeted advertising activities, including television and other media advertisements and sponsorships of television shows and competitions. We also retain outside marketing firms to assist us in developing our overall marketing and advertising strategies and innovative marketing concepts and ideas. We conduct both national and regional advertising campaigns to maintain the consistency of our brand image while also targeting specific regional demographic trends and consumer preferences. We also regularly conduct product promotion campaigns to increase our brand and product awareness.

Extensive nationwide distribution network

Our nationwide network of distributors serves as a powerful platform for expanding the sales and reach of our current and future products. We have expanded our distribution network significantly in recent years in line with our overall marketing strategy. Our network of distributors operating in geographic markets covered by our on-the-ground local sales teams has grown from 151 distributors in four provinces and centrally administered municipalities in China as of December 31, 2007 to 409 distributors in 30 provinces and centrally administered municipalities as of June 30, 2010. Through this network, our products are sold in over 100,000 retail outlets across China. To strengthen our control over our distribution channels, improve the efficiency of distribution, ensure quality control and maximize our profit margin, we operate a "flat" distribution system in which there is generally only one layer, or at most two layers, of distributors between our company and the retail outlet.

Our on-the ground sales teams, consisting of approximately 1,260 full-time employees throughout our 81 sales offices across China as of June 30, 2010, develop and manage our distribution network. They maintain frequent communication with our distributors and retail outlets, which allows us to receive prompt market feedback to more quickly respond to local market demands and preferences. In addition, we have successfully expanded our distribution channels from retail pharmacies into supermarkets and convenience stores, with a particular focus on large chains, including Watsons and Wal-Mart.

Strong pipeline of SFDA-approved products and product development capabilities

We currently have a strong pipeline of SFDA-approved products and product candidates that we plan to launch over the next several years in accordance with market demands and conditions. These products include MaiShuPing Tea, our first OTC tea, which has been approved by the SFDA as an OTC drug that can lower or stabilize blood pressure. Our product pipeline also includes four SFDA-approved health food products designed to improve sleep, lower blood sugar, lower blood lipid levels and protect the liver against toxicity, respectively. We currently plan to launch our Besunyen MaiShuPing Tea some time after June 2011[(3)] and our four SFDA-approved health food products, all of which will be sold under our 碧生源 (Besunyen) brand on a product-by-product basis, starting in late 2010. We also have three other therapeutic tea product candidates which are in the process of preparing to apply for SFDA approval, including products designed to alleviate physical fatigue and assist in improving memory, improve skin condition, and alleviate sore throat.

We have recently enhanced our research and development capabilities through the acquisition of Jian Shi Xing, a Shanghai-based company with a research and development team. This research team, led by Dr. Cai Ya, has extensive experience in the development of health food products for multi-national corporations, such as Unilever, including products sold under the Lipton brand. Dr. Cai is a well-known specialist in tea and Chinese medicinal herbs and had worked as the head of the China Research Center of Unilever for six years before he started his own business in 2007. We have been working with this research team for more than a year and jointly developed our VS herbal tea series with them. Combined with our strong existing product pipeline, our newly enhanced product development capabilities will add to our current competitive advantages.

Proven vertically integrated operating model

We employ a vertically integrated operating model in which we directly control key aspects of the value chain, including product development, manufacturing, sales and marketing. Our direct control over these key

(3) Due to the revocation of approvals for three advertisements with respect to MaiShuPing Tea by Guangdong SFDA on June 28, 2010, we are not permitted to advertise our Besunyen MaiShuPing Tea until June 28, 2011.

aspects of our operations gives us better control over our brand image and the quality of our products. Our vertically integrated operating model also helps us to react quickly to market trends and changes. Our in-house sales and marketing staff control our advertising and promotional activities and train and monitor our distributors, allowing us to maintain consistency of our brand message and make timely adjustments to our marketing efforts. All of our marketed products are manufactured in our GMP-compliant and ISO9001:2000 certified manufacturing facility. Our in-house manufacturing operations allow us to maintain strict quality control standards throughout the production process to ensure high quality of our products. Our sales team works closely with our product development, manufacturing and marketing teams to quickly incorporate feedback from our distributors, retail outlets and end customers into our product development and sales and advertising programs.

Experienced management team with strong track record of effective leadership and execution

Our senior management team has extensive experience, with most of them having been in the consumer or health food product industry for over 15 years. Mr. Zhao Yihong, our founder, Chairman and Chief Executive Officer, has nearly 20 years of experience in business management and sales of consumer products. Mr. Mou Wenjun, our Vice President in charge of sales, has been with our sales team since 2001 and was promoted to be responsible for our sales and distribution network since 2007. Ms. Lu Ku Yueh-yueh, our Vice President in charge of marketing, previously worked at Unilever and Smithkline Beecham Pharmaceuticals and has more than 25 years experience in consumer and health food product marketing. Mr. Liu Xiong, our Vice President in charge of media buying, has 15 years of marketing and advertising experience relating to the health food product business. Mr. Allen Chien Kun, our Chief Financial Officer, has 17 years of experience in the fields of investment banking, finance and corporate financial management in Asia, including acting as chief financial officer and independent director of companies listed on the Stock Exchange of Hong Kong and the New York Stock Exchange. Mr. Yu Hongjiang, our Vice President in charge of internal control, is a PRC certified public accountant and has over 20 years of experience in the field of finance. Furthermore, other members of our senior management team have significant experience with respect to other key areas of our operations, including human resources, financial management, advertising and logistics. The addition in May 2010 of Dr. Cai, our Vice President in charge of research and development who works closely with our other senior management, has further enhanced the depth and quality of our senior management team.

Our management team has a strong proven track record of delivering consistent growth and profitability. We believe that our senior management possesses the leadership and vision required to anticipate changes in consumer preferences and develop new products, which has played and will continue to play a key role in the success of our business.

OUR STRATEGIES

We aim to become the dominant player in China's overall therapeutic tea market. We intend to increase our customer base by promoting a healthy lifestyle and helping educate the public regarding the benefits of therapeutic teas. Our goal is to build our brand as a leading household brand name associated with effective, safe, affordable and convenient-to-use alternatives to western medicines for people with mild chronic or recurring health problems as well as those seeking to maintain a healthy body and lifestyle. We intend to achieve these objectives by pursuing the following strategies:

Continue to expand our market share to further strengthen our leading position in the therapeutic tea market

As a leading therapeutic tea brand in China, we are well positioned to take advantage of the expected rapid growth of China's therapeutic tea market. We will continue to leverage our strong brand name and nationwide distribution and sales network to grow the market share of our existing products. We also plan to expand our customer base and strengthen our market-leading position by introducing new products under our

碧生源 (Besunyen) brand. We commenced our strategic expansion into new geographic markets in 2007. By the end of 2008, we had entered into all first-tier cities in China, namely, Beijing, Shanghai, Guangzhou and Shenzhen. We will continue our efforts to expand into new markets and believe we will be able to replicate our successful business and marketing model in each of the new markets, especially in second- or third-tier cities. We seek to increase our sales volume and market share in our mature markets through expanding our distributor network and increasing our marketing and promotional activities locally. For example, we intend to actively manage our distribution network, constantly review the performance of each of our distributors for potential improvement and timely adjust our marketing strategies. We also intend to launch new products to address new and different market segments and enhance our overall market share in the therapeutic tea market. Our acquisition of Zhuhai Qi Jia and its OTC tea product, which we will market as Besunyen MaiShuPing Tea, enables us to expand into the OTC drug market. We will consider expanding into selected international markets when appropriate.

Enhance our brand recognition through effective and targeted marketing

We will continue to maintain and promote our 碧生源 (Besunyen) brand with the goal of establishing it as the leading household brand recognized for effective, safe and affordable therapeutic tea products in China. Our marketing strategy includes promoting ourselves as therapeutic tea experts and closely associating our brand with a healthy lifestyle. We plan to focus on marketing efforts at large supermarket and convenience store chains. We also plan to expand and enhance our television marketing efforts, which have historically focused on local TV networks, by increasingly advertising via satellite TV networks and Internet media that have broader geographic coverage. In addition to our current relationships with 12 satellite TV networks with national coverage, we plan to establish relationships with other major TV networks and media outlets to further strengthen our 碧生源 (Besunyen) brand awareness, including event-specific marketing such as our recent sponsorship of the Shanghai Expo Miss Etiquette Contest and the "New Silk Road Model Contest" in Guangdong Province. We also plan to expand our advertising coverage by increasing our investment in online advertisements. Our dedicated marketing and media buying team will continue to work closely with our distributors and retail outlets to design and carry out effective and targeted marketing campaigns and promotional activities. To better serve our newly developed markets, we plan to establish a regional headquarter in Shanghai which, among others, will have on-the-ground marketing and sales team to design and coordinate our marketing activities targeting the east China market. We are also working with an external consulting firm to develop strategies to build our corporate brand.

Further develop and expand our extensive distribution network

Our extensive national distribution network is essential to the success of our business. We will continue to develop and expand our existing distribution network by increasing the number of distributors and retail outlets, particularly by expanding into new geographic markets where we believe there is significant market demand for our products. We focus on expanding our distribution network by adding additional retail channels, in particular large supermarket and convenience store chains. We intend to explore additional distribution platforms. We also engaged an external company to assist us in building our e-commerce sales platform, which we expect to launch in the second half of 2010. Concurrently with the expansion of our distribution network, our sales staff will closely monitor our distributors' and retailers' performance and market acceptance of our products to enhance the effectiveness of our distribution network and marketing efforts. Through promotion of our products and the health benefits of therapeutic teas, we believe we can contribute to the growth in overall demand for therapeutic teas, thus enhancing our own market opportunities.

Expand our product portfolio and strengthen our research and development capabilities

We plan to grow our product portfolio as market recognition of and demand for therapeutic tea products continue to grow. We currently offer products in two of the 27 SFDA-regulated categories of health foods and are expanding our product line to cover additional categories. Our strong product pipeline, including four product candidates that have been approved by the SFDA and three product candidates that we are in the process of preparing to apply for SFDA approval, enables us to continue to diversify our product portfolio by introducing new or improved products under optimal market timing and conditions. We also plan to expand into the OTC tea market with the launch of our recently acquired blood pressure reduction tea, Besunyen MaiShuPing Tea, some time after June 2011 taking into account market and business considerations[4]. At the same time, we will explore strategic acquisition opportunities to acquire new products where appropriate.

We believe that our long-term success and growth will largely depend on our ability to upgrade our existing products and develop new products that meet consumer expectations. We intend to devote significant resources to our recently enhanced in-house research and development capabilities, including building a new regional headquarter in Shanghai where our newly-acquired research and product development team will be based. Our in-house research and product development team will work closely with our marketing and sales team and focus on developing a strong pipeline of therapeutic tea products. In addition, we will strengthen our cooperation with hospitals, universities and other research institutes to explore new product candidates and concepts.

Attract, retain and motivate talented personnel

We believe that the successful implementation of our business and growth strategies depends upon our ability to attract and retain experienced, motivated and well-trained employees at all levels. We plan to attract, retain and develop talented individuals in the industry by providing competitive remuneration packages and extensive and targeted training programs to our employees. In addition, we focus on creating an enjoyable working environment by promoting a corporate culture of diligence, integrity, creativity and open communications among our management and employees. As the leader in China's therapeutic tea market with strong growth potential and a widely recognized brand, we believe we can attract exceptional candidates with expertise in China's health food product industry. We will continue to offer our employees a range of incentives tied with our company's performance, including bonuses and share-based incentives, to foster loyalty among our employees and to better align our employees' interests with ours. We also intend to maintain a merit-based compensation and promotion system to retain and motivate employees.

[4] *Due to the revocation of approvals for three advertisements with respect to MaiShuPing Tea by Guangdong SFDA on June 28, 2010, we are not permitted to advertise our Besunyen MaiShuPing Tea until June 28, 2011.*

OUR PRODUCTS

We produce and sell a range of therapeutic tea products. Our two best selling therapeutic teas are Besunyen Detox Tea and Besunyen Slimming Tea. In March 2010, these two products were both selected by the China Health Care Association as among the "Most Trustworthy Health Food Products" in China. We also sell a series of functional and regular teas under the VS (唯尚) brand, which we launched in the first quarter of 2010. All of our teas, with the exception of our VS flavored milk teas, are sold in convenient-to-use tea-bag form. The following table shows turnover for our products for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2007		2008		2009		2009		2010	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000 (unaudited)	% of total	RMB'000	% of total
Turnover contributed from:										
Besunyen Detox Tea	102,545	62.9%	222,187	62.0%	373,135	57.7%	122,509	54.8%	178,173	48.3%
Besunyen Slimming Tea	38,985	23.9%	121,913	34.0%	265,706	41.1%	96,161	43.0%	187,493	50.9%
Other Products[(1)]	21,570	13.2%	14,131	4.0%	7,694	1.2%	5,009	2.2%	3,018	0.8%
Total	163,100	100.0%	358,231	100.0%	646,535	100.0%	223,679	100.0%	368,684	100.0%

[(1)] *Includes our discontinued products and, for the six months ended June 30, 2010, our other 碧生源 (Besunyen) non-health food products and VS Series products.*

Besunyen Detox Tea (碧生源常潤茶)

Our Besunyen Detox Tea is a therapeutic tea designed to improve gastro-intestinal function and relieve constipation and related symptoms. It was approved as a health food product (保健品) by the SFDA in 1997. We have been producing and selling Besunyen Detox Tea since 2001.

Besunyen Detox Tea is made from our proprietary formula comprising green tea and Chinese medicinal herbs, including wild tuckahoe (土茯苓), adenophora stricta (沙參), Chinese yam rhizome (淮山藥), cassia (草決明), and senna (番瀉葉). We commissioned Beijing Dongzhimen Hospital, a leading Chinese hospital specializing in the study of traditional Chinese medicine, for a fee of RMB60,000, to conduct a clinical study to evaluate the efficacy and safety of Besunyen Detox Tea in 2009. This randomized, double-blind, single site, two-week clinical study enrolled 120 people aged between 18 and 65 years having difficult bowel movements not caused by organic disease. The results of such clinical study showed that Besunyen Detox Tea relieves constipation and promotes healthy bowel movements with no significant side effects. Moreover, Besunyen Detox

Tea can help relieve other symptoms associated with constipation, including bloating and fatigue. Recommended consumption is one tea bag once daily, to be taken after a meal and while still warm.

Besunyen Detox Tea is sold in boxes of 25 tea bags each, 2.5 grams of tea per bag. During the Track Record Period our Besunyen Detox Tea was primarily sold in packages containing two ten-bag boxes and one five-bag box, with the five-bag box marketed as a free product giveaway. The recommended retail price per 25-bag box is RMB59.80. Besunyen Detox Tea has a shelf life of 18 months.

Besunyen Slimming Tea (碧生源减肥茶)

We began selling our Besunyen Slimming Tea in 2004 following its approval by the SFDA as a health food product which can induce weight loss. Besunyen Slimming Tea is targeted primarily at young women as a supplement to a healthy lifestyle in maintaining a slim figure or losing weight caused by excessive caloric intake.

Besunyen Slimming Tea is made from our proprietary formula comprising green tea, honey and Chinese medicinal herbs, including honeysuckle (金銀花), cassia seed (決明子), lotus leaf (荷葉), hawthorn (山楂), senna (番瀉葉) and fiveleaf gynostemma herb (絞股藍). The effective ingredients include tea polyphenols and flavones, which have been shown to have a slimming function. We recommend consumers to take this product twice daily, up to four tea bags per day, to be taken after meal and while still warm. We acquired Besunyen Slimming Tea from Beijing Ruipule, a company controlled by Mr. Zhao Yihong, for a one-time transfer fee of RMB10,000 in 2004 after the SFDA approved this product as a health food product. According to the clinical study conducted in 2003 in connection with the SFDA approval application, the 32 persons who had simple obesity and been drinking four bags of Besunyen Slimming Tea for 30 consecutive days experienced weight loss and no obvious damage to their health. We believe the clinical study's results are sufficient and no further clinical study is necessary for this product.

Besunyen Slimming Tea is sold in boxes of 25 tea bags each, 2.5 grams of tea per bag. Prior to producing our Besunyen Slimming Tea using our IMA C24 packaging machines (which produce 25-bag boxes) in 2009, our Besunyen Slimming Tea was primarily sold in packages containing one twenty-bag box and one ten-bag box, with the ten-bag box marketed as a free product giveaway. The recommended retail price per 25-bag box is RMB39.80. Besunyen Slimming Tea has a shelf life of 20 months.

Other Products

Other 碧生源 (Besunyen) Products

We started selling Besunyen QingYin Tea (碧生源清音茶) and Besunyen MingShi Tea (碧生源明視茶) in January 2010 primarily in supermarkets and large chain stores. These two products are comprised of green tea and traditional Chinese medicinal herbs and are designed to relieve sore throat and ameliorate eyestrain, respectively. As these products are not health food products, we do not need product-specific SFDA approval for the production and sales of these products. As of September 9, 2010, the turnover from these two products was insignificant, amounting to less than 0.5% of our total turnover in the six months ended June 30, 2010.

VS Series (唯尚系列) Teas

We launched nine products in three categories under the VS (唯尚) brand in the first quarter of 2010, targeting young consumers including students and white-collar workers. Products in our VS Series are made primarily from tea with a focus on their respective healthy ingredients and pleasant taste. As these teas have lower levels of herbal ingredients, we do not need product-specific SFDA approval for production and sales of our VS Series products. The launch of this product series reflects our efforts to leverage upon our success in the therapeutic tea product market and broaden our product mix.

The VS Series consists of three categories: herbal tea, flavored milk tea and original tea. Our VS Series herbal teas include YangSheng Tea (養聲茶), MingShi Tea (明視茶) and Brown Rice Tea (玄米茶), each of which is beneficial to health. Our VS Series herbal teas are sold in boxes of 20 bags each. The recommended retail price per 20-bag box is RMB23.00 for YangSheng Tea and MingShi Tea and RMB21.00 for Brown Rice Tea.

Our VS flavored milk teas include Jasmine Latte (茉莉拿鐵), Matcha Latte (抹茶拿鐵) and Coffee Milk Tea (鴛鴦拿鐵). Jasmine Latte is made with high quality milk powder imported from Australia and jasmine tea powder. Matcha Latte is made with high quality milk powder imported from Australia and green tea powder. Coffee Milk Tea is made with high quality milk powder imported from New Zealand, coffee and red tea powder. Our flavored milk tea products are not tea bags, but powder packaged into individual bags. The powder can dissolve entirely in hot water to make drinkable liquid. Our VS Series flavored milk teas are sold in boxes of 10 bags each. The recommended retail price per 10-bag box is RMB26.00 for Matcha Latte and Coffee Milk Tea and RMB30.00 for Jasmine Latte.

Our VS original teas include a selection of famous tea types in China, including Huangshan Mao Feng (黃山毛峰), Tie Guan Yin (鐵觀音) and Jasmine Ball (茉莉龍珠) tea. We select high quality and organic tea to make these products. We package them into transparent pyramid-shaped tea bags to provide consumers a unique preparation and drinking experience. Our VS Series original teas are sold in boxes of 10 bags each. The recommended retail price per 10-bag box is RMB23.00.

As of September 9, 2010, we were selling our VS Series products primarily online through third-party websites such as taobao.com (淘寶網) and had not involved and had no intention to involve any distributors other than business to consumers e-commerce websites for the sale of our VS Series products.

Discontinued Products

During the Track Record Period we produced and sold additional therapeutic tea products, including primarily A-Shen Kang Li Yuan Slimming Tea (阿申牌康麗源減肥茶), Rui De Meng Slimming Tea (瑞德夢減肥茶), Rui Meng BaiCao Slimming Tea (瑞夢牌百草減肥茶) and Besunyen Chang Qing Shuang Detox Tea (碧生源腸清爽茶). These products were not marketed and sold under our 碧生源 (Besunyen) brand. The aggregate turnover from these discontinued products was RMB21.6 million, RMB14.1 million, RMB7.7 million and RMB0.8 million in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively, accounting for 13.2%, 4.0%, 1.2% and 0.2% of our total turnover in the same periods. The production of BaiCao Slimming Tea and Besunyen Chang Qing Shuang Detox Tea was discontinued in 2007. We discontinued producing A-Shen Kang Li Yuan Slimming Tea and Rui De Meng Slimming Tea in March 2010 as we have decided to focus on promoting the major products under our core 碧生源 (Besunyen) brand products.

OUR PRODUCT PIPELINE

We are continuously developing new products to meet consumer needs. Our current pipeline of products includes products for which we have obtained SFDA approval as well as product candidates that we are in the process of preparing to apply for SFDA approval. Our current product pipeline includes MaiShuPing Tea, an OTC tea, as well as a number of therapeutic tea products.

Besunyen MaiShuPing Tea (碧生源脈舒平袋泡茶)

In 2010, we acquired Zhuhai Qi Jia, the manufacturer of "MaiShuPing Tea," which we plan to market as Besunyen MaiShuPing Tea. This product has been approved by the SFDA as an OTC drug that can lower or stabilize blood pressure.

The major ingredients of MaiShuPing Tea are dogbane (羅布麻), uncaria (鉤藤), abalone shell (石決明), eucommia bark (杜仲), achyranthes root (懷牛膝) and green tea. Its formula, which was developed by Zhuhai Qi Jia, is derived from an ancient Chinese traditional formula. This product is intended for people who have mild hypertension or whose blood pressure is consistently higher than normal but whose symptoms are not serious enough to warrant a high blood pressure diagnosis. It can also relieve symptoms associated with hypertension, such as headache, dizziness, anxiety and insomnia.

We currently expect to launch Besunyen MaiShuPing Tea some time after June 2011 taking into account market and business considerations. As an OTC drug, it may only be sold in pharmacies. As a majority of our current distributors specialize in distribution channel of retail pharmacies and more than 95% of our retail outlets are retail pharmacies, we believe our current distribution network provides a ready platform for the launch of Besunyen MaiShuPing Tea and grants easy access to the market. We plan to start producing MaiShuPing Tea at our Fangshan facility after we complete the construction of a new production line and after the transfer of the drug manufacturing license from Zhuhai Qi Jia to our Fangshan facility, which we expect to occur by the end of 2010. Pursuant to applicable PRC laws and regulations, we are not permitted to advertise MaiShuPing Tea until June 28, 2011 because, on June 28, 2010, Guangdong SFDA revoked the approvals for three advertisements with respect to MaiShuPing Tea created in 2009 on the basis that advertisements for MaiShuPing Tea, the production of which we were not involved in, were misleading and improperly claimed the effect of MaiShuPing Tea. We have asked Zhuhai Qi Jia to stop producing or publishing any advertisement with respect to MaiShuPing Tea and plan to apply to obtain SFDA approvals for new advertisements for MaiShuPing Tea after June 28, 2011.

SFDA-Approved Health Food Product Candidates

We have four SFDA-approved health food products that we intend to launch in the near future. One of these four products is a therapeutic tea product designed to protect the liver against toxicity. The other three products are not tea-based and designed to improve sleep, lower blood sugar and lower blood lipid levels, respectively. Each of these products has been approved as a health food product by the SFDA in relation to its intended function. We have not yet launched these products in order to focus on promoting our existing products, but we intend to launch these products in late 2010, when we deem the market conditions favorable. To the extent applicable, we plan to renew the respective SFDA approval for our products within three months prior to the relevant expiration date, as required by the applicable laws and regulations. We plan to sell all of these products under our 碧生源 (Besunyen) brand.

The following table sets forth the years in which the SFDA approved each of our health food and therapeutic tea product candidates as a health food product.

Name of the product	Approved health benefits	Year of SFDA approval
Besunyen Mei An Granule	Sleep improvement and reducing skin age spots	2005
Besunyen Shan Ge Granule	Assisting in lowering blood sugar level	2007
Besunyen Qing Zhi Yin	Assisting in lowering blood lipid level	2005
Besunyen Ganoderma Wolfberry Tea	Subsidiary protection of liver against toxicity	2006

We acquired the formulae of Besunyen Mei An Granule, Besunyen Qing Zhi Yin and Besunyen Shan Ge Granule in 2003 from an independent third party for an aggregate one-time transfer fee of RMB200,000. After the transfer, we obtained the SFDA approval for these product candidates. In 2006, we acquired the formula of Besunyen Ganoderma Wolfberry Tea from the same independent third party for a one-time transfer fee of RMB350,000. Gandomerma Wofeberry Tea was approved by the SFDA as a health food product prior to the transfer. We decided to acquire these products because we are optimistic of the potential growth of the markets these products target at. The transfer prices were determined based on the development cost of these products and, for Besunyen Ganoderma Wolfberry Tea, the expenses incurred in connection with the SFDA approval application process.

Product Candidates Pending SFDA Approval

We also have three other therapeutic tea product candidates for which we are preparing to apply to the SFDA for approval as health food products. These three product candidates include products designed to alleviate physical fatigue and assist in improving memory, improve skin condition and alleviate sore throat. We plan to launch these products over the next several years in accordance with market conditions under our 碧生源 (Besunyen) brand if and when approved by the SFDA. In July 2010, we submitted the product candidate designed to alleviate physical fatigue and assist in improving memory to Shanghai Disease Control Center (上海疾病控制中心), an SFDA-authorized testing institution, to conduct testing on this product's effectiveness and safety.

APPROVALS AND PERMITS

We operate in the health food industry, and we are planning to expand into OTC tea market, both of which are heavily regulated by the PRC Government. We have adopted various measures to comply with applicable laws, regulations and procedures, and we intend to conduct our operations in accordance with any future laws, regulations and procedures issued by the PRC Government to regulate the health food industry that are applicable to us once they become effective. The following table sets forth the major approvals and permits possessed by us on our products and manufacturing facilities, including their respective expiry dates.

Permit/Approval	Grant Date	Expiry Date
Hygiene Permit[(1)]	June 17, 2010	June 16, 2014
ISO 9001 Certificate	October 11, 2002	October 7, 2011
Pharmaceutical Manufacturing Permit	January 1, 2006	December 31, 2010
National Industry Product Manufacturing Permit	August 12, 2009	August 11, 2012
Registration Certificate for Food Export Manufacturing Enterprise	July 3, 2009	July 2, 2012
Food Circulation Permit	March 4, 2010	March 3, 2013
Pharmaceutical GMP certificate	April 30, 2010	April 29, 2015
SFDA Approval		
Besunyen Detox Tea[(2)]	November 14, 1997	N/A[(3)]
Besunyen Slimming Tea[(2)]	April 15, 2004	N/A[(3)]
MaiShuPing Tea (脈舒平袋泡茶)	November 18, 2002	N/A[(4)]
Besunyen Ganoderma Wolfberry Tea (碧生源牌靈芝枸杞茶)[(2)]	July 4, 2006	July 3, 2011
Besunyen Mei An Granule (碧生源牌美安顆粒)	April 22, 2005	N/A[(3)]
Besunyen Qing Zhi Yin (碧生源牌清之飲沖劑)	January 24, 2005	N/A[(3)]
Besunyen Shan Ge Granule (碧生源牌山葛顆粒)	May 11, 2007	May 10, 2012
Besunyen Rui De Meng Slimming Tea (碧生源牌瑞德夢減肥茶)	June 8, 2006	June 7, 2011
A-Shen Kang Li Yuan Slimming Tea (阿申牌康麗源減肥袋泡茶)[(2)]	February 13, 2003	N/A[(3)]
Besunyen Chang Qing Shuang Detox Tea (碧生源牌腸清爽茶)[(2)]	September 3, 1999	N/A[(3)]
Rui Meng BaiCao Slimming Tea (瑞夢牌百草減肥茶)[(2)]	October 12, 1998	N/A[(3)]

(1) There is no separately issued GMP certificate for production of health food products. GMP compliance is one of the pre-conditions to issue a hygiene permit for health food products.

(2) The grant date for the product was the date on which the SFDA approval was initially granted. Such approval was transferred to us subsequently in connection with the transfer of the product to us.

(3) SFDA approval certificates granted prior to July 1, 2005 bear no expiry date. The SFDA will commence the replacement work of all certificates granted prior to July 1, 2005 after the promulgation of The Regulations for the Supervision and Administration of Health Food (保健食品監督管理條例), the promulgation date of which is yet to be determined, and the SFDA will allow reasonably sufficient time for the relevant enterprises to replace their respective certificate.

(4) SFDA approval for pharmaceutical products bears a five year term, but approvals for pharmaceutical products, whose re-registration application is accepted by the SFDA, can continue to be used during the re-registration period. The re-registration application of Maishuping Tea was accepted by Guangdong SFDA on July 18, 2008.

DISTRIBUTION AND SALES

Nationwide Distribution Network

During the Track Record Period, we have sold more than 99.5% of our products through distributors and sub-distributors in China. Our distributors sell our products directly to retail outlets or through sub-distributors. In line with our penetration in existing markets and expansion into new markets, our network of distributors that operated in geographic markets covered by our on-the-ground local sales team has grown from 151 distributors covering four provinces and centrally administered municipalities as of December 31, 2007 to 336 distributors covering 15 provinces and centrally administered municipalities as of December 31, 2008, 409 distributors covering 25 provinces and centrally administered municipalities as of December 31, 2009, and 409 distributors covering 30 provinces and centrally administered municipalities as of June 30, 2010. We have established on-the-ground sales teams, consisting of approximately 1,260 full-time employees in our 81 sales offices across China as of June 30, 2010, that interact closely with and monitor our distributors and retail outlets to ensure consistency and quality in our sales and brand-building activities and that our marketing efforts are tailored to local preferences. We also hire part-time or temporary staff to conduct some of our sales and promotional activities. During the Track Record Period, a small portion of our products were sold via our distributors in markets which our local sales teams did not yet cover. The following map shows our market presence in each province and centrally administered municipality as of June 30, 2010.

(1) Defined as number of years for which our local sales teams have covered the market, as of June 30, 2010.

We select our distributors based on a range of factors which we consider important for the operation of our distribution network, including their market coverage, quality of retailers, distribution capabilities and reputation. To strengthen our control over distribution channels, improve the efficiency of distribution, ensure quality control and maximize our profit margin, we operate a "flat" distribution system in which there is generally only one layer, or at most two layers, of distributors between our company and the retail outlet. Our distributors are primarily companies specializing in distribution of pharmaceutical and health products. Generally, distributors specialize in a particular retail outlet type, such as pharmacies, supermarkets or convenience stores. Certain of our distributors are affiliates of each other that cover different geographic areas in China. However, we usually negotiate and enter into contracts with each affiliate on an individual basis. All of our distributors and, to our knowledge, sub-distirbutors are independent third parties.

Our increased brand recognition and the underlying strong consumer demand for our products have enabled us to accelerate our expansion and penetration into new regional markets. In 2007, our distribution, marketing and sales activities were concentrated in three provinces, Guangdong, Shaanxi and Hubei, as well as Beijing Municipality. We entered into 10 provinces and Shanghai in 2008 and expanded into an additional eight provinces and Tianjin and Chongqing in 2009. Since the beginning of 2010, we have expanded into another five provinces to cover all provinces and centrally administered municipalities across China, excluding Tibet. We have also expanded our presence in supermarkets and convenience stores, in particular large chains such as Wal-Mart and Watsons. We have entered into annual distribution agreements with the designated distributor of Watsons since 2007. We have also entered into distribution agreements with the designated distributor of Wal-Mart which started selling our products in Wal-Mart stores across China in August 2009.

Turnover attributable to our five largest distributors accounted for 34.7%, 27.2%, 13.7% and 12.8% of our total turnover in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively, and turnover attributable by our largest distributor accounted for 22.1%, 10.8%, 3.9% and 3.0%, respectively, of our total turnover for the same periods. None of our Directors or their associates has any interest in any of our five largest distributors.

To better control our distribution channels, in 2009 we started entering into three-party distribution agreements with certain sub-distributors where the sub-distributors purchase our products from designated distributors. Sub-distributors may get extra discounts by entering into three-party agreements and achieving the sales targets provided under the three-party agreements. We have increased the number of sub-distributors with which we have entered into three-party distribution agreements from five as of December 31, 2009 to 97 as of June 30, 2010 as three-party distribution agreements allow us to better control distribution channels and monitor the performance of sub-distributors. Turnover attributable to such sub-distributors accounted for less than 0.5% of our total turnover in 2009 and 5.6% of our total turnover for the six months ended June 30, 2010.

Agreements with Distributors and Sub-Distributors

We typically negotiate and enter into distribution agreements, including three-party distribution agreement, with our distributors on an annual basis. Our distribution agreements are designed to provide incentives for our distributors to improve their sales performance and promote our brand.

Our distribution agreements typically set minimum annual sales targets which are determined case-by-case based on the distributor's or sub-distributor's geographic territory, scale of distribution network, sales volume achieved by such distributor or sub-distributor in previous years and sales of comparable competing products within its territory. In addition, we selectively provide incentive sales targets under the distribution agreements with distributors covering relatively new regions which allow for improved discounts and/or rebates if the incentive sales targets are achieved. We did not pay any rebates to our distributors in 2007 and 2008. In 2009 and the six months ended June 30, 2010, we paid rebates of RMB0.4 million and RMB7.3 million, respectively, to distributors, with the increase in 2010 primarily due to higher rebate rate we provided to motivate our distributors. In 2010, we adjusted the methods to provide stepped marginal rebate rates, under which the annual rebate paid to our distributors is adjusted on a graduated scale based on the amount purchased by such distributor. We adopted this rebate mechanism to better motivate our distributors even if they do not meet the full annual incentive sales target because they can expect a better rebate rate as their sales increase within the period of the distribution agreement. Under this mechanism all distributors receive a minimum rebate. If a distributor or a sub-distributor with which we have entered into a three-party agreement has not completed 60% of the minimum sales target by the end of the eighth month, however, we can terminate the distribution agreement immediately. We can also terminate distribution agreements immediately if distributors or sub-distributors have not placed any order for our products in any consecutive 30-day period. The distribution agreements usually do not have initial purchase amount requirements for our distributors or sub-distributors, but have minimum purchase amounts for each order placed with us. Our distribution agreements typically specify a price range within which a distributor may sell our products to a sub-distributor or retail outlets. We do not require our distributors to pay deposits.

Distributors and sub-distributors with which we have three-party distribution agreements are not allowed to sell the products outside of the geographic territory or channel designated in the distribution agreement. However, we usually do not restrict our distributors from selling competing products as we believe consumer demands should be the driving force for our distributors' product requirements. In addition, we require that our brand name is always used together with our product name to promote our brand awareness. We do not enter into exclusive distribution agreements for a specific geographic area.

Our distributors have the right to return any defective products to us at our cost if the defects are not caused by them. We also offer return or replacement of our products for our distributors if the return or replacement request is received no less than nine months before the product's expiry date. During the Track Record Period, product returns and replacement had no material impact on our business, financial condition and results of operations. We had no sales returns in 2007, 2008 and 2009. In the six months ended June 30, 2010, we recorded an amount of RMB154,000 of sales return, primarily due to damaged packaging and returns of products that we have discontinued producing, including A-Shen Kang Li Yuan Slimming Tea and Rui De Meng Slimming Tea. We recognize sales as turnover upon confirmation of receipt of the product by the distributor, at which time title has passed to the distributor, with turnover for a given financial period representing the invoiced value of the products sold less returns, discounts rebates and value-added tax. We are not aware of any material accumulation of stock of our products by our distributors or sub-distributors during the Track Record Period and up to September 9, 2010.

Retail Outlets

Nationwide our products are sold in over 100,000 retail outlets, more than 95% of which are retail pharmacies. Nearly all of our distributors sold our products in retail pharmacies during the Track Record Period. Therefore we believe the substantial majority of the turnover of our products were generated from sales at retail pharmacies. We have also expanded our presence in supermarkets and convenience stores, with a particular focus on large chains, such as Watsons and Wal-Mart. We typically sell our products to large chain stores through the designated distributor of that chain store.

Some of our distributors, such as China Nepstar Chain Drugstore Ltd. (中國海王星辰連鎖藥店股份有限公司) and Beijing Tongrentang Commercial Investment and Development Co., Ltd. (北京同仁堂商業投資發展有限責任公司), own and operate retail outlets through which they can sell our products to consumers.

Management of Distribution Network and Retail Outlets

Our dedicated sales team develops and manages our distribution network and retail outlets. We have approximately 40 sales staff at our headquarters in Fangshan District, Beijing who are responsible for overall sales policy formulation, planning and oversight of sales operations, approving distribution agreements and coordinating the sales efforts among different regions. Our on-the-ground sales teams, including our part-time or temporary staff, conduct sales and promotional activities and interact closely with and monitor our distributors and retail outlets to ensure consistency and quality in our sales and brand-building and that our marketing efforts are tailored to local needs.

We constantly review the performance of our distributors and sub-distributors and their compliance with the terms of our agreements. We request our distributors and sub-distributors with which we have entered into three-party agreements to compile monthly sales information, which contain names of retail outlets or sub-distributors they sell our products to and the quantity and prices of our products being sold to each retail outlet or sub-distributor. Our sales personnel conduct regular scheduled and unscheduled site visits, generally on a weekly basis for distributors and a monthly basis for sub-distributors, to inspect our distributors' and sub-distributors' inventory to make sure sales information provided by our distributors are accurate. We also evaluate the orders placed by our distributors during any price-adjustment period to ensure that orders from our distributors are consistent with their past demands to avoid any excessive accumulation of inventory at our distributors. Although we usually do not enter into agreements with retail outlets directly, our sales personnel also conduct regular scheduled and unscheduled site visits, usually once or twice a month, to substantially all of our retail outlets to inspect their inventory, help them to set up shelf space, provide necessary training on our products and monitor sales activities at retail outlets. We are not aware of any material inventory accumulation at our distributors, sub-distributors and retail outlets during the Track Record Period and up to September 9, 2010. By maintaining frequent communication with our distributors and retail outlets and monitoring their performance, our sales personnel can have first-hand market and consumer information, which allows us to receive market feedback to respond more quickly to local market demands.

We normally do not renew the distribution agreements with our distributors who sell our products outside the designated geographic territories or have otherwise materially breached the distribution agreements. During the Track Record Period, we terminated one distribution agreement prior to its expiry date due to its repeatedly selling our products outside the designated geographic territories. Such termination had no material impact on our business. During the Track Record Period, there were no breaches of our distribution agreements that had a material impact on our business. The table below sets forth the movement of the number of our distributors during the Track Record Period.

	Number of distributors as of the beginning of the period[(1)]	Number of distributors as of the end of the period[(2)]	Number of sub-distributors with whom we have entered into three-party agreements as of the beginning of the period[(3)]	Number of sub-distributors with whom we have entered into three-party agreements as of the end of the period[(4)]
2007	94	151	0	0
2008	151	336	0	0
2009	336	409	0	5
Six months ended June 30, 2010	409	409	5	97

(1) *Of which, 13, 35, 58 and 63 distributors ceased to be actively engaged in the distribution of our products due to their unsatisfactory performance, difficult relationship with us and/or limited financial condition in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively, and were not counted in the number of our distributors at the end of the applicable period. In 2008, we also terminated one distributor for its repeatedly selling our products outside the designated geographic territories. We are not aware of any material inventory accumulation at these distributors.*

(2) *Of which, 70, 221, 131 and 63 distributors were new distributors added to our network of distributors in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively.*

(3) *Of which, one sub-distributor ceased to be actively engaged in the distribution of our products due to unsatisfactory performance in the six months ended June 30, 2010. We are not aware of any material inventory accumulation at this sub-distributor.*

(4) *Of which, five and 93 sub-distributors were new sub-distributors added to our network of sub-distributors in 2009 and the six months ended June 30, 2010, respectively. For more information, please see the discussion under "Nationwide Distribution Network" in this section.*

Credit Control

Typically we will not deliver new batches of products to distributors until we receive the payment for such products. For certain key distributors with whom we have cooperated for an extended period of time, we may allow more favorable payment settlement terms. For example, we may deliver new goods as long as such distributors can provide us with payment proof, such as a banker's acceptance note. We allow sales on credit to a limited number of distributors, mostly large reputable distributors that sell to supermarket and convenience store chains, where the normal industry practice allows sales on credit.

Pricing Policy

We study the market, consumer preference and prices of competing products to set our price. We price our products at a price which we believe is affordable to a wide range of consumers, offering consumers value for their money relative to OTC and prescription products promising similar health benefits. As the leading player in the segments of our two best selling products, retail prices of our products are not heavily influenced by our major competitors.

We are strict with our pricing policy. Distributors and sub-distributors may not sell our products at a price lower than the minimum price we set. We also monitor promotional activities held by retail outlets to ensure retail outlets are in compliance with our minimum retail price requirements. If a retail outlet sells our product below the minimum price or otherwise engages in actions that we believe may harm the reputation or sales of our products, we usually request that our distributors stop supplying our products to such retail outlet.

Logistics

We transport our products through independent third-party logistics companies who bear the risks associated with the delivery of our products. All our current products are delivered by truck or by rail from our production premises in the Fangshan District of Beijing to the warehouses of our distributors. If distributors request transportation by air, they will sustain extra transportation fees.

We select our logistics companies based on annual review of their price and service quality, including safety, accuracy and timeliness. We enter into contracts with them annually. Currently we have transportation contracts with three logistics companies to ensure safe and timely delivery of our products to distributors' warehouses. We regularly evaluate performance of our logistics companies and their compliance with the contract terms. During the Track Record Period, we did not experience any material disruption in the delivery of our products.

MARKETING

We believe that strong brand recognition and reputation are essential to our success. As a result, we place great emphasis on marketing and promotion of our brand and products. Our marketing department is responsible for formulating overall marketing and branding strategies, integrating marketing strategies with the operation of our distribution and sales system, making and controlling annual budget for marketing activities, selecting product candidates for development and conducting market research and promotional activities. Our marketing department comprised 44 full-time staff (including media buying team) as of June 30, 2010.

We plan to establish our core 碧生源 (Besunyen) brand as the primary brand recognized for effective, quality, safe and affordable therapeutic tea products in China. Our overall marketing strategy includes promoting ourselves as therapeutic tea experts and closely associating our brand with a healthy lifestyle.

We use television commercials and sponsorships of television programs as a primary marketing tool. In addition, we often select a combination of different media in a target market, including newspapers, magazines, public transportation displays, flat-panel displays placed in elevator lobbies and other public areas as well as the Internet, to ensure broad coverage of our advertisements. We sponsor selected social events to increase our brand recognition and improve brand image. Since 2007, we have sponsored the "New Silk Road Model Contest" in Guangdong Province, an annual televised model contest with a nationwide audience, and are the only company holding the naming right for this event in Guangdong. In 2010, we cooperated with Shanghai Expo and obtained the naming right for the Shanghai Expo Miss Etiquette Contest. We also retain third party marketing companies for developing innovative concepts and ideas for our advertisements and promotions. In early 2010, to update our brand image and to use more environmentally friendly material, a third party advertising company assisted us to redesign and improve the packaging of our products. We are also working with an external consulting firm to develop strategies to build our corporate brand. Historically we have primarily used local TV networks as our advertising platform, but we plan to increase our marketing efforts via satellite TV networks and Internet media that have broader geographic coverage.

Our marketing team works closely with our sales personnel, including our on-the-ground sales teams in 81 sales offices across China, to ensure consistency and quality in our sales and brand-building activities and that our marketing efforts are tailored to local preferences. Working with our sales personnel, our marketing team conducts and organizes national or regional promotional activities to consumers, such as setting up booths at retail outlets where our marketing and sales personnel can interact with consumers directly, answer their questions, explain the ingredients and benefits of our products and distribute product samples. During major holidays or weekends, our marketing and sales personnel often recruit medical and nursing school students as temporary staff to support additional activities promoting our brand and products.

Our marketing team also works closely with our sales personnel to conduct marketing research and collect information on consumer preferences, our competitive position in the market, our competitors' activities and market trends. From time to time, we engage third party researchers to gather market information and conduct analyses. Such information is an important basis for making marketing strategies tailored to local needs and selecting product candidates.

We spent RMB49.1 million, RMB118.2 million, RMB196.7 million and RMB117.1 million on advertisement in 2007, 2008, 2009 and the six months ended June 30, 2010, which accounted for approximately 30.1%, 33.0%, 30.4% and 31.8% of our turnover, respectively.

Marketing and Promotional Activities

We strategically organize our marketing and promotional activities to give our brand and product exposure to the general public. The highlights of our recent marketing and promotional events are as follows:

Years	Events	Description
2007 - present	Television advertisements	We produced a series of television commercials for our Besunyen Detox Tea and Besunyen Slimming Tea with certain slogans, such as "快給你的腸子洗洗澡吧" or "不要太瘦哦," which were broadcast on various television channels in China
2006 - present	Multiple media platforms	We advertised our brand and products in various newspapers, public transportation, flat-panel displays and other media platforms, such as: • Beijing Evening News (北京晚報) • Guangzhou Daily (廣州日報) • Chutian Metropolis Daily (楚天都市報) • On buses and closed circuit video screens in buses in Beijing and Guangdong
2007 - present	Sponsorship of "New Silk Road Model Contest" in Guangdong Province	This is an annual televised model contest with a nationwide audience. We are the only company holding the naming right for this event with the hosting television channel, Southern Television (南方電視臺).
2010	Sponsorship of Shanghai Expo Miss Etiquette Contest	We cooperated with Shanghai Expo and obtained the exclusive naming right for the Shanghai Expo Miss Etiquette Contest.
April 2010 - present	Sponsorship of Dancing Carnival (舞動嘉年華)	This is an entertainment program broadcast on Chengdu Television (成都電視臺). We are the sole sponsor and hold the exclusive naming right for this program.
May 2010 - present	Naming right for Tian Sheng Wang Pai (天聲王牌), a TV reality singing show	This is an entertainment program broadcast on Anhui Satellite Television (安徽衛視). We hold the exclusive naming right for this program.
May 2010 - present	Sponsorship for China Traditional Songs (中國紅歌會), a singing competition show	This is an entertainment program broadcast on Jiangxi Satellite Television (江西衛視). We are the sole sponsor and hold the exclusive naming right for this program.

PRC advertising laws and regulations require us to obtain approvals from the provincial agency of the SFDA before the publication or broadcasting of our advertisement. These laws and regulations also require our advertising content to be fair and accurate and not misleading. Although we have taken all commercially reasonable measures to comply with these laws and regulations, in the past, some of our product advertisements or related advertising practices have been declared not being in full compliance with applicable regulations and we were fined by the related government authorities for such non-compliance instances. These instances include: (i) in 2007, Beijing Administration for Industry and Commerce found one advertisement with respect to each of our Besunyen Detox Tea, Besunyen Slimming Tea and Kang Li Yuan Slimming Tea violating the applicable laws by using the image of consumers and ordered us to pay a fine of RMB10,000; and (ii) in 2007, Beijing Administration for Industry and Commerce found one advertisement with respect to our Besunyen Detox Tea misleading and overstating the effect of our products, and ordered us to pay a fine of RMB73,000. We timely paid these fines. In response to these non-compliance instances, we ceased the dissemination of these advertisements or rectified the content of the related advertisements and adjusted our advertising practices accordingly. Some advertisements of our products have been declared not in full compliance with applicable regulations by provincial SFDA in public warnings for which we have not received any notice or penalty from SFDA or other government authorities. As far as we are aware, based on our review of the websites of the provincial SFDAs, these instances include the following findings that certain of our advertisements were misleading, improperly claimed the effect of our products or improperly used the names and images of consumers in our advertising practice or we published, or that we had revised the content of, our advertisements without obtaining appropriate approval: (i) Guangdong SFDA in 2007, 2008 and 2009 found and publicly announced 19 public warnings with respect to our Besunyen Detox Tea and Besunyen Slimming Tea, (ii) Hunan SFDA in 2009 found and publicly announced two public warnings with respect to our Besunyen Detox Tea and Besunyen Slimming Tea, and (iii) Beijing SFDA in 2007 found and publicly announced two public warnings with respect to our Besunyen Detox Tea. To ensure our future advertisements and the related advertising practices are in full compliance with applicable regulations, we established a designated team to review the content of, and maintain the related approvals for, our advertisements and regularly monitor and review our advertising practices. The Company has implemented stringent internal control measures to ensure there will be no future non-compliance on product advertisements. Specifically, we require all the advertisements shall be published only after obtaining the approval from SFDA, and we apply for extension of the approvals 60 days before their expiration date to make sure we maintain effective approvals during the publication period of the advertisements. We provide relevant SFDA approvals to the operators of the media where the advertisements are published and require the content of the advertisements published shall be strictly the same as approved by the SFDA.

Certain historical advertisements that were produced and published by our distributors operating in markets which our local sales teams did not cover, the production and publication of which we were not involved in, have also been found to not be in full compliance with applicable advertising laws and regulations. These instances include: (i) Liaoning SFDA in 2008 and 2009 found and publicly announced in two public warnings that the advertisements with respect to our Besunyen Detox Tea produced and published by our distributors; and (ii) Shanghai SFDA in 2007 found and publicly announced in one public warning that the advertisements with respect to our Besunyen Detox Tea produced and published by our distributors, improperly used the names, and images of consumers in their advertising practice or our distributors published, or revised the content of, the advertisements without obtaining appropriate approval. After our local sales teams began to cover these markets, they are no longer allowed to independently produce and publish advertisements with respect to our products.

In addition, certain historical product advertisements produced and published by Zhuhai Qi Jia's distributors for MaiShuPing Tea, which we acquired through our acquisition of Zhuhai Qi Jia in January 2010, have been found not be in full compliance with applicable advertising laws and regulations. To our knowledge, these instances include: (i) Inner Mongolia SFDA in 2008 found and publicly announced in one public warning that certain advertisements with respect to MaiShuPing Tea were published without obtaining appropriate approval; (ii) Jiangsu SFDA in 2010 found and publicly announced in one public warning that certain advertisements with respect to MaiShuPing Tea were published without obtaining appropriate approval; (iii) in August 2009, Guangdong SFDA found and publicly announced that one advertisement with respect to MaiShuPing Tea was misleading and improperly claimed the effect of MaiShuPing Tea, and ordered Zhuhai Qi Jia to cease sales of MaiShuPing Tea in Guangzhou, the capital city of Guangdong (Guangdong SFDA's such sales-cessation order expired on September 29, 2009); and (iv) on June 28, 2010, Guangdong SFDA revoked the approvals for three advertisements with respect to MaiShuPing Tea created in 2009 on the basis that advertisements for MaiShuPing Tea, the production of which we were not involved in, were misleading and improperly claimed the effect of MaiShuPing Tea. Pursuant to applicable PRC laws and regulations, such revocation of approvals will cause us unable to obtain SFDA approvals for new advertisements for MaiShuPing Tea until June 28, 2011. We have asked Zhuhai Qi Jia to stop producing MaiShuPing Tea and producing or publishing any advertisement with respect to Maishuping Tea and we plan to apply to obtain SFDA approvals for new advertisements for MaiShuPing Tea after June 28, 2011.

As advised by our PRC legal advisor, violation of the relevant advertising laws or regulations may result in penalties, including fines, orders to cease dissemination of the advertisements, orders to publish an advertisement correcting the misleading information, orders to cease sales within certain designated markets (in the case of medicinal products), suspension of approval for new advertisement within one year (in the case of medicinal products), and even criminal liabilities. The provincial agency of the SFDA may also issue a safety warning to the public and publish the names of the violators.

Media Buying

We have established a dedicated media buying team to ensure the effectiveness of our advertisement initiatives, especially our television advertisement. Our expenses on television advertisements were RMB46.9 million, RMB101.4 million, RMB156.9 million and RMB99.2 million, accounting for 95.5%, 85.8%, 79.8% and 84.7% of our total advertisements expenses, in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively. Our specialized media buying team, consisting of 17 employees as of June 30, 2010, is responsible for selecting the appropriate advertisement platform, negotiating with various television stations, and monitoring the effect of our advertisements.

We usually have two to three persons stationed in each provincial market to be responsible for the entire television advertising process, including identifying appropriate communication media and programs, negotiating with such media and programs, facilitating the production of advertisement and monitoring gross rating points and effective reach. We believe that having designated personnel to oversee the advertising process can ensure timely adjustments of our advertising strategies to achieve optimal effect.

RESEARCH AND PRODUCT DEVELOPMENT

We adopt a market-oriented research and product development process, focusing on evolving consumer demands and needs in China's modernizing society. Our typical product development process includes:

- Concept development, based on studies of market trends and consumer preferences
- Feasibility study and testing of new product concepts
- Product development and improvement, based on market and consumer studies, and SFDA application process
- Preparation for launch, including formulating marketing strategies and conducting marketing campaigns to introduce new products

The timing of the process depends on multiple factors, including the underlying market conditions, time needed for marketing research and survey, level of research and testing required and SFDA approval sought, and allocation of our resources. For our therapeutic tea products requiring SFDA approval as health food products, the entire process starting from concept development to product launch will typically take two to three years. During this process, our marketing team is involved in every step to ensure our new products match consumer requirements.

Historically we have utilized external research teams or research institutions, including Jian Shi Xing and Beijing Dongzhimen Hospital, for the development of new products and conducting clinical and other tests on our products. We cooperate with these research teams on a project-by-project basis. During the Track Record Period, we entered into one cooperation agreement, which was with Jian Shi Xing in 2009. Our agreement with Jian Shi Xing provided that we pay a flat fee for Jian Shi Xing to develop new products for us and any intellectual property rights derived from such cooperation belong to us. We paid an aggregate amount of RMB2.3 million to Jian Shi Xing pursuant to such cooperation agreement during the Track Record Period prior to our acquisition of Jian Shi Xing.

The formulae of our two best selling products, Besunyen Detox Tea and Besunyen Slimming Tea, were acquired from Huaiyin Huayi in 2001 and Beijing Ruipule in 2004, for a one-time transfer fee of RMB500,000 and RMB10,000, respectively. Huaiyin Huayi is an independent third party and Beijing Ruipule is a company controlled by Mr. Zhao Yihong, our founder, Chairman and Chief Executive Officer. We acquired the formulae of our four SFDA-approved health food product candidates (Besunyen Ganoderma Wolfberry Tea, Besunyen Mei An Granule, Besunyen Qing Zhi Yin and Besunyen Shan Ge Granule) from an independent third party for an aggregate one-time transfer fee of RMB550,000. The transfer prices were determined based on the development cost of such product and, for Besunyen Ganoderma Wolfberry Tea, which was already approved by the SFDA as a health food product prior to the transfer, the expenses incurred in connection with the SFDA approval application process.

As an important development milestone, in 2010, we enhanced our research and development capabilities through the acquisition of Jian Shi Xing, comprising a research team led by Dr. Cai Ya. Dr. Cai and his research team have extensive experience in developing tea and Chinese medicinal herbal products, including health food products for multi-national corporations such as Unilever, such as products sold under the Lipton brand. Before he established Jian Shi Xing in 2008, Dr. Cai had been the director of the PRC research center of Unilever for six years. We believe that we can integrate Dr. Cai and his research team into our operations and achieve synergies in this acquisition quickly as we have been collaborating with Dr. Cai and his research team for over a year to successfully develop our VS herbal tea series, prior to this acquisition.

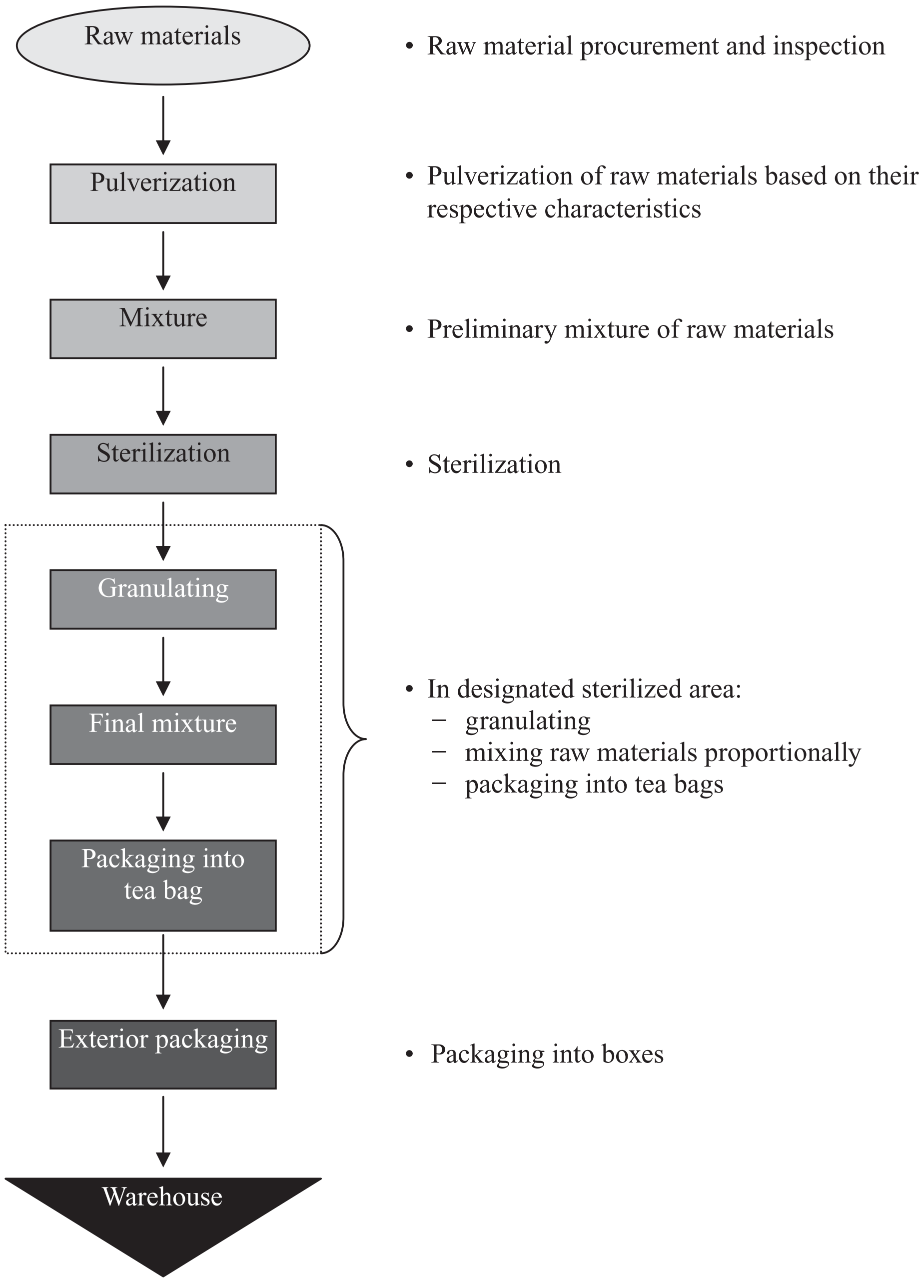
We anticipate our new research team will be our primary source for future research and early-stage product development. We will also selectively seek opportunities to purchase pre-developed formulae for new products from third parties or undertake further cooperation with universities and research institutions.

We incurred research and product development costs of nil, RMB0.9 million, RMB1.9 million and RMB1.3 million in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively.

PRODUCTION, QUALITY CONTROL AND SUPPLIES

Production

We produce all our current products at our current production premises located in the Fangshan District of Beijing. The following chart sets forth the typical production process for our detox tea and slimming tea.



The production process utilizes automated machinery and equipment, which significantly reduces the number of workers required and error rates during the production process. The production lead time for our current therapeutic tea products is approximately ten days.

Prior to mid-2007, we engaged two third-party manufacturers to handle the processing of raw materials into semi-finished products for a portion of our products. A relative of Mr. Zhao Yihong, our founder, Chairman and Chief Executive Officer, was a shareholder in one of the third-party manufacturers. The legal representative of the other third-party manufacturer was our Director until October 21, 2009. We terminated the agreements with these two third-party manufacturers prior to June 2007 following the expansion of our production facilities in Fangshan District, Beijing. Since then, we have been handling the entire production process for our products in-house other than the sterilization process, which we have outsourced since 2002 to an independent third party specialized in food sterilization. We paid RMB0.6 million, RMB0.9 million, RMB1.2 million and RMB1.2 million to the third party to which we outsource the sterilization process in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively. We also outsource the production of our VS Series products to two independent third-party manufacturers.

We currently have two production lines which use imported IMA C24 automatic tea bag packaging machines, one of the most advanced tea bag packaging machines available. IMA C24 machines use a traditional non-heat sealable double chamber bag to ensure optimum infusion efficiency while fixing is achieved by two simple knots. No metal staple or additional packaging materials are required, making it more environmentally friendly. Each of our IMA C24 machine production line can produce 250 tea bags per minute. We also have 30 Nanfeng packaging machines, which can produce up to 80 tea bags per minute. As of June 30, 2010, our production facility had an effective annual production capacity of approximately 1.3 billion tea bags based on two eight-hour shifts per day and 250 working days per year.

We plan to introduce an additional IMA C24 machine production line in fourth quarter of 2010. We are also in the process of constructing a new production line, expected to be completed before the end of 2010, to produce our new OTC tea product, Besunyen MaiShuPing Tea. Prior to our acquisition of Zhuhai Qi Jia, MaiShuPing Tea was produced at the manufacturing facilities of Zhuhai Qi Jia in Zhuhai, Guangdong. The Zhuhai facilities stopped production in January 2010 in preparation for transferring the production facilities to Beijing. We do not intend to employ the Zhuhai facilities, which was acquired as part of our consideration in the acquisition of Zhuhai Qi Jia, for production of our products, which also includes Besunyen MaiShuPing Tea because our management, equipment and other resources are at our Fangshan facilities. We plan to move certain production equipment from the Zhuhai facilities to Beijing to use in the production of Besunyen MaiShuPing Tea. We currently are not producing or selling Besunyen MaiShuPing Tea.

We have a food hygiene permit as required under SFDA regulations to produce health food products. The new production line for Besunyen MaiShuPing Tea will be in compliance with applicable requirements for manufacturing medicinal products and the GMP compliance certificate will be issued by Beijing Food and Drug Administration.

We perform regular equipment inspections to ensure our production lines perform at optimal levels. During the Track Record Period, we did not experience any material or prolonged disruption of our production due to equipment failure.

The utilization rate of our manufacturing facilities (calculated by dividing production volume, including free products given away for promotional services, by the weighted average effective production capacity during the relevant period based on two eight-hour shifts per day and 250 working days per year) was approximately 51%, 72%, 62% and 52% in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively. The increase of our utilization rate from 2007 to 2008 was primarily due to our increased sales volume, partly offset by our increased production capacity of ten additional Nanfeng packaging machines installed in 2008. Our utilization rate decreased from 2008 to 2009 mainly because we installed four IMA C24 automatic tea bag packaging machines, and eight more Nanfeng packaging machines which greatly increased our production capacity. Our Nanfeng packaging machines currently contribute more than half of our current effective annual production capacity.

Quality Control

We have a strict quality control system to monitor and control each stage of our production process, from raw material procurement to production and delivery, to ensure the consistency and high quality of our products. We require that our suppliers of Chinese medicinal herbs obtain GMP certificates. We inspect the raw materials visually and the accompanying quality reports provided by our suppliers upon receiving them. These quality reports usually contain various quantitative analyses, including dust and moisture level, of the raw materials, depending on the nature of the respective raw materials. We also perform our own inspection of raw materials in accordance relevant quality requirements promulgated by relevant government authorities for different raw materials. In accordance with the GMP requirements, our quality control personnel check the key steps of the production process, such as weighing, pulverization and mixture, to ensure these steps are carried out correctly and accurately. At different stages of our production process, we also perform various quality inspection and testing procedures, including the test of imparity, moisture, dust and microbes, to remove defective intermediate products. We provide the initial bacteria content data to the third party to which we outsource the sterilization process so the third party can correctly determine the sterilization requirements and conduct random sampling tests of 2% of the sterilized mixture to ensure our products have been sterilized in compliance with hygiene standards stipulated for the health food products. We also conduct sample testing of our final products before and after packaging them for delivery to our distributors.

We obtained ISO9001:2000 certification for quality control over our product design, product development and production process in 2002, which demonstrates that our quality control system meets recognized international standards of quality assurance.

We carry out quality control procedures in compliance with GMP standards and SFDA regulations. In accordance with GMP requirements, we have implemented a system whereby details of the entire production process for each batch of product, from raw materials to production, inventory, transportation, distributors, and finally to retail outlets, are recorded. This system allows us to ensure that any defective products can be traced and if necessary rectified on a timely basis.

Raw Materials, Packaging Materials and Suppliers

The raw materials for our therapeutic tea products consist primarily of tea and Chinese medicinal herbs such as senna (番瀉葉), honeysuckle (金銀花), cassia seed (决明子), wild tuckahoe (土茯苓) and adenophora stricta (沙參). Our packaging materials include cardboard, composite membranes, tea bag paper and labels.

We select our suppliers carefully to ensure the quality of our raw materials and packaging materials. We usually procure tea directly from the tea plantation where it originates. We supply Chinese medicinal herbs from reputable suppliers. We have special requirements for the packaging materials, including (i) traditional non-heat sealable double chamber bags to ensure optimum infusion efficiency, (ii) high quality outer wrappers meeting to endure the high-speed packaging process, and (iii) cotton threads to link the label to the tea bag, thereby avoiding the need for metal staple. We request each supplier candidate to submit sample products for our inspection. We also inspect their facilities and premises and investigate their reputation and track record before we select them as suppliers.

To increase our bargaining power, we usually procure more than 50% of each raw material from one supplier. We usually enter into supply agreements with our suppliers on an annual basis and have no long-term contracts. As all our raw materials are readily available in mainland China from multiple suppliers, we have not encountered any shortage in respect of raw materials supply during the Track Record Period and do not believe we are subject to supply shortage risks. The raw materials we use have not experienced significant price fluctuations during the Track Record Period and we do not expect them to experience significant price fluctuations in the foreseeable future. Our largest suppliers usually agree for us to pay approximately on the 25th days following the month in which we receive the raw materials.

Our purchases of Chinese medicinal herbs in 2007, 2008, 2009 and the six months ended June 30, 2010 were RMB8.1 million, RMB13.2 million, RMB12.3 million and RMB5.9 million, respectively. During the same periods, our purchases of tea leaves were RMB0.6 million, RMB1.8 million, RMB2.0 million and RMB1.5 million, respectively.

Our largest supplier for raw materials in 2009 was Hebei Anguo Shikang Chinese Medicinal Herbs Co., Ltd. (河北安國市世康中藥材有限公司), from which we purchased RMB6.9 million of Chinese medicinal herbs in 2009, accounting for 10.1% of our total cost of sales. Our largest supplier for packaging materials in 2009 was Beijing Xinyuexiangda Color Printing Co., Ltd. (北京新越翔達彩色印刷有限公司), from which we purchased RMB9.1 million of packaging materials in 2009, accounting for 13.3% of our total cost of sales. In 2007, 2008, 2009 and the six months ended June 30, 2010, aggregate purchases from our five largest suppliers amounted to RMB27.4 million, RMB28.5 million, RMB29.5 million and RMB19.1 million, respectively, representing 57.5%, 47.4%, 43.1% and 50.2% of our total cost of sales, respectively. None of our Directors or their associates has any interest in any of our five largest suppliers.

Inventory

Our inventories consist primarily of raw materials, packaging materials, semi-finished products and finished products. Our distributors are usually required to notify us five days prior to each order. We started using IMA C24 automatic tea bag packaging machines in the second half of 2009, which has increased our inventory of finished products and reduced inventory of semi-finished products due to its designed production line process that produces finished and packaged goods in batches. Our increased coverage of second- and third-tier cities requires longer period of delivering our products to the destinations and also contributes to our increased inventory of finished products. We generally seek to maintain a two-week supply of raw materials and a two- to three-week supply of finished products in inventory for unexpected orders. We store all our current inventories at our warehouses located in Beijing, Shanghai and Guangzhou.

We monitor inventories of our distributors to gather information regarding market acceptance of our products. Based on the results of these monitoring activities, we adjust as necessary our marketing strategies and sales targets for a particular region.

As of December 31, 2007, 2008 and 2009 and June 30, 2010, our inventory accounted for 11.0%, 3.9%, 2.0% and 4.4% of our total current assets, respectively.

INTELLECTUAL PROPERTY

As of September 9, 2010, we had 229 registered trademarks, 312 applications for trademark registration, nine issued design patents, four issued invention patents and one invention patent in the process of application. Our invention patents relate to the production processes that we use.

We rely on trade secrets, confidentiality procedures and contractual provisions to protect our know-how, especially the formulae of our products, where we believe patent protection is not appropriate because patent application in China involves publication of the details of the formula. Only a small selected group of employees in our Company have access to our formulae. Chinese medicinal herbs in the production process are labeled by codes, rather than by name. We ask all of our key research and development personnel to enter into confidentiality agreements with us at the time of employment. These agreements address intellectual property protection issues, setting forth their obligations to keep our know-how in confidence and not compete with us during a specified period after the employment relationship is terminated. Our employee handbook, which is distributed to all of our employees, also sets forth the employees' obligation to keep confidential our trade secrets and proprietary information. We are entitled to terminate any employee that materially breaches his or her such obligations under the employee handbook.

We undertake a pro-active approach to manage our intellectual property portfolio. We undertake defensive registrations of our trademarks in additional categories where it is reasonably foreseeable that the trademark may be used in our products in the future. Registration of intellectual property rights is usually made by our agents. We take action immediately upon becoming aware of a potential infringement of our trademarks. We have experienced infringement of our intellectual property, primarily in the form of using brands and packages similar to us, and expect that there will be more counterfeiting of our products as our brand awareness increases. As such, we have added counterfeit-prevention labels on our products and plan to further educate our customers and employees. In addition, we have established a dedicated team to be responsible for fighting counterfeit goods, including liaise with relevant government agencies. Our in-house legal department has helped the public security authorities to successfully detect and investigate three counterfeit goods occurrences since 2009. This team currently has four employees. During the Track Record Period, we did not experience any infringement of our intellectual property rights, including incidents involving counterfeit and imitation of our products, which had a material effect on our business.

CUSTOMER SERVICE

We maintain a customer service hotline to handle general service inquiries and ensure a timely response to all customer concerns. Our internal policy requires that all complaints be reported and resolved promptly. If a complaint is not resolved during the call, the customer service personnel should report timely such complaint to the local sales office which covers the region where the complaining customer is located. In the past, we have received customer complaints that our products have caused unintended side effects or our products are not effective. Based on our interaction and communication with consumers, we believe that some of the complaints are due to consumers' incorrect use of our products. During the Track Record Period, we have not incurred any material costs in relation to these complaints. As of September 9, 2010, there had not been any product recall in our history.

COMPETITION

We face competition primarily from domestic providers of therapeutic teas or other products that claim similar health benefits as our products. According to the SMERI Study, we were the leading provider of laxative products sold through retail pharmacies in both 2008 and 2009 in terms of retail sales value, enjoying a market share of 20.9% and 25.2% in 2008 and 2009. In 2008 and 2009, our next-closest competitor, Yunnan Panlong Yunhai Pharmaceutical Co., Ltd. (雲南盤龍雲海藥業) had a market share of 19.9% and 23.7%, respectively. Beijing Yu Sheng Tang Pharmaceutical Group Limited (北京禦生堂藥業集團有限公司) ranked third in the laxative product market in both 2008 and 2009. In the market for slimming products sold through retail pharmacies, our market share increased rapidly from 4.3% in 2007 to 8.1% in 2008 and further to 15.9% in 2009, ranking as the second largest provider of slimming products and the largest provider for slimming tea in terms of retail sales value in 2009. The next-closest provider of slimming tea is Beijing Tian Long Health Tea Co., Ltd. (北京天龍保健茶有限公司). Tai Ji Group (太極集團涪陵制藥), which produces and sells Qu Mei (Sibutramine Hydrochloride), a prescription drug and slimming product, was the largest provider of slimming products. We compete with these competitors largely on efficacy, price, brand recognition and distribution and sales network coverage.

The significant increase of Chinese consumers' spending on health food products may attract more enterprises to enter into the health food product market. The barriers to entry, however, are not low as it usually takes two years to apply for SFDA approval for health food products and the upfront costs and time required for establishing strong brand awareness and a national distribution network are significant. In addition, we believe that we have a competitive advantage through our leading market position, strong nationwide brand recognition, strong product pipeline and research and development ability, established nationwide network of distributors and retail outlets, integrated business model and experienced management team.

EMPLOYEES

As of December 31, 2007, 2008 and 2009 and June 30, 2010, we had 246, 983, 1,777 and 1,768 employees with whom we had direct employment agreements and have incurred staff costs (including salaries, benefits and allowances) in relation to those employees of RMB11.6 million, RMB21.4 million, RMB60.0 million and RMB42.6 million during the relevant period. The following table sets forth a breakdown of our employees by function as of the dates indicated.

	As of December 31,			As of June 30, 2010
	2007	2008	2009	
Senior management	5	6	7	10
Sales (directly employed)	35	599	1,330	1,295
Accounting	7	22	34	32
Human resource and administration	14	14	30	33
Marketing (including media buying team)	1	—	33	42
Manufacturing	184	342	343	356
Total	246	983	1,777	1,768

Our directly employed sales employees have employment agreements with us and receive a fixed salary and bonus from their respective sales. To streamline our operational system and reduce administrative burden, starting in 2009, we have also worked with an independent third party employment agency to retain sales and marketing personnel whose compensation is paid by the employment agency. As of December 31, 2009 and June 30, 2010, we had 916 and 938 employees retained through the employment agency representing 34.0% and 34.7% of our total employees (excluding temporary and short-term personnel) during the same period, respectively. In connection with our employees retained through the employment agency, we incurred staff costs (including salaries, benefits and allowances) of RMB20.4 million and RMB10.1 million in 2009 and the six months ended June 30, 2010, respectively, and paid RMB0.7 million and RMB0.7 million to the employment agency for its service in the relevant period. Our PRC legal advisor, Global Law Office, has advised us that the arrangement with the third party employment agency is in compliance with the relevant law and regulations. We use short-term or temporary personnel on an as-needed basis to help our promotion or event-related activities. The number of person-days[5] of our temporary and short-term staff totaled 9,177, 25,098, 51,510 and 37,809 in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively. We believe that a flexible composition and compensation structure can help us to meet the needs of our marketing and sales activities.

We are committed to our employees' continuing education and development. Regularly providing various and targeted training programs to our employees, such as training on our products, sales skills and management, we seek to motivate and retain our employees by maintaining a merit-based compensation and promotion system.

We participate in various statutory employee benefit plans maintained by municipal and provincial governments, including housing, pension, medical and unemployment benefit plans, in accordance with relevant

(5) *Person-days are calculated by dividing number of hours worked by eight to show the equivalent number of eight-hour days worked.*

PRC regulations. We contribute to these plans at specified percentages of the salaries, bonuses and allowances paid to our employees based on applicable local government requirements.

We believe that we maintain a good working relationship with our employees and have not experienced any strikes, labor disputes or industrial actions which had a material effect on our business.

PROPERTIES

Our production facility and a majority of our administrative departments are located in the Industrial Park at the Fangshan District of Beijing, where we hold land use rights for five parcels of land with an aggregate site area of approximately 171,958 square meters. Our manufacturing facility and administrative facility, occupying approximately 19,465 square meters of floor area, are located at this site. We have obtained land use rights and building ownership certificates for approximately 17,241 square meters of floor area of the aforesaid properties. We purchased 51 residential units from two real estate development companies for the purpose of employee's dormitories, with a total gross floor area of 4,275 square meters. We are in the process of obtaining the building ownership certificates for those residential units.

The administrative departments and production facilities of Zhuhai Qi Jia are located in Zhuhai, Guangdong Province, where we hold land use rights for an aggregate site area of approximately 10,000 square meters and building ownership certificate for approximately 2,696.54 square meters of floor area of the aforesaid properties.

As of September 9, 2010, we rented 85 properties (with an aggregate area of approximately 14,653 square meters) for our offices, warehouses, sales offices and for residential purpose of the sales persons. Among the 85 leases we currently hold, 18 lessors have not provided the building ownership certificates for the leased properties as requested by us. The aggregate gross floor area of such properties is approximately 4,243 square meters. The largest leased properties for which the lessor has not provided the building ownership certificate is a warehouse in Beijing with a gross floor area of approximately 2,000 square meters and is used as our warehouse. The remaining affected leased properties are primarily used as sales offices and employee dormitories, which are usually equipped with computers and simple furniture and appliances, such as desks and chairs. If our leases for such properties are challenged and we are ordered to relocate our operations from the existing buildings, we believe that we can find alternative locations and complete relocation on fairly short notice and expect the aggregate costs for relocation of all the operations in the affected leased properties would be less than RMB500,000. We also do not believe such properties are crucial to our operations, on an individual or an aggregated basis. Most of the lease agreements for the leased properties have not been registered with the relevant local governmental authority. We have been advised by our PRC legal advisor that, as a general principle, the lack of registration of a lease agreement does not affect the validity of rights existing under such lease agreement between the tenant and the lessor.

ENVIRONMENTAL MATTERS

Given the nature of our business, our manufacturing process produces a small amount of waste water, solid wastes, noise and, to a lesser extent, gases. Such process does not cause any material damage to the environment.

We have submitted environmental impact study reports setting forth the impact caused by the construction projects on the environment and the measures to prevent or mitigate the impact for approval by the government authority prior to commencement of construction of the relevant projects. The relevant local environmental authorities have performed inspections on our facilities, approved our environmental impact study report and accepted our construction projects. To minimize impact of emissions on the environment, we have implemented a comprehensive set of environmental protection measures. We have installed advanced environmental protection equipment to treat waste materials and dust and, where possible, recycle waste materials. We have procedures in place to treat and dispose of all of our waste in accordance with national and local environmental laws and regulations. We are also constantly seeking to improve our environmental protection measures, for example by installing one boiler dust remover and three pulse dust removers.

To ensure compliance with applicable regulations, we have eight dedicated staff responsible for supervising and monitoring compliance with statutory regulations and our internal standards relating to environmental protection. Our total expenditures for purchasing environmental protection equipment and maintaining compliance with environmental laws were RMB0.1 million for the six months ended June 30, 2010 and did not exceed RMB120,000 in each of 2007, 2008 and 2009. We do not expect any significant fluctuation in our compliance costs in the near future.

During the Track Record Period, we have been in material compliance with all applicable PRC environmental regulations, have not been subject to any material claims or penalties in relation to environmental protection and have not been involved in any environmental accidents or fatalities.

There are no specific demands and requirements imposed on us by our customers in complying with environmental protection rules in areas where our customers operate.

INSURANCE

As of September 9, 2010, we maintained a vehicle insurance coverage on commercial vehicles we own, property insurance for our manufacturing facilities and equipment and product liability insurance. We consider our current insurance coverage to be adequate. For the risks associated with the coverage of our insurance policies, see the sections headed "Risk Factors — Risk Factors Relating to Our Business and Industry — Any unexpected or undesirable side effects or injury caused by our products to consumers could result in costly product recalls or product liability claims, which in turn could lead to severe reputational damage, monetary losses or lawsuits." and "Risk Factors — Our insurance coverage may not completely cover the risks related to our business and operations." in this document.

LEGAL AND COMPLIANCE

All of our subsidiaries have obtained and currently maintain all necessary permits and licenses required for their production and sales activities actually being conducted.

During the Track Record Period, we have not been, and are not, involved in any litigation or arbitration proceedings that, individually or in the aggregate, could have a material adverse effect on our business, financial condition or results of operations. In addition, we have not been and are not involved in any litigation or arbitration proceedings pending or threatened against us or any of our Directors that, individually or in the aggregate, could have a material adverse effect on our business, financial condition or results of operations.

We have not been subject to any findings or recommendations by China or overseas governmental authorities in their examinations and inspections in relation to any matter which, individually or in the aggregate, might have a material adverse effect on our business, financial condition or results of operations.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Mr. Zhao Yihong, our founder, Chairman and Chief Executive Officer, through his controlling interest in Foreshore, will control more than 30% of our Company's issued share capital. None of the Controlling Shareholders or our Directors carries on or is otherwise interested in any other business which competes, or is likely to compete, either directly or indirectly, with our business.

No Competition

Foreshore is an investment holding company whose principal asset is its shareholding in our Company. Other than its shareholding in our Company, Foreshore does not own any other material assets. Accordingly, there is no competition between our business and that of Foreshore.

Apart from his indirect shareholding in our Group and his equity interest in BSYI, Mr. Zhao Yihong does not have any other material business interests. BSYI is an investment holding company incorporated under the laws of PRC with limited liability. Mr. Zhao Yihong and his son, Mr. Zhao Yimeng, hold in aggregate the entire equity interest in BSYI. BSYI's principal assets comprise property units situated in a commercial building in Haidian District, Beijing. In contrast, our principal business is the development, manufacture and sales of therapeutic tea products in China. Accordingly, our businesses are different and there is no competition between our business and that of BSYI. In 2004, we acquired the formula of our Besunyen Slimming Tea from Beijing Ruipule, a company controlled by Mr. Zhao Yihong, for a one-time transfer fee of RMB10,000 and commenced the production and sale of Besunyen Slimming Tea in the same year. As Beijing Ruipule was deregistered in December 2007, Beijing Ruipule does not and will not compete with the business of the Company.

Corporate Governance Measures

In order to prevent any potential competition between our Group and Mr. Zhao Yihong, Foreshore or entities controlled by Mr. Zhao Yihong, we have amended our Articles of Association to prohibit a Director from voting on (or from being counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which he or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), except in respect of any of the following matters:

(i) the giving to such Director or his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal concerning any other company in which the Director or his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or any of his associates is/are beneficially interested in shares of that company, provided that, the

Director and any of his associates are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights;

(v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including:

(a) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or his associates may benefit; and

(b) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director, or his associates, any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(vi) any contract or arrangement in which the Director or his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

Independence from Controlling Shareholders

Having considered the following factors, we are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders and their respective associates.

Management independence

Our Board consists of seven Directors. Other than Mr. Zhao Yihong and his wife, Ms. Gao Yan, who are both executive Directors, there are two non-executive Directors and three independent non-executive Directors. Each of our Directors is aware of his/her fiduciary duties as director which require, among others, that he/she must act for the benefit of and in the best interests of our Company and not allow any conflict between his/her duties as a director and his/her personal interests.

In addition, the articles of association of our Company provide that where one of our Directors is also a director of one of our connected persons or is otherwise interested in a transaction, such Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution relating to any transactions between the Company and such connected person or any transaction in which such Director has an interest, and such Director will absent themselves from board meetings when such matters are discussed unless expressly requested to attend by a majority of the independent non-executive Directors. However, this prohibition shall not apply to any of the matters listed in part A, paragraph 2B(f)(i)-(vi) of Appendix V "Summary of the Constitution of the Company and Cayman Companies Law" to this book.

The Group has employed a chief financial officer and also appointed other senior management staff responsible for the daily management and operations of the Group, who are all independent from Mr. Zhao Yihong and his associates.

Other than Mr. Zhao Yihong, none of the other Directors or senior management members of our Company holds any executive position in, or otherwise participates in any way in the management or operations of, Foreshore or BSYI.

Based on the reasons described above, our Directors consider that our management team is capable of managing our business independently from our Controlling Shareholders and their associates.

Operational independence

The Board as a whole has full rights to make all decisions on, and to carry out our business operations independently. Although Mr. Zhao Yihong and his wife, Ms. Gao Yan, are our executive Directors, in addition to the other five Directors (which include three independent non-executive Directors), the daily management and operations of our Group are carried out by our experienced management team, who are independent of the Controlling Shareholders and their respective associates and have substantial experience in their respective business departments. Our management team is able to run our respective business departments independently.

Further, we have independent access to our customers and suppliers who are independent third parties of our Group. None of our Controlling Shareholders and their associates has any interest in any of our suppliers of raw materials and other supplies required for our operations. For procuring new customers, we have our own sales and marketing departments which are led by our senior management, and we have our own sourcing, marketing, distribution and customer relationship operations which are operated independently from our Controlling Shareholders and their associates. None of our Controlling Shareholders and their associates has any interest in any of our corporate customers. Accordingly, we do not rely on our Controlling Shareholders or their associates for procurement of raw materials or access to customers.

We have entered into one exempted continuing connected transaction with respect to the lease of commercial premises in Haidian District, Beijing from Ms. Gao Yan, and one non-exempted continuing connected transaction with respect to the lease of commercial premises in Haidian District, Beijing from BSYI, an associate of Mr. Zhao Yihong. Such leases are not material to our business or operations as a whole. For details of such leases, please refer to the section titled "Connected Transactions" below. We are not parties to any other leasing agreements or arrangements with our Controlling Shareholders or their associates. We also own our corporate headquarters and our manufacturing and administrative facilities located in Fangshan District, Beijing. Accordingly, we do not consider that any reliance will be made on our Controlling Shareholders or their associates in leasing properties for our operations.

Financial independence

All the amounts due to and from our Controlling Shareholders and their associates, and all guarantees, indemnities and other securities provided to and by our Controlling Shareholders and their associates for the benefit of our Group, were fully settled or released. Other than the aforesaid amounts due, guarantees, indemnities and other securities which have been be released, our Controlling Shareholders and their respective associates do not provide us with any direct or indirect financing for our operations. Moreover, our Directors are of the view that the Group is capable of sourcing its own financing from debt and equity financing without reliance on our Controlling Shareholders and their associates.

CONNECTED TRANSACTIONS

Beijing Outsell, an indirect wholly owned subsidiary of our Company, has entered into transactions with BSYI, an associate of Mr. Zhao Yihong and Ms. Gao Yan.[1]

[1] During the Track Record Period, the Group had entered into transactions with Guangzhou Benefit Trading Co., Ltd, Beijing Baicaochangqing Science Development Co., Ltd. and Beijing Changqingxingda Science Development Co., Ltd., each of which was controlled by Mr. Zhao Yihong, our controlling Shareholder, executive Director and Chief Executive Officer. Each of these transactions has been completed prior to the date of this document, and will not subsist as of the date of this document. In addition, each of Guangzhou Benefit Trading Co., Ltd., Beijing Baicaochangqing Science Development Co., Ltd. and Beijing Changqingxingda Science Development Co., Ltd. was deregistered with effect from March 4, 2010, December 13, 2007 and December 22, 2009, respectively, and is not in existence as of the date of this document.

Mr. Zhao Yihong is our controlling Shareholder, executive Director and Chief Executive Officer. Ms. Gao Yan is our executive Director and the wife of Mr. Zhao Yihong. For so long as Mr. Zhao Yihong remains our Substantial Shareholder, executive Director or Chief Executive Officer, and for so long as Ms. Gao Yan remains our executive Director, transactions between our Group and Mr. Zhao Yihong, Ms. Gao or their associates will constitute connected transactions for us under the Listing Rules.

EXEMPT CONTINUING CONNECTED TRANSACTION

Beijing Outsell leases the commercial premises located at Rooms 101 and 110 of 11^{th} floor, Taiyueyuan, Haidian District, Beijing (the "Taiyueyuan Properties") for use as offices from Ms. Gao Yan. Pursuant to a commercial premises lease agreement dated June 15, 2008 and a supplemental lease agreement dated January 10, 2010 (together, the "Taiyueyuan Lease Agreements"), the lease for the Taiyueyuan Properties is effective from June 15, 2008 to December 31, 2012. Pursuant to the terms of the Taiyueyuan Lease Agreements, no rental payments have been made by us to Ms. Gao Yan for each of the financial years ended December 31, 2008 and December 31, 2009, and no rental payments will be made by us to Ms. Gao Yan for each of the financial years ended December 31, 2010, December 31, 2011 and December 31, 2012, in respect of the lease for the Taiyueyuan Properties.

The Taiyueyuan Lease Agreements may be terminated at the option of Beijing Outsell at any time prior to the expiry of such agreements. As such, we enjoy the flexibility to relocate to another site or premise at any time should we consider the Taiyueyuan Properties no longer suitable for our use. Based on factors such as the prevailing market rental for similar premises in comparable locations in the PRC, the location of the properties which may affect rental rates and the Group's use of the Taiyueyuan Properties, our Directors consider that the lease for the Taiyueyuan Properties is not material to our Group's business operations.

As the lease for the Taiyueyuan Properties is granted to us at nil consideration, based on the projected performance, total assets and market capitalization of our Group, each of the applicable percentage ratios on an annual basis falls below 0.1% in respect of such lease. Therefore, such transaction will be exempt from the reporting, announcement, annual review and independent shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Listing Rules, as they fall within the de minimis threshold under Rule 14A.33 of the Listing Rules.

The lease for the Taiyueyuan Properties is renewable at the option of Beijing Outsell by giving three months notice to Ms. Gao Yan prior to its expiry. In the event that we renew the lease for the Taiyueyuan Properties, we will ensure that we comply with the applicable provisions under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Lease of Commercial Properties from BSYI

Pursuant to a commercial premises lease agreement dated January 10, 2010 and a supplemental lease agreement dated August 9, 2010 (together, the "BSYI Lease Agreements"), Beijing Outsell agreed to lease (the "BSYI Lease") from BSYI the premises located at Rooms 1811, 1813, 1815 and 1817 of No. 9, Si Huan Xi Road North, Haidian District, Beijing (the "Haidian Properties") for use as offices.

Beijing Outsell leased the Haidian Properties from January 1, 2008 to December 31, 2008 pursuant to a lease agreement dated January 1, 2008 and renewed the BSYI Lease from January 1, 2009 to December 31, 2009 pursuant to a lease agreement dated January 1, 2009. Pursuant to the BSYI Lease Agreements, the term of the BSYI Lease is effective from January 1, 2010 to December 31, 2012 and the rental per annum was RMB1.2 million, such rental payable in full by the end of August every year and is fixed throughout the term of the BSYI Lease. The Directors are of the view that the rental per annum is in line with current market standards in the Beijing commercial property rental market. The aggregate amount of rental payments made by us to BSYI for the lease of the Haidian Properties for each of the financial years ended December 31, 2008 and December 2009 was RMB1.2 million. As of June 30, 2010, no rental for the year 2010 was paid and the full rental payment of RMB1.2 million has been paid on August 24, 2010 pursuant to the BSYI Lease.

The BSYI Lease may be terminated at the option of Beijing Outsell at any time prior to its expiry. As such, we enjoy the flexibility to relocate to another site or premise at any time should we consider the BSYI Leased Properties no longer suitable for our use or no longer cost-competitive.

Our Directors estimate that the annual rental payable by Beijing Outsell to BSYI for each of the three years ending December 31, 2012 will not exceed the annual cap of RMB1.2 million. In arriving at the proposed annual caps, our Directors have considered, among other matters, the prevailing market rental 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 proposed annual caps are based on an estimated rental price per square meter that is approximately at the level of the current rental prices of comparable properties.

Based on the performance, total assets and projected market capitalization of our Group, in respect of the Lease, each of the applicable percentage ratios on an annual basis is expected to be more than 0.1% but less than 5%. Therefore, the BSYI Lease will be subject to the reporting, announcement and annual review requirements, but will be exempt from the independent shareholders' approval requirements, applicable to continuing connected transactions under Chapter 14A of the Listing Rules.

The BSYI Lease is renewable at the option of Beijing Outsell by giving three months notice to BSYI prior to its expiry. In the event that we renew the BSYI Lease, we will ensure that we comply with the applicable provisions under Chapter 14A of the Listing Rules.

Savills, the independent property valuer to the Company, has reviewed the aggregate rental payable pursuant to the BSYI Lease Agreements and confirms that the rental payments to be made by us to BSYI contemplated therein are consistent with the market rates of comparable properties in the relevant region, and are fair and reasonable (at the date of commencement of each agreement), and that the terms of each of the BSYI Lease Agreements, including the duration of the BSYI Lease, are on normal commercial terms.

BOARD OF DIRECTORS

Our board of Directors is responsible and has general powers for the management and conduct of our business. Save as disclosed below, none of our Directors has any other directorship in listed companies. The table below shows certain information in respect of members of the board of Directors of our Company:

Name	Age	Position
ZHAO Yihong (趙一弘)	44	Chairman and executive Director
GAO Yan (高雁)	42	Vice Chairman and executive Director
ZHUO Fumin (卓福民)	58	Non-executive Director
WANG Bing (王兵)	42	Non-executive Director
HUANG Jingsheng (黃晶生)	52	Independent non-executive Director
WONG Lap Tat Arthur (黃立達)	50	Independent non-executive Director
XIN Katherine Rong (忻榕)	46	Independent non-executive Director

Executive Directors

ZHAO Yihong (趙一弘) is our co-founder and was appointed as an executive Director with effect from August 11, 2009. He is our Chairman and Chief Executive Officer. Mr. Zhao is also a director of Besunyen Investment, Besunyen HK, Beijing Outsell, Outsell Trade, Besunyen Trade, Guangzhou Outsell, Zhuhai Qi Jia and Ever Assure. Mr. Zhao is the legal representative of Beijing Outsell, Outsell Trade, Besunyen Trade, Guangzhou Outsell and Zhuhai Qi Jia. Mr. Zhao is primarily responsible for our Group's overall strategic planning and the management of our Group's business. Mr. Zhao established Beijing Outsell to pioneer the Group's therapeutic tea products production and distribution in the PRC and has played a vital role in the development of our Group since its commencement in 2000. Mr. Zhao has 20 years of experience in China's food and beverage industry. Between 1988 and 1991, Mr. Zhao has served as an officer at the Jinan Municipal Bureau of Grain of the Shandong Province (山東省濟南市糧食局). Between 1991 and 2000, Mr. Zhao served in various positions, including a sales and a vice manager, responsible for the beverage business in the Northern China region at Ting Hsin International Group, a food conglomerate in the PRC. Mr. Zhao graduated from China Coal Economic College, now known as Shandong Institute of Business and Technology, in 1988 with a bachelor's degree in economics. He also completed the China New Entrepreneur Development Program in 2006, a joint program sponsored by the Enterprise Research Institution, DRC-ERI and the Stanford Center for Professional Development. Mr. Zhao is the spouse of Ms. Gao Yan, our executive Director.

GAO Yan (高雁) is our co-founder and Vice Chairman and was appointed as an executive Director with effect from October 21, 2009. Ms. Gao is also a director of Besunyen Investment, Besunyen HK and Beijing Outsell. Ms. Gao has served as the vice chairman of Beijing Outsell since 2000. Between 1997 and 2000, Ms. Gao worked as a director at Beijing Ruipule, a private trading company. Ms. Gao is the spouse of Mr. Zhao Yihong, our Chairman, Chief Executive Officer and executive Director.

Non-executive Directors

ZHUO Fumin (卓福民) was appointed as a non-executive Director of our Company with effect from October 21, 2009 under the terms and conditions of the Series A Preferred Shares Purchase Agreement entered into among the Company, GGV and other parties. Mr. Zhuo is also the director of Besunyen Investment, Besunyen HK and Beijing Outsell. Mr. Zhuo has more than 30 years of experience in the field of fund management and capital markets. Between 1987 and 1995, Mr. Zhuo served senior positions including a office head and an assistant officer of the Shanghai Economic System Reform Committee. Between 1995 and

2002, Mr. Zhuo held various senior positions at Shanghai Industrial Investment (Holdings) Co., Ltd., including the chief executive officer and the vice chairman of Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 363) and the chairman and an executive director of SIIC Medical Science and Technology (Group) Limited, a medical company. From 2002 to 2005, Mr. Zhuo was the chairman and the chief executive officer of Vertex China Investment Co., Ltd., a wholly owned subsidiary of Vertex Management Group, a global venture capital management company. In 2005, Mr. Zhuo co-founded SIG Capital Limited, an investment fund which focuses primarily on consumer products, new energy and health care sectors. Mr. Zhuo has served as a management partner of GGV Capital, a venture capital fund, since 2008. Mr. Zhuo has served as a non-executive director at Imagi International Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 585) and an independent director at China Enterprise Company Limited (a company listed on the Shanghai Stock Exchange, stock code: 600675). He was an independent non-executive director of Focus Media Holding Limited (a company listed on NASDAQ, stock code: FMCN) and Shenyin Wanguo (H.K.) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 218). Mr. Zhuo graduated from Shanghai Jiaotong University of Engineering Science in 1983. He subsequently obtained a master's degree in economics from Fudan University in 1997.

WANG Bing (王兵) was appointed as a non-executive Director of our Company with effect from May 18, 2010. Mr. Wang has more than 20 years of experience in the field of investment management. In 2000, Mr. Wang founded Dingtian Asset Management Corporation, an investment fund. Mr. Wang established DTC Investment Management (HK) Ltd. and Beijing Dingtian Investment Management Co., Ltd., both being investment companies, in 2008 and served as the chairman for both companies. Mr. Wang has served as an independent non-executive director of TCL Multimedia Technology Holdings Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 1070) and China Paradise Electronics Retail Limited (a company previously listed on the Hong Kong Stock Exchange). Mr. Wang has also held directorship in the following companies listed on the Shanghai Stock Exchange: Beijing Vantone Real Estate Co., Ltd. (stock code: 600264), as an independent director and Tongwei Co., Ltd. (stock code: 600438), as an independent director. Mr. Wang has also served as an independent director of Huayi Brothers Media Corporation (a company listed on the Shenzhen Stock Exchange, stock code: 30027) and an independent director of China Capital Investment (Group) Co., Ltd., a company which specializes in providing financial services. He is currently an independent non-executive director of China Huiyuan Juice Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1886). Mr. Wang graduated from the Capital University of Economics and Business in 1991 with a bachelor's degree in economics. He subsequently graduated from the China Europe International Business School in 2003 with a master's degree in business administration.

Independent Non-executive Directors

HUANG Jingsheng (黃晶生) was appointed as an independent non-executive Director of our Company with effect from May 18, 2010. Mr. Huang co-founded Mtone Wireless Corporation, a mobile phone service provider in China, in 1993 and served as a vice president of marketing. Between 1996 and 1998, Mr. Huang served as a director of Asia Pacific research operations at the Gartner Group, an information and technology research and advisory company. Between 1999 and 2000, he was a senior manager at Intel Capital, an investment company, and was responsible for strategic investment. In 2001, Mr. Huang was a partner at SUNeVision Ventures, an investment company which focuses on the information technology sector. Between 2002 and 2005, Mr. Huang was the managing director of SOFTBANK Asia Infrastructure Fund, a private equity firm. Since 2005, Mr. Huang has served as a managing director of Bain Capital, a private investment firm. Between 2003 to 2008, Mr. Huang has served as an independent director of Gemdale Corporation (a company listed on the Shanghai Stock Exchange, stock code: 600383). Mr. Huang is currently an independent director of Shanda Interactive Entertainment Limited (a company listed on NASDAQ, stock code: SNDA), a non-executive director Clear Media Limited (a company listed on the Hong Kong Stock Exchange, stock code: 100) and SinoMedia Holding Limited (a company listed on the Hong Kong Stock Exchange, stock code: 623).

Mr. Huang graduated from the Beijing Foreign Studies University in 1984 with a bachelor’s degree in English and obtained a master’s degree in arts in 1988 from Stanford University. Mr. Huang received a master’s degree in business administration from Harvard University in 1999.

WONG Lap Tat Arthur (黃立達) was appointed as an independent non-executive Director of our Company with effect from July 1, 2010. Mr. Wong has more than 25 years of experience in the field of accounting. From July 1982 to May 2008, he worked for Deloitte Touche Tohmatsu, an international public accounting firm, in Hong Kong, San Jose and Beijing during different periods of time, and lastly as a partner of its Beijing office, assisting companies with their listings on stock exchanges in the United States and Hong Kong and serving other local and multinational companies. Mr. Wong has not, by himself or through the firm he practices with, provided professional services to the Company in the past. From June 2008 to December 2009, he served as the chief financial officer of Asia New Energy Holdings Pte. Ltd, a company engaged in the business of manufacturing and sales of chemical, fertilizer and energy products in China. Since March 2010, Mr. Wong has been serving as the chief financial officer of Nobao Renewable Energy Holdings Limited, a company engaged in clean energy management service utilizing ground source heat pump technologies in China. Mr. Wong received a higher diploma of accountancy from Hong Kong Polytechnic University in 1982 and a bachelor’s degree in applied economics from the University of San Francisco in 1988. He is a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants.

XIN Katherine Rong (忻榕) was appointed as an independent non-executive Director of our Company with effect from July 1, 2010. Ms. Xin graduated from the University of California in 1995 with a doctorate degree in administration and has over 15 years of experience in academia. Her academic experience includes teaching at the Marshall School of Business at the University of Southern California (from 1995 to 1999), the Hong Kong University of Science and Technology (from 1999 to 2002), the China Europe International Business School (from 2002 to 2006) and the IMD Business School in Switzerland (from 2006 to 2009). In addition to her teaching experience, Ms. Xin has provided management consultancy services to various multinational conglomerates and PRC listed companies. In 2009, Ms. Xin returned to China Europe International Business School as a professor in the School of Management and also serves as a professor in charge of the bilingual executive master’s degree of Business Administration program at the Hong Kong University of Science and Technology. Ms. Xin is currently the editor-in-chief of the Harvard Business Review (China).

Save as disclosed in this document, there is no other information in respect of each of our Directors that is required to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules and there is no other material matter relating to our Directors that needs to be brought to the attention of our Shareholders.

SENIOR MANAGEMENT

The table below sets forth information regarding our senior management (including directors who also hold executive positions):

Name	Age	Position
ZHAO Yihong (趙一弘)	44	Chief Executive Officer
MOU Wenjun (牟文軍)	37	Vice President
LU KU Yueh-yueh (顧悅悅)	60	Vice President
LIU Xiong (劉雄)	36	Vice President
CAI Ya (蔡亞)	53	Vice President
Allen CHIEN Kun (錢崑)	48	Chief Financial Officer
YU Hongjiang (于洪江)	45	Vice President

For information on ZHAO Yihong, see "Directors and Senior Management — Board of Directors" in this book.

MOU Wenjun (牟文軍) is our Vice President principally in charge of our sales. Mr. Mou joined our Group in 2001 and has more than 10 years of experience in the field of sales and marketing. Between 1998 and 1999, Mr. Mou served as a manager at Hainan Yangshengtang Medical Co., Ltd., a health care product company and was responsible for marketing. Between 1999 and 2001, Mr. Mou worked at Beijing Green World Nutrition Health Products Co., Ltd., a health food manufacturer, as a sales director responsible for the PRC southern region. Mr. Mou has held various senior positions in our Group, including a branch office manager in Guangzhou and a sales director. Mr. Mou graduated from Huabei Chemical School in 1995 with a diploma in polymer chemistry.

LU KU Yueh-yueh (顧悅悅) is our Vice President principally in charge of our marketing. Ms. Ku joined our Group in 2008 and has more than 30 years of experience in the field of marketing. Between 1976 and 1994, Ms. Ku held various positions at Unilever, a multinational consumer products corporation, in Taiwan and was responsible for production, marketing and business development. Between 1994 and 1997, Ms. Ku worked at Smithkline Beecham Pharmaceuticals, a pharmaceutical company, as a director responsible for marketing. Between 1997 and 2008, Ms. Ku served various positions including a vice general manager and a director of the marketing department at Joincare Pharmaceutical Group Industry Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600380). Ms. Ku graduated from National Taiwan University in 1971 with a bachelor's degree in law.

LIU Xiong (劉雄) is our Vice President principally in charge of our media buying. Mr. Liu joined our Group in 2009 and has more than 15 years of experience in the field of sales and marketing. Between 1998 and 2006, Mr. Liu worked at Juren Group, a health care product company, where he has held various managerial positions in different subsidiaries of the group. Between 2007 and 2009, Mr. Liu worked as a general manager at Suzhou Rundong Daily Products Co., Ltd., a health care product company, and was responsible for the sales of various medical products. In 1995, Mr. Liu obtained a diploma in economics management from the Inner Mongolian University (內蒙古大學).

CAI Ya (蔡亞) is our Vice President principally in charge of our research & development. Dr. Cai is also a director of Ever Assure and a director and the legal representative of Jian Shi Xing, a company which focuses on the research and development of tea and Chinese medicinal herbal products. Dr. Cai joined our group in 2010 and has more than 25 years of experience in the field of chemistry research. Between 1988 and 1990, Dr. Cai worked at the chemistry department of the University of Sheffield as a researcher. Between 1990 and 1992, Dr. Cai worked at the School of Pharmacy of the University of London as a researcher. Between 1992 and 1993, Dr. Cai worked at the Stiefel Laboratories as a researcher for the Chinese herbal project. Between 1993 and 1997, Dr. Cai worked at the natural products department of the England office of Unilever, a multinational consumer products corporation, as a tea scientist. Between 1997 and 2000, Dr. Cai worked as a senior manager at the PRC office of Unilever and was responsible for the business development of the Lipton Tea business. Between 2000 and 2001, Dr. Cai worked at the London office of Unilever as a senior manager for the China business. Between 2002 and 2006, Dr. Cai worked as a research director of Unilever in the PRC. Between 2007 and 2010, Dr. Cai worked at Jian Shi Xing as a general manager. Dr. Cai graduated from the polymer science department of Chengdu Technology University in 1982 with a bachelor's degree in engineering and in 1985 with a master's degree in engineering. He graduated from the University of Sheffield in 1990 as a doctor of philosophy.

Allen CHIEN Kun (錢崑) is our Chief Financial Officer. Mr. Chien joined our Group in January 2010 and has more than 17 years of experience in the fields of investment banking, finance and corporate financial management. Between 1993 and 1997, Mr. Chien worked at BZW Asia Limited, a company which specializes in providing financial services and held various senior positions including senior manager. Between 1997 and 2001, Mr. Chien served as a vice president and subsequently a director of Salomon Smith Barney Hong Kong Limited, a company which specializes in providing financial services. Between 2001 and 2006, Mr. Chien held various senior positions at the Hongkong and Shanghai Banking Co., Ltd., including serving as a managing director of the investment banking division and the Asia Pacific Regional Head of Transport and Logistics. From 2007 to 2008, Mr. Chien served as the chief financial officer of Xiwang Sugar Holdings Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 2088). Mr. Chien has served as an independent non-executive director and the chairman of the audit committee of China Mass Media Corp. (a company listed on the New York Stock Exchange, stock code: CMM) since May 2009. Mr. Chien graduated from Fudan University in 1984 with a bachelor degree in mathematics. He obtained a master's degree in mathematics from the University of Alberta in Canada in 1990 and a master's degree in business administration from the Richard Ivey Business School of the University of Western Ontario in Canada in 1993.

YU Hongjiang (于洪江) is our Vice President principally in charge of our internal control. Mr. Yu is also a director and the legal representative of Besunyen Food and Beverage. Mr. Yu joined our Group in 2000 and has more than 20 years of experience in the field of finance. Between 1987 and 1989, Mr. Yu served as a manager of the finance department at Tianjin Binhai Company Limited (now known as Tianjing Zhongxin Pharm. Binhai Corp., Ltd.). Between 1997 and 2000, Mr. Yu worked at Beijing Green World Nutrition Health Products Co., Ltd., a health food manufacturer, as the chief financial officer. Mr. Yu graduated from Shanxi University of Finance and Economics in 1987 and obtained a bachelor's degree in economics with a major focus in accounting.

Company Secretary

AU Lap Ming (區立明), 32, was appointed as the company secretary of our Group with effect from July 1, 2010. Mr. Au has more than 10 years of experience in providing corporate services. Prior to joining our Group, Mr. Au worked at an international public accounting firm and related companies for 8 years. From 2007 to March 2010, Mr. Au worked at Rosedale Hotel Holdings Limited (formerly known as "Wing On Travel (Holdings) Limited") (a company listed on the Hong Kong Stock Exchange, stock code: 1189) as a company secretarial manager. From April 2010 to June 2010, he worked as an assistant company secretary of Wheelock Secretaries Limited and was responsible for the company secretarial affairs of The Wharf (Holdings) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 0004), Harbour Centre Development Limited (a company listed on the Hong Kong Stock Exchange, stock code: 0051) and i-Cable Communications Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1097). Mr. Au graduated from The Hong Kong Polytechnic University in 1999 with a bachelor's degree in accounting. He also holds a bachelor's degree in law and a master's degree in law from the University of London. He is an associate member of the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

All Directors receive reimbursements from our Company for expenses which are necessarily and reasonably incurred for providing services to our Company or executing matters in relation to the operations of our Company. The executive Directors elected by the board of our Company, who are also employees of our Company, are entitled to receive, in their capacity as employees of our Company, compensation in the form of salaries, other allowances and benefits in kind.

The aggregate amounts of remuneration (including fees, salaries, other allowances and discretionary bonuses and, for the six months ended June 30, 2010, including share-based compensation expense) paid to our Directors in 2007, 2008, 2009 and the six months ended June 30, 2010 were RMB0.3 million, RMB0.4 million, RMB0.7 million and RMB3.9 million, respectively.

The aggregate amounts of remuneration (including fees, salaries, other allowances and discretionary bonuses and, for the six months ended June 30, 2010, including share-based compensation expense) paid by our Group to our five highest paid individuals which included two Directors in 2007, 2008, 2009 and the six months ended June 30, 2010 were RMB0.2 million, RMB0.3 million, RMB0.7 million and RMB3.0 million, respectively.

No remuneration was paid by our Group to the Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office during the Track Record Period. Further, none of our Directors had waived any remuneration during the same period.

Under our arrangements currently in force, the aggregate remuneration (including fees, salaries, other allowances and discretionary bonuses) of our Directors for the year ended December 31, 2010 is estimated to be approximately RMB13,856,000.

	US$
Authorized share capital:	
5,640,000,000 ordinary shares with a par value of US$0.00000833333 each and 360,000,000 Series A preferred shares with a par value of US$0.00000833333 each	49,999.98
Issued share capital:	
1,158,022,680 ordinary shares and 102,788,640 Series A Preferred Shares	10,507

The following discussion and analysis of our financial condition and results of operations are based on and should be read in conjunction with our financial information for each of the three years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2009 and 2010, including the notes thereto, as set out in Appendix I — "Accountants' Report" and other financial information appearing elsewhere in this document. Our financial information has been prepared in accordance with IFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions, including in the United States.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set out in the section headed "Risk Factors" in this document.

OVERVIEW

We are the leading provider of therapeutic tea (功能保健茶) products in China, engaging in the development, production, sales and marketing of therapeutic tea and other health food products. According to the Euromonitor Study, which was commissioned by us, we had the largest market share among all therapeutic tea providers in China in terms of retail sales value in 2008 and 2009. Produced using our proprietary blends of high quality Chinese medicinal herbs and teas, our products are designed and marketed as effective, safe, affordable and convenient-to-use health products for people with mild chronic or recurring health problems as well as those seeking to maintain a healthy body and lifestyle. We believe our 碧生源 (Besunyen) brand is a leading therapeutic tea brand in China.

We have derived substantially all of our turnover from the sale of our two best-selling products, Besunyen Detox Tea (碧生源常潤茶) and Besunyen Slimming Tea (碧生源減肥茶), which are the leading therapeutic tea products sold through retail pharmacies in China in the laxative and slimming product markets, respectively, according to the SMERI Study, which was commissioned by us. According to the SMERI Study, we were the leading provider of laxative products sold through retail pharmacies in 2009 in terms of retail sales value, enjoying a 25.2% market share. In the market for slimming products sold through retail pharmacies, our market share increased rapidly from 8.1% in 2008 to 15.9% in 2009, ranking as the second largest provider of slimming products and the largest provider of slimming tea in terms of retail sales value in 2009. Leveraging upon the success of our 碧生源 (Besunyen) brand, we plan to continue to expand our product offerings. We are expanding into the OTC tea market with the planned launch of our Besunyen MaiShuPing Tea (碧生源脈舒平袋泡茶), an OTC tea product, which we acquired through our acquisition of Zhuhai Qi Jia in January 2010. Because of the revocation of approvals for three advertisements, the production of which we were not involved in, with respect to MaiShuPing Tea by Guangdong SFDA in June 2010, we are not permitted to advertise our Besunyen MaiShuPing Tea until June 28, 2011. Taking into account market and business considerations, we currently expect to launch Besunyen MaiShuPing Tea some time after June 2011. Our product pipeline also includes four SFDA-approved health food products that we are planning to launch on a product-by-product basis, starting in late 2010. We believe that our market-leading position and strong national brand name have allowed us to develop a broad customer base in China, which in turn will facilitate more rapid acceptance of our new products.

Our products are sold in over 100,000 retail outlets, more than 95% of which are retail pharmacies, across China through our nationwide network of distributors. Our network of distributors[1] has grown from 151 distributors covering four provinces and centrally administered municipalities in China as of December 31, 2007 to 409 distributors covering 30 provinces and centrally administered municipalities in China as of June 30, 2010.

[1] *These distributors operated in geographic markets covered by our on-the-ground local sales teams. During the Track Record Period prior to 2010, we also sold a small portion of our products to distributors located in markets which our local sales teams did not yet cover.*

We also have expanded our presence in supermarkets and convenience stores, in particular large chains such as Wal-Mart and Watsons. Our on-the-ground sales teams, consisting of approximately 1,260 full-time employees in our 81 sales offices across China as of June 30, 2010, interact closely with and monitor our distributors and retail outlets to ensure consistency and quality in our sales and brand-building while still tailoring our marketing efforts to local preferences.

Our turnover has increased rapidly during the Track Record Period, growing from RMB163.1 million in 2007 to RMB358.2 million in 2008 and RMB646.5 million in 2009, representing a CAGR of 99.1%, and from RMB223.7 million in the six months ended June 30, 2009 to RMB368.7 million in the six months ended June 30, 2010 representing a year to year growth of 64.8%. Our gross profit increased from RMB115.4 million in 2007 to RMB298.1 million in 2008 and RMB578.1 million in 2009, representing a CAGR of 123.9%, and from RMB201.7 million in the six months ended June 30, 2009 to RMB330.7 million in the six months ended June 30, 2010, while our total comprehensive income increased from RMB47.6 million in 2007 to RMB122.0 million in 2008 and RMB141.7 million in 2009, representing a CAGR of 72.6%. Our total comprehensive income in 2009 was decreased from RMB68.9 million in the first six months of 2009 to RMB21.1 million in the first six months of 2010.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on August 5, 2009, and as a result of our Reorganization, we conduct substantially all of our businesses through our wholly owned subsidiaries in the PRC, Beijing Outsell, Outsell Trade, Besunyen Trade, Guangzhou Outsell and Besunyen Food and Beverage. See the section headed "History, Reorganization and Group Structure." in this document. The Reorganization represents a business combination involving entities under the common control of Mr. Zhao Yihong, our founder, Chairman and Chief Executive Officer. The financial information is prepared on a combined basis in a manner similar to merger accounting. See note 1 of the Accountants' Report of the Company included in Appendix I to this document. Our consolidated statements of comprehensive income, statements of financial position, statements of cash flows and statements of changes in equity of the companies now comprising the Group as a result of the Reorganization as of or in each of the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010 have been prepared as if our Group's corporate structure had been in existence since January 1, 2007 or since the respective dates of incorporation or establishment, whichever is later. The consolidated financial statements, which are presented in Renminbi, have been prepared in accordance with IFRS issued by the International Accounting Standards Board.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The major factors affecting our results of operations over any given period and financial condition at any given time include the following:

Sales Volume and Pricing

Our turnover is determined by our sales volume and the prices of our products. Our sales volume has grown significantly during the Track Record Period, while the effective sales prices (calculated as turnover divided by sales volume) of our products have remained relatively unchanged. The following table sets forth sales volume, in terms of number of tea bags, by product during the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,	
	2007	2008	2009	2009	2010
	(in thousands of tea bags)				
Besunyen Detox Tea[(1)]	69,822	146,680	235,187	77,645	116,628
Besunyen Slimming Tea[(2)]	40,369	134,168	216,848	81,149	179,050
Other products[(3)]	36,195	15,799	14,444	9,560	4,690
Total	146,386	296,648	466,478	168,355	300,368

(1) *Includes 12,388, 26,698, 44,121, 12,526 and 21,773 (in each case, in thousands of tea bags) of free Besunyen Detox Tea product bundled with sales of our products in 2007, 2008, 2009 and the six months ended June 30, 2009 and 2010, respectively. During the Track Record Period, we sold a significant portion of our Besunyen Detox Tea in packages containing two ten-bag boxes and one five-bag box, with the five-bag box marketed as a free product giveaway.*

(2) *Includes 12,385, 39,300, 11,636, 8,603 and 3,445 (in each case in thousands of tea bags) of free Besunyen Slimming Tea product bundled with sales of our products in 2007, 2008, 2009 and the six months ended June 30, 2009 and 2010, respectively. Prior to producing our Besunyen Slimming Tea using our IMA C24 packaging machines (which produce 25-bag boxes) in 2009, we sold a significant portion of our Besunyen Slimming Tea in packages containing one twenty-bag box and one ten-bag box, with the ten-bag box marketed as a free product giveaway.*

(3) *Includes 5,525, 1,746, 262, 262 and nil (in each case in thousands of tea bags) of free product bundled with sales of our other products in 2007, 2008, 2009 and the six months ended June 30, 2009 and June 30, 2010, respectively.*

As prices vary among our products, sales volume changes for higher-priced products may have a greater impact on our turnover than sales volume changes for lower-priced products. The relationship between sales volume and turnover would also be impacted by any changes to the discount to recommended retail price and rebates we offer to distributors. Including free product bundled with sales, the effective sales price per tea bag of our Besunyen Detox Tea was RMB1.47, RMB1.52, RMB1.59 and RMB1.53, and the effective sales price per tea bag of our Besunyen Slimming Tea was RMB0.97, RMB0.91, RMB1.23 and RMB1.05, in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively. Changes to the effective prices of our products have historically been impacted primarily by our packaging and the amount of free product bundled with sales. The increase in the effective price of Besunyen Slimming Tea in 2009 was primarily due to a decrease in the amount of free product bundled with sales, while the decrease in the effective price of Besunyen Slimming Tea in the first half of 2010 compared with the year 2009 was primarily due to our switching from 20-bag boxes to 25-bag boxes in late 2009 when we began using IMA C24 packaging machines.

Sales volume and pricing of our products are significantly affected by the level of market demand for our products, the coverage of our distribution and sales network and our product portfolio.

Market demand for our products

Our historical sales volume growth has been driven in part by the growth in the size of the markets for our therapeutic tea products. China's therapeutic tea market and overall health food product market are growing rapidly, with sales of health food products in the six categories of health benefits covered by our two currently marketed products and four SFDA-approved pipeline products growing from RMB20.7 billion in 2005 to

RMB34.3 billion in 2009, representing a CAGR of 13.4%, according to the Euromonitor Study, while China's overall therapeutic tea market in China grew from RMB3.1 billion in 2005 to RMB4.1 billion in 2009 and China's overall health food product market grew from RMB40.0 billion in 2005 to RMB63.7 billion in 2009, representing a CAGR of 12.4%. As a leading therapeutic tea brand in China, we are well positioned to take advantage of the expected rapid growth of China's therapeutic tea market and overall health food product market. As we expand to offer additional therapeutic tea products, we expect our future sales volume growth to continue to benefit from the growth of China's therapeutic tea and overall health food product markets. The rate of growth of these markets is affected by a number of factors, including the growth of China's GDP and disposable income levels in China as well as consumer preferences, in particular the popularity of Chinese medicinal herb-based products and therapeutic tea products.

In addition, demand for our products within their segments of the therapeutic tea market may be impacted by the success of our advertising and marketing activities, public perception of our products and brand and the level of competition we face. If the level of competition we face increases, we may be required to lower our prices or increase our marketing and promotional efforts, which could negatively impact our turnover and profitability.

Coverage of our distribution and sales network

Capitalizing on rising market demand and our successful marketing and branding efforts, we have been able to enjoy strong sales volume and turnover growth through the rapid expansion of our distribution and sales network during the Track Record Period. Our network of distributors operating in geographic markets covered by our on-the-ground local sales teams has grown from 151 distributors covering four provinces and centrally administered municipalities in China as of December 31, 2007 to 409 distributors covering 30 provinces and centrally administered municipalities in China as of June 30, 2010. Along with the expansion of our distributor network, we have established local sales offices across China, growing from 29 offices in four provinces and centrally administered municipalities as of December 31, 2007 to 81 offices in 30 provinces and centrally administered municipalities as of June 30, 2010. Our products are sold in over 100,000 retail outlets across China.

In addition to expanding our distribution and sales network by entering into new geographic areas, we are developing additional retail channels, including large supermarket and convenience store chains such as Wal-Mart and Watsons. We started selling our products in Wal-Mart stores through its designated distributors in August 2009.

We will continue our efforts to penetrate new markets and replicate our successful flat distribution model in new markets, especially in second- and third-tier cities in China. Our turnover and profit growth will therefore continue to depend to a significant extent on our ability to successfully grow and manage our distribution and sales network. We may face challenges finding suitable distributors, especially as we expand into less developed areas of China, and we will continue to rely on the ability of our distributors to successfully sell our products to retail outlets and on the ability of our retail outlets to successfully promote our products to end consumers. In addition, as sales in our more mature markets reach higher levels, the rate of our sales volume growth in those markets generally moderates.

Our product portfolio

Our ability to introduce new products to the market that meet consumer preferences will have a significant influence on our future sales volume and financial performance. Starting in late 2010, we expect to launch on a product-by-product basis a series of four new health food products that have already received relevant SFDA approvals, including products designed to improve sleep, lower blood sugar, lower blood lipid levels and protect the liver, respectively, and we plan to expand into the OTC tea market with the launch of our recently acquired blood pressure reduction tea, Besunyen MaiShuPing Tea, some time after June 2011 taking into account market and business considerations[(2)]. The relative success of our new products may impact our profitability if they have higher or lower profit margins than our existing products. We may incur significant costs and expenses relating to product development, obtaining the relevant regulatory approvals and marketing and distribution for each of the new products we launch. The success of our new products depends on a number of factors, including our ability to accurately anticipate changes in market demand and consumer preferences, our ability to differentiate our products from those of our competitors, intellectual property rights of competitors that may limit our ability to offer comparable products, government regulations, our ability to obtain all required regulatory approvals and the effectiveness of our marketing and advertising campaigns for these products.

Advertising Activities

Our advertising expenses were RMB49.1 million, RMB118.2 million, RMB196.7 million, RMB63.5 million and RMB117.1 million in 2007, 2008, 2009 and the six months ended June 30, 2009 and June 30, 2010, respectively, equal to 30.1%, 33.0%, 30.4%, 28.4% and 31.8% of our total turnover in those periods, respectively. As a result, fluctuations in our advertising expenses can have a significant effect on our profitability.

We consider advertising to be essential to the promotion of our brand and increasing market demand for our products. Having a widely recognized nationwide brand allows us to quickly achieve rapid turnover growth through expansion into new geographic markets and product segments. As a result, we view advertising as an investment in future sales and profitability growth. However, as there may be a lag between advertising expenses and the benefits to turnover derived from such advertising activities, an increase in our advertising expenses in a given period may negatively affect our profitability in that period. In addition, our advertising expenses may be greater as a percentage of turnover during periods in which we are introducing new products to the market or expanding the geographic areas in which we sell our products.

Our main forms of advertising and promotion include television commercials and sponsorship of television programs, for which our dedicated media buying team is responsible. In addition, we often select a combination of different media in a target market, including newspapers, magazines, public transportation displays, flat-panel displays placed in elevator lobbies and other public areas, the Internet and radio stations, to ensure broad coverage of our advertisements. Period-over-period increases in our advertising expenses during the Track Record Period were driven partially by rising advertising rates for television and other media in China during that period. We expect advertising rates to continue to rise in the future.

Raw Material and Packaging Material Costs

Our raw material costs and packaging material costs totaled in aggregate RMB39.1 million, RMB49.3 million, RMB54.6 million, RMB17.6 million and RMB27.1 million, equal to 24.0%, 13.8%, 8.4%, 7.9% and 7.4% of our total turnover, in 2007, 2008, 2009 and the six months ended June 30, 2009 and 2010, respectively. As a result, any significant fluctuations in our cost of raw materials and packaging materials may materially impact our cost of sales and gross margin. Fluctuations in these costs may arise from changes in the types or prices of materials we use. In addition, our raw material costs and packaging material costs as a percentage of turnover are affected by promotional activities whereby we provide free product giveaways with sales of our products. Changes to these promotional activities may impact our gross margin.

The prices for our raw materials and packaging materials are determined principally by market forces and our bargaining power vis-a-vis our suppliers. During the Track Record Period, market prices of certain of our raw materials and packaging materials experienced short-term fluctuations due to weather conditions or other factors beyond our control. However, unit prices we paid for raw materials and packaging materials during the Track

[(2)] *Due to the revocation of approvals for three advertisements with respect to MaiShuPing Tea by Guangdong SFDA on June 28, 2010, we are not permitted to advertise our Besunyen MaiShuPing Tea until June 28, 2011.*

Record Period decreased significantly as the volume of our orders increased and we enjoyed long-term relationships with many suppliers, which increased our bargaining power. This decrease in unit prices for our raw materials and packaging materials was a significant factor contributing to the increase in our gross margins during the Track Record Period. Although fluctuations in market prices of raw materials did not significantly affect our results of operations during the Track Record Period, future large fluctuations in market prices of raw materials or packaging materials could materially adversely impact us.

Seasonality

Seasonality has a material effect on our turnover quarter-to-quarter. We typically experience relatively low sales for our products in the first quarter due to the effect of Chinese New Year, which causes overall economic activity in China to decrease. We generally experience the highest sales of our Besunyen Slimming Tea as a percentage of our total turnover during the second and third quarters as consumers are generally more conscious of their figures prior to and during the summer months, while our Besunyen Detox Tea, which accounted for 62.9%, 62.0%, 57.7% and 48.3% of our total turnover in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively, generally experiences its highest sales, both in absolute terms and as a percentage of our total turnover, in the fourth quarter. Turnover in the fourth quarter accounted for 32.3%, 29.8% and 36.0% of our total turnover in 2007, 2008 and 2009, respectively. Although we plan our advertising and promotional activities for our products taking into account these seasonal changes in demand, a significant portion of our selling and marketing expenses and administrative expenses are not closely tied to seasonality in our turnover. As a result, this seasonality may also cause fluctuations in our profitability from quarter to quarter in line with fluctuations in our turnover.

Tax Treatment

Our profitability may be significantly affected by changes in tax rates, particularly PRC enterprise income tax rates applicable to our principal operating subsidiary, Beijing Outsell. Beijing Outsell is subject to certain preferential tax treatment under applicable PRC laws and regulations as a foreign-invested enterprise established prior to January 1, 2008. Beijing Outsell's preferential tax treatment exempt it from enterprise income tax for the first two years starting from its first year of profitability under PRC generally accepted accounting principles (as adjusted pursuant to relevant PRC tax rules), which was 2007. Following the two-year exemption, Beijing Outsell enjoys a 12.5% reduced enterprise income tax rate for the following three years, namely 2009, 2010 and 2011, after which it will enjoy a reduced 15% enterprise income tax rate as an NHTE as long as it maintains its qualification as an NHTE. These changes in Beijing Outsell's applicable tax rate, and any future changes that may be caused by changes in China's tax policy or regulations, will affect our profitability.

Under the PRC EIT Law, a distribution of dividends from a PRC subsidiary to its non-PRC shareholders arising from profits earned after January 1, 2008 is generally subject to a 10% withholding income tax. In the event that a company incorporated in Hong Kong directly holds no less than 25% of the equity interest of the PRC subsidiary, the applicable tax rate for such withholding income tax is 5%. Pursuant to Circular 601, however, the Hong Kong holding company may not be able to enjoy the 5% preferential withholding tax if it fails to qualify as a "beneficial owner" under Circular 601, in which case the dividends would be subject to the standard 10% withholding tax. For more details, please see the section headed "Risk Factors — PRC tax laws on dividend distribution may materially and adversely affect our business and results of operations and dividends payable by us to our foreign investors and gains on the sale of our Shares may be subject to withholding taxes under PRC tax laws" in this document. There is no withholding tax on distribution of profits earned before January 1, 2008.

DESCRIPTION OF PRINCIPAL INCOME STATEMENT ITEMS

Turnover

During the Track Record Period, all of our turnover was derived from sales of therapeutic tea products. Turnover represents the invoiced value of our products less returns, discounts, rebates and 17% value-added tax. The following table sets forth a breakdown of turnover by product for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2007		2008		2009		2009		2010	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
Turnover contributed from:										
Besunyen Detox Tea	102,545	62.9%	222,187	62.0%	373,135	57.7%	122,509	54.8%	178,173	48.3%
Besunyen Slimming Tea	38,985	23.9%	121,913	34.0%	265,706	41.1%	96,161	43.0%	187,493	50.9%
Other Products	21,570	13.2%	14,131	4.0%	7,694	1.2%	5,009	2.2%	3,018	0.8%
Total	163,100	100.0%	358,231	100.0%	646,535	100.0%	223,679	100.0%	368,684	100.0%

Growth in our turnover during the Track Record Period was due to increased sales of our products in our existing markets as well as growth of our sales in new geographic areas through the expansion of our distribution and sales network.

We sell substantially all of our products through distributors and recognize sales as turnover upon confirmation of receipt of the products by the distributor, at which time title has passed to the distributor. We generally sell to local distributors to take advantage of their local expertise and usually enter into relationships with new distributors in each new geographic market that we enter. We sell our products to distributors at a discount to the recommended retail price and designate a minimum price at which distributors may sell our products. We also provide minimum prices at which retail outlets may sell our products to end consumers.

We price our products primarily based on market demand, while also taking into account raw material and packaging material costs and related marketing and promotion expenses. We price our products at a price which we believe is affordable to a wide range of consumers, offering consumers value for their money relative to OTC and prescription products promising similar functionality.

Cost of Sales and Gross Profit

Our cost of sales comprises raw material costs, packaging material costs, labor costs directly related to production of our products and manufacturing overhead. Chinese medicinal herbs used in our products constitute the largest component of raw material costs. Raw material costs and packaging material costs are recognized when the turnover in relation to sales of the finished product using such raw materials or packaging materials is recognized. Manufacturing overhead consists of costs related to operating our manufacturing facilities, which have principally included utility fees, depreciation of property, plant and equipment, amortization of patents and trademarks and maintenance costs, and other indirect costs related to manufacturing, including transportation and travel. The following table sets forth a breakdown of cost of sales by component for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2007		2008		2009		2009		2010	
	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover
Raw material costs	21,208	13.0%	19,379	5.4%	20,269	3.1%	5,975	2.7%	6,876	1.9%
Packaging material costs	17,898	11.0%	29,903	8.3%	34,293	5.3%	11,632	5.2%	20,254	5.5%
Labor costs	3,067	1.9%	3,801	1.1%	4,887	0.8%	1,020	0.5%	3,655	1.0%
Manufacturing overhead	5,555	3.4%	7,031	2.0%	8,952	1.4%	3,372	1.4%	7,177	1.9%
Total cost of sales	47,728	29.3%	60,114	16.8%	68,401	10.6%	21,999	9.8%	37,962	10.3%
Gross Profit	115,372	70.7%	298,117	83.2%	578,134	89.4%	201,680	90.2%	330,722	89.7%

Our cost of sales, and each of the three components of our cost of sales, decreased significantly as a percentage of our total turnover during the Track Record Period, thereby increasing our gross margin from 70.7% in 2007 to 83.2% in 2008, 89.4% in 2009 and 89.7% in the six months ended June 30, 2010. The major factors causing the increase in our gross margin during the Track Record Period included (i) changes in our packaging whereby we used larger box sizes, which required less packaging materials for the same sales volume, (ii) lower prices on raw materials and packaging materials as our bargaining power with suppliers increased, and (iii) improving economies of scale as our production utilization rate increased and we began using more efficient advanced production equipment. Our lower gross margin in 2007 was partially due to our using third-party manufacturers to handle the processing of raw materials into semi-finished products for a portion of our products prior to the transfer of our production process into our own production facilities in mid-2007. As costs for purchasing these semi-finished products were booked as raw material costs, our raw material costs as a percentage of turnover were higher in 2007. We may not be able to sustain the same level of gross margin as we continue to invest in advanced production equipment and introduce new products to the market in 2010, 2011 and beyond. We expect to incur moderately higher per unit cost of sales in the full year 2010 as compared to 2009, primarily due to our shift to utilization of more advanced IMA C24 packaging machines, which require use of higher quality packaging materials and have higher depreciation costs.

Other Income (Expenses)

Our other income (expenses) have primarily consisted of (i) government grants, comprising various subsidies from local governments, (ii) interest income on bank accounts, and (iii) gains and losses on investments held for trading, which comprised investments in publicly traded equity securities in China as part of our cash management measures. The aggregate amounts of the government grants we recognized in profit or loss equaled nil, 1.6%, 1.2% and 1.0% of our turnover, in 2007, 2008, 2009 and the six months ended on June 30, 2010, respectively. In general, we received these government grants from local governments as subsidies to assist local businesses and incentives to create employment opportunities and introduce new technologies. The investments in publicly traded securities in China were approved by our senior management according to investment plans proposed by our commercial bank service providers. We currently do not hold any such investments and do not intend to enter into similar investments in the foreseeable future. Changes in our other income (expenses) during the Track Record Period were primarily due to increases in our government grants and fluctuations in our gains and losses on investments held for trading.

Selling and Marketing Expenses

Our selling and marketing expenses principally comprise advertising expenses, other marketing and promotional expenses, which principally include expenses related to local promotional activities at retail outlets, special promotional activities and production and distribution of marketing materials, and staff costs of our marketing and sales personnel. The following table sets forth a breakdown of our selling and marketing expenses by component for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2007		2008		2009		2009		2010	
	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover
Advertising expenses	49,081	30.1%	118,203	33.0%	196,694	30.4%	63,521	28.4%	117,140	31.8%
Other marketing and promotional expenses	6,648	4.1%	19,951	5.6%	47,099	7.3%	13,277	5.9%	23,635	6.4%
Staff costs[(1)]	7,020	4.3%	15,952	4.5%	70,014	10.8%	26,071	11.7%	32,607	8.8%
Others	991	0.6%	8,766	2.4%	30,001	4.6%	9,850	4.4%	13,304	3.6%
Total	63,740	39.1%	162,872	45.5%	343,808	53.1%	112,719	50.4%	186,686	50.6%

[(1)] *Includes share-based compensation expenses of RMB0.9 million in the six months ended June 30, 2010.*

The increase in our selling and marketing expenses during the Track Record Period was primarily due to the expansion of our advertising and other marketing and promotion activities as we implemented our nationwide brand-building strategy and an increase in our sales and marketing personnel as we significantly expanded our distribution and sales network. Our selling and marketing expenses decreased as a percentage of our total turnover from 53.1% in 2009 to 50.6% in the six months ended June 30, 2010. This decrease is primarily due to measures taken in the second half of 2009 to streamline our operations and improve the efficiency of our local sales force. We expect our selling and marketing expenses will continue to be affected by our marketing and advertising strategies and prices for advertising, especially television advertising. Our selling and marketing expenses will also be impacted by the rate at which we grow our distribution and sales network and may increase during periods around the launch of new products due to enhanced advertising for those products.

Administrative Expenses

Our administrative expenses principally comprise staff costs of our administrative personnel, office expenses, professional fees, travel and entertainment expenses and research and development costs. Staff costs of our administrative personnel and office expenses have generally been the largest components of our administrative expenses.

The following table sets forth a breakdown of our administrative expenses by component for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2007		2008		2009		2009		2010	
	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover	RMB'000	% of turnover
Staff costs[1]	1,692	1.0%	3,086	0.9%	9,508	1.5%	3,843	1.7%	16,435	4.5%
Office expenses	1,523	0.9%	3,130	0.9%	6,697	1.0%	2,474	1.1%	5,349	1.5%
Professional fees	553	0.3%	1,548	0.4%	3,304	0.5%	1,741	0.8%	1,963	0.5%
Travel and entertainment expenses	822	0.5%	1,928	0.5%	3,452	0.5%	1,411	0.6%	2,800	0.7%
Research and development costs	0	0.0%	891	0.2%	1,946	0.3%	801	0.4%	1,319	0.3%
Others	932	0.7%	941	0.3%	2,893	0.5%	1,166	0.5%	2,086	0.6%
Total	5,522	3.4%	11,524	3.2%	27,800	4.3%	11,436	5.1%	29,952	8.1%

[1] *Includes share-based compensation expenses of RMB6.8 million in the six months ended June 30, 2010.*

The increase in our administrative expenses during the Track Record Period was primarily attributable to increased office expenses, in particular in 2008, and increases in staff costs of our administrative personnel in connection with the overall expansion of our operations and distribution and sales network. We expect our research and development costs to increase in 2010 and beyond due to the expansion of our research team as a result of our acquisition of Jian Shi Xing in May 2010. The increase in our administrative expenses in the six months ended June 30, 2010 was principally due to share-based compensation expenses of RMB6.8 million.

Finance Costs

Our finance costs during the Track Record Period consisted of interest on bank borrowings and advisory fees in connection with the sale of our Series A Preferred Shares in October 2009, less amounts capitalized for borrowings in connection with construction in progress.

Change in Fair Value on Convertible Redeemable Preferred Shares

Change in fair value on convertible redeemable preferred shares relates to the change in the fair value of the Series A Preferred Shares we issued in October 2009. Our Series A Preferred Shares were valued at fair value by the Directors with reference to valuation reports carried out by an independent qualified professional valuer and the changes in fair value are recorded as a non-cash charge in the consolidated statements of comprehensive income, but have no impact on our consolidated statements of cash flows. For further details, please see Note 34 of the Accountants' Report in Appendix I to this document.

Taxation

Our taxation expenses comprise PRC enterprise income tax, provisions for withholding tax and deferred tax. Beijing Outsell enjoyed an enterprise income tax exemption in 2007 and 2008 (as 2007 was the first year Beijing Outsell achieved an accumulated profit) and a reduced enterprise income tax rate of 12.5% in 2009. Beijing Outsell is currently approved to enjoy the 12.5% reduced enterprise income tax rate in 2010 and 2011 and a 15% reduced enterprise income tax rate as an NHTE from 2012. Our other subsidiaries in China are subject to the standard 25% enterprise income tax rate under the PRC EIT law. Our effective tax rate (calculated as the sum of our income tax and deferred tax, divided by our profit before taxation) in 2007, 2008, 2009 and the six months ended June 30, 2010 was 0.0%, 0.0%, 20.3% and 51.9%, respectively. Our higher effective tax rate in 2009 and especially in the six months ended June 30, 2010 was significantly affected by charges related to the change in fair value of our Series A Preferred Shares. Absent such charges, our effective tax rate in 2009 and the six months ended June 30, 2010 would have been 20.6% and 29.2%, respectively. The change in our effective tax rate during the Track Record Period was also due to changes in the applicable PRC enterprise income tax rate for Beijing Outsell, enterprise income tax incurred by our other PRC subsidiaries subject to the 25% enterprise income tax rate in 2009 and 2010 and deferred tax in 2009 related to withholding tax on dividends.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that require our management to exercise judgment and to make estimates that would yield materially different results if our management applied different assumptions or made different estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. We have not changed our assumptions or estimates in the past and have not noticed any material errors regarding our estimates or assumptions. Under the current circumstances, we do not expect that our estimates or assumptions are likely to change significantly in the future. We believe the following critical accounting policies involve the most significant estimates and judgments used in the preparation of our consolidated financial statements.

Property, Plant and Equipment

Our property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment loss, if any.

Depreciation is calculated using the straight-line method over the respective estimated useful lives, at the following rates per year:

Buildings	3% – 7%
Plant and machinery	10% – 20%
Motor vehicles	20%
Furniture and fixtures	20%
Computer equipment	20% – 50%

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. We determine these based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. We will increase the depreciation charge where useful lives are less than previously estimated lives, and will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual useful lives and residual values may differ from the estimated ones. As a result, our periodic review at each statement of financial position date could result in a change in useful lives and residual values, and therefore changes in depreciation expenses in future periods.

Intangible Assets

Our intangible assets mainly include technology we purchased and developed, which are carried at cost less accumulated amortization and accumulated impairment losses, if any. These costs are amortized over their estimated useful lives from three to ten years.

We determine the estimated useful lives and related amortization charges for our intangible assets based on the practice in similar industries with intangible assets of a similar nature and function. We may decide to increase the amortization charge when useful lives of the intangible assets are less than their previously estimated useful lives, and may also decide to write off or write down those technically obsolete or non-strategic intangible assets that will likely be abandoned or sold.

We capitalize development costs in association with an internally generated intangible asset only if it is anticipated that the development costs will be recovered through future commercial activities. We recognize development costs as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- our management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Intangible assets are amortized from the point at which the assets are ready for use, on a straight-line basis over their estimated useful lives, and are subsequently measured at cost less accumulated amortization and accumulated impairment losses, if any.

We reassess our projects' technical and commercial feasibility at each statement of financial position date. Such feasibility could change significantly as a result of technological innovations and the change of estimated profit projections. When there are adverse changes in technological innovations or profit projections, we will write off or write down capitalized development costs.

Impairment of Non-financial Assets

Tangible assets and intangible assets are reviewed for impairment at each consolidated statement of financial position date. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Judgment of our management is required in assessing impairment, particularly in determining: (i) whether an event has occurred that may indicate that asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections, including the rate at which such projects are discounted. Changing the assumptions selected by our management in assessing impairment could materially affect the net present value in the impairment test and as a result affect our financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to record an impairment charge.

Impairment of Financial Assets

A provision for impairment is established when there is evidence that we will not be able to collect all amounts due according to the original terms of the receivables, based on the financial condition and credit history of our customers and other debtors and the current market condition. The amount of the provision is the difference between an asset's carrying amount and the present value of estimated future cash flows from such asset, discounted at the original effective interest rate. We reassess the amount of provisions at each consolidated statement of financial position date. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated statement of comprehensive income.

Tax and Deferred Income Tax

Our current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted in the PRC at each consolidated statement of financial position date. We periodically evaluate positions taken in our tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establish provisions on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized in full on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that our management considers that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Redeemable Convertible Preferred Shares

Our Series A Preferred Shares include a conversion option and are not settled by the exchange of a fixed monetary amount for a fixed number of equity instruments recognized as a financial liability with embedded derivatives. Derivatives embedded in a financial instrument are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. We, however, have elected to designate the Series A Preferred Shares with embedded derivatives and conversion options as financial liabilities at fair value through profit or loss. At each financial year end, all outstanding Series A Preferred Shares are measured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise.

The fair value of the entirety of the Series A Preferred Shares is established by using valuation techniques. These techniques include using, discounted cash flow analysis and option pricing model. Valuation techniques are certified by independent and recognized international business valuers before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. The model involves estimates on time to maturity, risk free rate, the Company's share price volatility and others. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

Share-based Compensation

Certain of our employees receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments. We account for share options using the binominal option pricing model. Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a realistic measure of the fair value of our share options at the date of the grant thereafter.

RESULTS OF OPERATIONS

The following table sets forth our results of operations for the periods indicates:

	Year Ended December 31,			Six Months Ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Turnover	163,100	358,231	646,535	223,679	368,684
Cost of sales	(47,728)	(60,114)	(68,401)	(21,999)	(37,962)
Gross profit	115,372	298,117	578,134	201,680	330,722
Other income (expenses)	1,853	(335)	13,338	5,425	(10,841)
Selling and marketing expenses	(63,740)	(162,872)	(343,808)	(112,719)	(186,686)
Administrative expenses	(5,522)	(11,524)	(27,800)	(11,436)	(29,952)
Finance costs	(366)	(1,353)	(8,654)	(439)	(2,734)
Change in fair value on redeemable convertible preferred shares	—	—	(33,497)	—	(56,661)
Profit before taxation	47,597	122,033	177,713	82,511	43,848
Taxation	(2)	(54)	(36,006)	(13,567)	(22,740)
Profit and total comprehensive income for the year/period	47,595	121,979	141,707	68,944	21,108
Earnings per share					
Basic	0.04	0.11	0.13	0.06	0.02
Diluted	N/A	N/A	0.13	N/A	0.02

Six Months Ended June 30, 2010 Compared with Six Months Ended June 30, 2009

Turnover

Our turnover increased by 64.8% to RMB368.7 million in the six months ended June 30, 2010 from RMB223.7 million in the six months ended June 30, 2009, attributable to strong sales growth from both our Besunyen Detox Tea and our Besunyen Slimming Tea. Turnover from our Besunyen Detox Tea increased to RMB178.2 million in the six months ended 2010 from RMB122.5 million in the six months ended June 30, 2009 as sales volume increased to 116.6 million tea bags from 77.6 million tea bags. Turnover from our Besunyen Slimming Tea increased to RMB187.5 million in the six months ended June 30, 2010 from RMB96.2 million in the six months ended 2009 as sales volume increased to 179.1 million tea bags from 81.1 million tea bags. The increased sales volume was driven primarily by our expansion into new markets and the expansion of our distribution network. Over the same periods, turnover attributable to the provinces and centrally administered municipalities in which our market presence[(3)] was less than two years as of June 30, 2010 increased RMB80.6 million, or 120.0%, to RMB147.7 million from 67.2 million, representing 55.6% of our total turnover growth. We also significantly increased our media, and in particular television, advertising activities in the second half of 2009 and the first half of 2010 and expanded our local marketing and promotional activities as we expanded our network of local sales offices to include 81 offices in 26 provinces and centrally administered municipalities as of June 30, 2010 from 74 offices in 19 provinces and centrally administered municipalities as of June 30, 2009. Our network of distributors operating in geographic markets covered by our on-the-ground local sales teams reached 409 distributors covering 30 provinces and centrally administered municipalities as of June 30, 2010 from 385 distributors covering 19 provinces and centrally administered municipalities as of June 30, 2009.

(3) *Market presence is defined as having a local sales team covering the market.*

Cost of sales and gross profit

Our cost of sales increased by 72.6% to RMB38.0 million in the six months ended June 30, 2010 from RMB22.0 million in the six months ended June 30, 2009, due to increases in our raw material costs, packaging material costs, labor costs and production costs as we significantly expanded our production levels to meet increasing demand. Our newly installed IMA C24 automatic tea bag packaging machines require packaging material of higher quality, which contributed to the relatively high increase in our packaging material costs. Our cost of sales as a percentage of turnover increased modestly to 10.3% in the six months ended June 30, 2010 from 9.8% in the six months ended June 30, 2009, primarily due to an increase in manufacturing overhead to 1.9% of turnover in the six months ended June 30, 2010 from 1.4% of turnover in the six months ended June 30, 2009 as the utility expenses and depreciation increased after we started using the new equipment and facilities and an increase of labor costs to 1.0% of our turnover in the six months ended June 30, 2010 from 0.5% of turnover in the six months ended June 30, 2009 as average hourly wages increased. Our raw material costs as a percentage of turnover decreased from 2.7% in the six months ended June 30, 2009 to 1.9% in the six months ended June 30, 2010 primarily due to lower unit prices for raw materials as the volume of our orders increased, thereby increasing our bargaining power with suppliers.

As a result, our gross profit increased by 64.0% to RMB330.7 million in the six months ended June 30, 2010 from RMB201.7 million in the six months ended June 30, 2009, while our gross margin decreased to 89.7% in the six months ended June 30, 2010 from 90.2% in the six months ended June 30, 2009.

Other income (expenses)

We had other expenses of RMB10.8 million in the six months ended June 30, 2010, compared to other income of RMB5.4 million in the six months ended June 30, 2009. The change was principally due to certain expenses. The amount of other income (expenses) was also affected by our disposal of all investments held for trading in 2009, which contributed a gain of RMB2.6 million in fair market value of investments held for trading in the six months ended June 30, 2009 versus nil in the six months ended June 30, 2010. These were partially offset by an increase of RMB2.6 million of government subsidies received from the PRC government for supporting our business operations in Fangshan District, Beijing.

Selling and marketing expenses

Our selling and marketing expenses increased by 65.6% to RMB186.7 million in the six months ended June 30, 2010 from RMB112.7 million in the six months ended June 30, 2009, principally due to an increase in our advertising expenses to RMB117.1 million in the six months ended June 30, 2010 from RMB63.5 million in the six months ended June 30, 2009 and an increase in other marketing and promotional activities to RMB23.6 million in the six months ended June 30, 2010 from RMB13.3 million in the six months ended June 30, 2009. These increases were primarily related to increased television and other advertising and marketing activities. Absent the share-based compensation expenses of RMB0.9 million, staff costs of our marketing and sales personnel in the six months ended June 30, 2010 decreased slightly partly because of our efforts to streamline operations and improve efficiency since the second half of 2009, which resulted in a reduction of headcount of our marketing and sales personnel to 2,234 (including 938 sales personnel engaged through an employment agency) as of June 30, 2010 from 3,455 (including 2,240 sales personnel engaged through an employment agency) as of June 30, 2009.

Administrative expenses

Our administrative expenses increased by 161.9% to RMB30.0 million in the six months ended June 30, 2010 from RMB11.4 million in the six months ended June 30, 2009, principally due to an increase in staff costs of our administrative personnel to RMB9.6 million in the six months ended June 30, 2010 from RMB3.8 million in the six months ended June 30, 2009 as we added experienced senior management personnel to manage our rapid growth and preparations to become a listed company and incurred share-based compensation expenses related to our administrative personnel of RMB6.8 million in the six months ended June 30, 2010 compared to nil in the six months ended June 30, 2009.

Finance costs

Our finance costs increased to RMB2.7 million in the six months ended June 30, 2010 from RMB0.4 million in the six months ended June 30, 2009, which was attributable to an increase in our interest expenses on bank borrowings that were not capitalized.

Change in fair value on redeemable convertible preferred shares

We incurred a charge on change in fair value on Series A Preferred Shares of RMB56.7 million in the six months ended June 30, 2010 compared to nil in the six months ended June 30, 2009, which related to the increase in the fair value of the Series A Preferred Shares we issued in October 2009. The increase in fair value was primarily due to (i) the issuance of 125,010 additional Series A Preferred Shares in May 2010 pursuant to the earnings adjustment under the Share Purchase Agreement, and (ii) our increased business enterprise value as of June 30, 2010, which was primarily due to increased visibility and thus less perceived risk in our future performance and increased liquidity of the shares.

Taxation

Our tax charge increased to RMB22.7 million in the six months ended June 30, 2010 from RMB13.6 million in the six months ended June 30, 2009, primarily due to our higher taxable income.

Profit and total comprehensive income for the period

As a result of the foregoing, our profit for the period decreased by 69.4% to RMB21.1 million in the six months ended June 30, 2010 from RMB68.9 million in the six months ended June 30, 2009. Our profit for the period was significantly affected by the RMB56.7 million charge related to the change in fair value of the Series A Preferred Shares, RMB7.7 million of share-based compensation expenses and RMB14.7 million of other expenses in the six months ended June 30, 2010. Excluding such charge and expenses, our profit for the period in the six months ended June 30, 2010 would have been RMB100.1 million, representing an increase of 45.3% from the six months ended June 30, 2009.

Year Ended December 31, 2009 Compared with Year Ended December 31, 2008

Turnover

Our turnover increased by 80.5% to RMB646.5 million in 2009 from RMB358.2 million in 2008, attributable to strong sales growth from both our Besunyen Detox Tea and our Besunyen Slimming Tea. Turnover from our Besunyen Detox Tea increased to RMB373.1 million in 2009 from RMB222.2 million in 2008 as sales volume increased to 235.2 million tea bags in 2009 from 146.7 million tea bags in 2008. Turnover from our Besunyen Slimming Tea increased to RMB265.7 million in 2009 from RMB121.9 million in 2008 as sales volume increased to 216.8 million tea bags in 2009 from 134.2 million tea bags in 2008. The increased sales volume was driven by our increased advertising and marketing activities and the expansion of our distribution network during 2009. We significantly increased our media, and in particular television, advertising activities in 2009 and expanded our local marketing and promotional activities as we expanded our network of local sales offices to include 77 offices in 25 provinces and centrally administered municipalities as of December 31, 2009 from 60 offices in 15 provinces and centrally administered municipalities as of December 31, 2008. Our network of distributors operating in geographic markets covered by our on-the-ground local sales teams reached 409 distributors in 25 provinces and centrally administered municipalities as of December 31, 2009 from 336 distributors in 15 provinces and centrally administered municipalities as of December 31, 2008.

Cost of sales and gross profit

Our cost of sales increased by 13.8% to RMB68.4 million in 2009 from RMB60.1 million in 2008, due to increases in our raw material costs, packaging material costs, labor costs and production costs as we significantly expanded our production levels to meet increasing demand in 2009. However, our cost of sales decreased significantly as a percentage of our turnover due primarily to (i) our switching to larger box sizes, which required less packaging materials for the same sales volume, and (ii) lower prices for raw materials and packaging materials as the volume of our orders increased, thereby increasing our bargaining power with suppliers. The per unit price of our raw materials and packaging materials (calculated as raw material costs and packaging material costs, respectively, divided by sales volume) per tea bag decreased to RMB0.04 and RMB0.07, respectively, in 2009 from RMB0.07 and RMB0.10, respectively, in 2008. We also enjoyed improving economies of scale as our production utilization rate increased and we began using more efficient advanced production equipment, which helped reduce our cost of sales as a percentage of turnover. As a result, our gross profit increased by 93.9% to RMB578.1 million in 2009 from RMB298.1 million in 2008, with our gross margin increasing to 89.4% in 2009 from 83.2% in 2008.

Other income (expenses)

We had other income of RMB13.3 million in 2009, compared to other expense of RMB0.3 million in 2008. The increase in our other income (expenses) in 2009 from 2008 was primarily the result of our achieving a gain of RMB2.6 million in fair value of investments held for trading, which comprised publicly traded equity securities in China, in 2009 versus a loss of RMB7.5 million in fair value of investments held for trading in 2008, which was principally due to changing stock market conditions in China between 2008 and 2009.

Selling and marketing expenses

Our selling and marketing expenses increased by 111.1% to RMB343.8 million in 2009 from RMB162.9 million in 2008, principally due to an increase in our advertising and other marketing and promotional expenses to RMB243.8 million in 2009 from RMB138.2 million in 2008 and an increase in staff costs of our marketing and sales personnel to RMB70.0 million in 2009 from RMB16.0 million in 2008. These increases were primarily related to increased television and other advertising activities and increases in headcount and local marketing and promotional expenses related to the rapid expansion of our on-the-ground sales teams as we significantly grew our distribution and sales network in 2009. Our marketing and sales personnel increased to 2,247 (including 916 sales personnel engaged through an employment agency) as of December 31, 2009 from 577 as of December 31, 2008.

Administrative expenses

Our administrative expenses increased by 141.2% to RMB27.8 million in 2009 from RMB11.5 million in 2008, principally due to an increase in staff costs of our administrative personnel to RMB9.5 million in 2009 from RMB3.1 million in 2008 related to the expansion of our operations.

Finance costs

Our finance costs increased to RMB8.7 million in 2009 from RMB1.4 million in 2008, principally due to the incurrence of RMB7.3 million in issuance costs, primarily composed of fees to professional advisors, in 2009 in connection with the sale of our Series A Preferred Shares in October 2009.

Change in fair value on redeemable convertible preferred shares

We incurred a charge on change in fair value on Series A Preferred Shares of RMB33.5 million in 2009 compared to nil in 2008, which related to the increase in the fair value of the Series A Preferred Shares we issued in October 2009. The increase in fair value was primarily due to (i) the expected effect as of December 31, 2009 of the earnings adjustment under the Series A Preferred Shares Purchase Agreement, which was determined based on our consolidated net profit for 2009, and (ii) our increased business enterprise value as of December 31, 2009, which was primarily due to increased visibility and thus less perceived risk in our future performance and increased liquidity of the shares.

Taxation

Our tax charge increased to RMB36.0 million in 2009 from RMB54,000 in 2008, primarily due to an increase in Beijing Outsell's enterprise income tax rate from 0% in 2008 to 12.5% in 2009.

Profit and total comprehensive income for the year

As a result of the foregoing, our profit for the year increased by 16.2% to RMB141.7 million in 2009 from RMB122.0 million in 2008. Our lower net profit margin in 2009 as compared to 2008 was primarily due to the RMB33.5 million charge related to the change in fair value on Series A Preferred Shares and the RMB36.0 million increase in tax charges in 2009. Excluding the change in fair value on our Series A Preferred Shares, our profit for the year in 2009 would have been RMB175.2 million, representing an increase of 43.6% from 2008.

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Turnover

Our turnover increased by 119.6% to RMB358.2 million in 2008 from RMB163.1 million in 2007, attributable to strong sales growth from both our Besunyen Detox Tea and our Besunyen Slimming Tea. Turnover from our Besunyen Detox Tea increased to RMB222.2 million in 2008 from RMB102.5 million in 2007 as sales volume increased to 146.7 million tea bags in 2008 from 69.8 million tea bags to 2007. Turnover from our Besunyen Slimming Tea increased to RMB121.9 million in 2008 from RMB39.0 million in 2007 as sales volume increased to 134.2 million tea bags in 2008 from 40.4 million tea bags in 2007. The increased sales volume was driven by our increased advertising and marketing activities and the expansion of our distribution network during 2008. We significantly increased our media, and in particular television, advertising activities in 2008 and expanded our local marketing and promotional activities as we expanded our network of local sales offices to include 60 offices in 15 provinces and centrally administered municipalities as of December 31, 2008 from 28 offices in four provinces and centrally administered municipalities as of December 31, 2007. Our network of distributors operating in geographic markets covered by our on-the-ground local sales teams reached 336 distributors in 15 provinces and centrally administered municipalities as of December 31, 2008 from 151 distributors in four provinces and centrally administered municipalities as of December 31, 2007.

Cost of sales

Our cost of sales increased by 26.0% to RMB60.1 million in 2008 from RMB47.7 million in 2007, due to increases in our packaging material costs, labor costs and production costs as we significantly expanded of our production levels to meet increasing demand in 2008. However, our cost of sales decreased significantly as a percentage of our turnover due primarily to cost savings associated with transitioning from engaging third-party manufacturers to handle a portion of the production process for certain products to full in-house production in mid-2007, which reduced our raw material costs, and improving economies of scale as our production utilization rate increased. As a result, our gross profit increased by 158.4% to RMB298.1 million in 2008 from RMB115.4 million in 2007, with our gross margin increasing to 83.2% in 2008 from 70.7% in 2007.

Other income (expenses)

We had other expenses of RMB0.3 million in 2008, compared to other income of RMB1.9 million in 2007. The decrease in our other income (expenses) in 2008 from 2007 was primarily the result of us incurring a loss of RMB7.5 million in fair value of investments held for trading, which comprised publicly traded equity securities in China, in 2008 versus a gain of RMB1.7 million in fair value of investments held for trading in 2007, which was principally due to changing stock market conditions in China between 2007 and 2008. This was partially offset by an increase in government grants, comprising various subsidies from local governments, to RMB5.9 million in 2008 from nil in 2007.

Selling and marketing expenses

Our selling and marketing expenses increased by 155.5% to RMB162.9 million in 2008 from RMB63.7 million in 2007, principally due to an increase in our advertising and other marketing and promotional expenses to RMB138.2 million in 2008 from RMB55.7 million in 2007 and an increase in staff costs of our marketing and sales personnel to RMB16.0 million in 2008 from RMB7.0 million in 2007. These increases were primarily related to increased television and other advertising activities and increases in headcount and local marketing and promotional expenses related to the rapid expansion of our on-the-ground sales team as we significantly grew our distribution and retail network in 2009. Our sales and marketing personnel increased to 577 as of December 31, 2008 from 452 as of December 31, 2007.

Administrative expenses

Our administrative expenses increased by 108.7% to RMB11.5 million in 2008 from RMB5.5 million in 2007, principally due to an increase in office expenses to RMB3.1 million in 2008 from RMB1.5 million in 2007, and an increase in staff costs of our administrative personnel to RMB3.1 million in 2008 from RMB1.7 million in 2007, as we expanded our operations.

Finance costs

Our finance costs increased by 269.7% to RMB1.4 million in 2008 from RMB0.4 million in 2007, primarily due to interest incurred on a RMB35.0 million loan borrowed from Beijing Rural Commercial Bank Co., LTD. Liangxiang Branch in 2008 for the construction and installation of our production facilities.

Taxation

Our tax charge increased to RMB54,000 in 2008 from RMB2,000 in 2007, primarily due to enterprise income tax incurred by our subsidiaries.

Profit and total comprehensive income for the year

Our profit for the year increased by 156.3% to RMB122.0 million in 2008 from RMB47.6 million in 2007, primarily due to the 158.4% increase in our gross profit from 2007 to 2008.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our working capital and other capital requirements principally from cash generated from operations and cash at hand along with bank borrowings and the issuance of Series A Preferred Shares in 2009.

The following table sets forth a summary of our net cash flows for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net cash from (used in) operating activities	41,902	121,428	96,564	12,834	(6,454)
Net cash used in investing activities	(10,459)	(68,310)	(131,735)	(73,509)	(79,872)
Net cash (used in) from financing activities	(9,122)	7,207	115,870	4,241	(21.516)
Increase (decrease) in cash and cash equivalents	22,321	60,325	80,699	(56,434)	(107,842)
Cash and cash equivalents at the end of the year	27,753	88,078	168,777	31,644	60,935

Net Cash from (Used in) Operating Activities

Our net cash used in our operating activities in the six months ended June 30, 2010 was RMB6.5 million, while we had profit before taxation of RMB43.8 million. The difference was primarily related to a RMB71.9 million increase in deposits, prepayments and other receivables, primarily related to prepaid advertising, a RMB14.6 million decrease in trade and notes receivable and RMB26.0 million in income taxes paid, partially offset by the RMB56.7 million fair value change on our Series A Preferred Shares and an increase of RMB5.7 million in other payables and accrued expenses, primarily related to accrued expenses and payables for prepaid lease payments related to land acquired in the six months ended June 30, 2010.

The difference between our net cash from operating activities of RMB96.6 million and our profit before taxation of RMB177.7 million in 2009 primarily related to a RMB86.3 million increase in trade and notes receivable as we increased our acceptance of low-risk bank acceptance bills, a RMB26.2 million increase in prepaid advertising and a RMB17.6 million decrease in other payables and accrued expenses, partially offset by the RMB33.5 million fair value change on our Series A Preferred Shares, a RMB10.6 million decrease in amounts due from related parties and a RMB5.8 million increase in trade payables.

The major factors impacting our net cash from operating activities of RMB121.4 million in 2008 were our net profit before taxation of RMB122.0 million and a RMB21.2 million increase in other payables and accrued expenses, partially offset by a RMB10.4 million increase in amounts due from related parties and a RMB10.0 million increase in prepaid advertising.

Our net cash from operating activities of RMB41.9 million in 2007 was primarily due to our net profit before taxation of RMB47.6 million and a RMB12.3 million increase in other payables and accrued expenses, partially offset by a RMB14.8 million decrease in amounts due to related parties.

Net Cash Used in Investing Activities

Our net cash used in investing activities of RMB79.9 million in the six months ended June 30, 2010 was principally attributable to RMB76.0 million in payments for purchase of property, plant and equipment related to construction, installations and fittings of manufacturing facilities at our Fangshan properties and acquiring IMA C24 automatic tea bag packaging machines, and RMB9.5 million in acquisition of additional land in Fangshan District, Beijing.

Our net cash used in investing activities of RMB131.7 million in 2009 was principally attributable to RMB142.5 million in payments for purchases of property, plant and equipment related to the expansion of our production facilities and acquisition of additional production equipment, including purchases of IMA C24 automatic tea bag packaging machines.

Our net cash used in investing activities of RMB68.3 million in 2008 was principally attributable to RMB19.5 million of payments for purchases of property, plant and equipment related to the expansion of our production facilities and acquisition of additional production equipment, including purchases of IMA C24 automatic tea bag packaging machines, and RMB32.6 million for payment of land use rights, primarily related to the land required for the expansion of our production facilities.

Our net cash used in investing activities of RMB10.5 million in 2007 was principally attributable to RMB9.9 million for payments of property, plant and equipment related to expansion of our production facilities.

Net Cash (Used in) from Financing Activities

Our net cash used in financing activities of RMB21.5 million in the six months ended June 30, 2010 was principally attributable to the RMB45.0 million Special Dividend, the RMB38.0 million repayment of bank borrowings and a RMB10.0 million payment in relation to our acquisition of Zhuhai Qi Jia, partially offset by proceeds from a three-year RMB50.0 million loan from Bank of Beijing Fangshan Branch and RMB20.5 million in proceeds from issuance of our ordinary shares.

Our net cash from financing activities of RMB115.9 million in 2009 primarily consisted of RMB102.4 million in proceeds from the sale of our Series A Preferred Shares in October 2009, a RMB30 million short-term loan from Beijing Rural Commercial Bank Co., LTD. Liangxiang Branch for working capital purposes and RMB18.7 million in net advances from companies controlled by Mr. Zhao Yihong, partially offset by payment of RMB25.8 million as dividend distributions to our Shareholders.

Our net cash from financing activities of RMB7.2 million in 2008 was primarily due to a RMB35 million long-term loan from Beijing Rural Commercial Bank Co., LTD. Liangxiang Branch for construction and installation of production facilities, partially offset by RMB20.0 million in net advances and repayments to companies controlled by Mr. Zhao Yihong and repayment of a RMB7.8 million short-term bank loan borrowed in 2007.

Our net cash used in financing activities of RMB9.1 million in 2007 was due to RMB5.6 million in net advances and repayments to companies controlled by Mr. Zhao Yihong, a RMB8.6 million dividend paid to our then shareholders and repayment of a RMB5.0 million bank loan, partially offset by proceeds from a RMB5.0 million short-term loan from Bank of Beijing Shuangyushu Branch and a RMB2.8 million loan from Beijing Rural Commercial Bank Co., LTD. Liangxiang Branch.

NET CURRENT ASSETS

Our net current assets position improved significantly from net current liabilities of RMB15.5 million in 2007 to net current assets of RMB91.0 million in 2008 and RMB210.4 million in 2009, primarily due to the increase in our net profit during this period. Our net current assets decreased from RMB210.4 million in 2009 to RMB186.6 million as of June 30, 2010, primarily due to increases in our non-current assets including a RMB125.6 million increase in property, plant and equipment and a RMB51.6 million increase in prepaid lease payments relating to our acquisition of land use rights in the first half of 2010, partly offset by a decrease of RMB70.9 million of non-current deposits. The table sets forth the breakdown of our current assets, and liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of July 31,
	2007	2008	2009	2010	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current assets					
Inventories	5,664	6,695	6,397	13,245	16,227
Trade and notes receivables	6,401	8,095	94,723	109,289	106,153
Deposits, prepayments and other receivables.	2,095	22,217	44,506	121,119	136,189
Amounts due from related parties	2,283	29,802	20	20	—
Investments held for trading	6,791	5,151	—	—	—
Pledged bank deposits	500	12,154	1,955	—	—
Bank balances and cash	27,753	88,078	168,777	60,935	44,444
	51,487	172,192	316,378	304,608	303,013
Current liabilities					
Trade payables	376	4,756	10,512	3,113	5,023
Other payables and accrued expenses	28,126	49,418	31,981	63,644	66,448
Amounts due to related parties	4,911	883	—	1,500	1,000
Amount due to a subsidiary	—	—	—	—	—
Dividend payable	25,759	25,759	—	2,500	2,500
Taxation payable	—	425	13,436	15,258	4,473
Bank borrowings	7,800	—	50,000	32,000	37,000
	66,972	81,241	105,929	118,015	116,444
Net current (liabilities) assets	(15,485)	90,951	210,449	186,593	186,569

Our net current liabilities of RMB15.5 million as of December 31, 2007 were primarily due to RMB25.8 million in dividend payable related to a RMB34.3 million dividend by Beijing Outsell declared in 2007, RMB15.0 million in advertising expenses payable and RMB7.8 million in short-term bank borrowings.

CAPITAL EXPENDITURES

Capital expenditures for our operations have primarily comprised expenditures for the acquisition of land use rights and purchase of property, plant and equipment for use in our manufacturing facilities. The following table sets forth our capital expenditures for our operations for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Land use rights	1,606	32,613	994	—	9,546
Property, plant and equipment	9,927	19,479	142,518	61,397	75,987
Intangible assets	201	520	3,602	951	416
Deposit paid for acquisition of a subsidiary	—	—	2,000	—	—
Total	11,734	52,612	149,114	62,348	85,949

We currently expect to incur total capital expenditures of approximately RMB151 million and RMB607 million in the second half of 2010 and the full year 2011, respectively, approximately RMB20 million of which will be for the acquisition of additional land use rights in Fangshan District, Beijing for use in manufacturing our products, while the remainder will principally be for purchase of property, plant and equipment related to construction, installations and fittings of additional manufacturing facilities at our Fangshan properties, acquiring additional production and packaging equipment and establishing an east China headquarters in Shanghai. We expect to finance our capital expenditures in 2010 and 2011 through a combination of existing cash balances and cash generated from operations. Our planned capital expenditures are subject to change based on business or financial conditions, and the cash requirements for our capital expenditures may exceed our current expectations.

WORKING CAPITAL

Taking into account our existing cash balances, our expected cash generated from operations and other relevant factors, our Directors confirm that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this document.

INVENTORIES

Our inventories have comprised raw materials and packaging materials, work in progress (semi-finished products) and finished goods. The following table sets forth a breakdown of our inventories as of the dates indicated.

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials and packaging materials	3,891	3,030	2,943	4,009
Work in progress	271	3,489	3,042	2,053
Finished goods	1,502	176	412	7,183
Total inventories	5,664	6,695	6,397	13,245

Our inventories as a percentage of turnover gradually declined from 2007 to 2009 due to improved efficiency in our supply, production and distribution planning and management systems. Our inventory turnover days (calculated as the average of the beginning and ending inventory balances for the period, divided by the cost of sales for the period, multiplied by the number of days in the period) decreased from 52 days in 2007 to 38 days in 2008 and further to 35 days in 2009. In the six months ended June 30, 2010, however, our inventory turnover days increased to 47 days and our inventories as a percentage of turnover increased. The increase was primarily attributable to our increased use of IMA C24 automatic tea bag packaging machines, which produce finished goods in batches that cannot be precisely tied to sales, leading to somewhat higher average inventory levels and some fluctuation in our inventories. Our increased coverage of second- and third-tier cities requires longer period of delivering our products to the destinations and also contributes to our increased inventory of finished products. We actively monitor our inventory levels and seek to maintain a low but sufficient level of raw materials and packaging materials, work in progress and finished goods. We monitor and assess the sales performance and trends for our products throughout the distribution and retail cycle to better predict inventory requirements. We generally seek to maintain inventory for approximately one week's production and distribution requirements in case of unforeseen disruptions in our supply of raw materials and packaging materials or unforeseen orders from our distributors. We usually keep a two- to three-week supply of finished products in inventory for unexpected orders. Of our RMB13.2 million of inventories as of June 30, 2010, RMB9.7 million was subsequently used or sold by July 31, 2010.

TRADE AND NOTES RECEIVABLES

We generally require our distributors to pay for goods before delivery. For certain key distributors with whom we have cooperated for an extended period of time, we may allow more favorable payment settlement terms. For example, we may deliver new goods as long as such distributors can provide us with an effective proof of payment, such as a bank acceptance note, which we consider effectively equivalent to payment due to its very low risk, although it is carried on our balance sheet as a note receivable until it matures or until we endorse such note to other persons. We contractually provide credit terms, generally for 90 days but sometimes up to a maximum of six months, to a limited number of distributors, mostly large reputable distributors that sell to supermarket and convenience store chains (where the normal industry practice allows sales on credit). Distributors that do not contractually enjoy credit terms may also apply for credit for individual purchases, which we approve on a case-by-case basis in light of our market development needs and the distributor's payment capability and history. We contractually provided credit terms to 15, 17, 32 and 29 distributors in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively, with those distributors accounting for RMB23.0 million, RMB33.3 million, RMB71.4 million and RMB32.9 million of our total turnover in those periods. We allowed sales on credit upon application to 25, 34, 97 and 156 distributors in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively. The increase in the number of distributors to whom we granted credit was primarily due to our efforts to quickly grow sales in new markets and an increase in the number of long-time distributors to whom we granted credit based on their historical creditworthiness. In 2009, we granted credit terms of up to 90 days to our first, second and fourth largest distributors by turnover, while the remainder of our five largest distributors by turnover did not receive credit terms. In the six months ended on June 30, 2010, we granted credit terms of up to 90 days to our largest three distributors by turnover and the fourth and fifth largest distributors received credit terms of up to 30 days. The following table sets forth the turnover of our trade and notes receivables (calculated as the average of the beginning and ending balances for the period, divided by turnover for the period, multiplied by the number of days in the period) for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,
	2007	2008	2009	2010
Trade and notes receivables turnover days	11	7	29	50
of which, trade receivables turnover days	11	7	13	28

The increase in our trade and notes receivables turnover days from 29 in 2009 to 50 in the six months ended June 30, 2010 was primarily due to our increased trade receivables, which increased from RMB39.4

million as of December 31, 2009 to RMB72.4 million as of June 30, 2010, as a result of our increased business scale and increasing sales to distributors to whom we granted credit. The increase in our trade and notes receivables turnover days from 7 in 2008 to 29 in 2009 was primarily due to our increased acceptance of notes receivable, which increased to RMB55.3 million as of December 31, 2009 from RMB1.2 million as of December 31, 2008, as a form of payment from our distributors and increasing sales to distributors to whom we granted credit. Our increased acceptance of notes receivable and credit was partly due to the negative effects of the global financial crisis on some of our distributors in 2009. The slightly decrease of our trade and notes receivable turnover days from 11 in 2007 to 7 in 2008 was primarily attributable to the growth of turnovers from RMB163.1 million in 2007 to RMB358.2 million in 2008. Of our RMB109.3 million of trade and notes receivables as of June 30, 2010, RMB46.3 million was subsequently settled by July 31, 2010.

The following table sets forth a summary of the age of our trade and notes receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
0-90 days	6,296	7,438	93,150	107,335
91-180 days	8	467	1,502	1,954
181-365 days	62	183	71	—
Over 1 year	35	7	—	—
Total	6,401	8,095	94,723	109,289

We had allowance for doubtful debts of RMB0.3 million, RMB0.3 million, nil and nil as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively. We did not incur any impairment for doubtful accounts during the Track Record Period.

TRADE PAYABLES

Our trade payables principally comprise payables to our raw materials and packaging materials suppliers. Due to our long-standing relationships with our major suppliers, we generally enjoy favorable credit terms of up to 90 days. The following table sets forth our turnover of trade payables (calculated as the average of the beginning and ending trade payables balances for the period, divided by cost of sales for the period, multiplied by the number of days in the period) for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,
	2007	**2008**	**2009**	**2010**
Trade payables turnover days	64	16	41	33

The decrease in our trade payable turnover days from 41 in 2009 to 33 in the six months ended June 30, 2010 was primarily due to our shorter settlement process at month-end compared to year-end, which usually includes checking our orders and payments for the entire year. The increase in our trade payables turnover days from 16 in 2008 to 41 in 2009 was primarily due to improved credit terms with our suppliers as our order sizes increased and our business relationships with them became stronger. The decrease in our trade payables turnover days from 64 in 2007 to 16 in 2008 was primarily due to our relatively high trade payables of RMB16.3 million at the beginning of 2007, which was primarily related to trade payables for semi-finished products purchased from the manufacturers we engaged prior to mid-2007 to handle the processing of raw materials into semi-finished products for a portion of our products. We also use bank acceptance notes for settlement with certain of our suppliers. The issuance of such notes are pledged by bank deposits. Of our RMB3.1 million of trade payables as of June 30, 2010, RMB1.6 million was subsequently settled by July 31, 2010.

The following table sets forth a summary of the age of our trade payables as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
0 to 90 days	376	4,689	10,512	3,094
91- 180 days	—	67	—	19
Total	376	4,756	10,512	3,113

DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The following table sets forth a breakdown of our deposits, prepayments and other receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Prepaid advertising	58	10,017	36,243	111,751
Other prepayments	851	2,630	5,223	3,838
Other receivables	500	4,572	1,392	1,255
Deposits paid	291	2,871	807	713
Prepaid lease payments	105	373	388	1,360
Prepayments to suppliers	31	925	349	1,191
Staff advances	259	829	104	1,011
Total	2,095	22,217	44,506	121,119

The increase in our prepaid advertising during the Track Record Period was primarily due to (i) a significant increase in our advertising activities, (ii) an increase in media channels, in particular television channels, requiring prepayment of advertising fees, and (iii) our decision to prepay for more advertising in order to secure favorable television advertising rates to mitigate the impact of the increase in advertising rates. We usually enter into prepaid advertising agreements with TV networks and other media platforms or through their advertising agencies, which are all independent third parties. Of our RMB111.8 million of prepaid advertising as of June 30, 2010, RMB45.0 million was subsequently utilized by September 9, 2010.

Other receivables as of December 31, 2007 and December 31, 2008 included loans to two independent third parties of RMB0.5 million and RMB4.1 million, respectively. Both loans were unsecured, interest free and were settled in the first quarter of 2009. In the opinion of our PRC legal advisor, Global Law Office, these interest free loan transactions were not in compliance with the relevant laws and regulations in the PRC. However, we have not been imposed any penalty by the competent government authority and these loans have been fully settled. In addition, Global Law Office confirmed that there would not be any significant risk that any penalty would be imposed on us in connection with these loan transactions. As such, the Directors do not believe that these loan transactions will have a material impact on our results of operation or financial position. The Directors further confirm that we will not enter into similar non-compliant loan transactions in future.

OTHER PAYABLES AND ACCRUED EXPENSES

The following table sets forth a breakdown of our other payables and accrued expenses as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued expenses	—	879	3,033	15,195
Payable for land use right	—	—	—	15,210
Payable to former shareholders of Zhuhai Qi Jia	—	—	—	7,050
Other tax payables	3,523	6,381	14,326	8,348
Advances from customers	3,430	19,488	5,528	6,514
Accrued payroll	1,927	5,783	6,354	5,780
Other payables	4,272	5,491	632	2,578
Deferred government grant	—	—	136	324
Accrued interest expenses	22	129	117	132
Advertising expenses payable	14,952	11,267	1,855	513
Payable for acquisition of a subsidiary	—	—	—	2,000
	28,126	49,418	31,981	63,644

The fluctuations in our other payables and accrued expenses during the Track Record Period were primarily attributable to changes in advances from customers, other tax payables and advertising expenses payable. Although we do not require our distributors to pay deposits, we require payment prior to delivery of products from distributors to whom we have not granted credit. Such payments received for which the relevant delivery has not yet been completed are classified as "deposits from customers" on our consolidated balance sheet. The increase in our accrued expenses as of June 30, 2010 from December 31, 2009 was primarily related to certain accrued expenses of RMB7.7 million. Our payable for land use right, as of June 30, 2010 related to acquisition of land for manufacturing purposes in Fangshan District, Beijing. Our advances from customers decreased as of December 31, 2009 from December 31, 2008 as we granted credit to more distributors, while our higher advances from customers as of December 31, 2008 as compared to December 31, 2007 was primarily due to the effect of an increased number of distributors and increased sales volume. Of our RMB6.5 million of deposits from customers of June 30, 2010, RMB5.5 million was subsequently settled through completion of delivery of the relevant products by July 31, 2010. The increase in our other tax payables during the Track Record Period was primarily due to increased VAT and income tax payable as our turnover increased. The decrease in our advertising expenses payable during the Track Record Period was primarily due to our increasing prepayment of advertising fees.

INTANGIBLE ASSETS

We had intangible assets of RMB5.9 million, RMB5.3 million, RMB7.1 million and RMB24.5 million as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively. The increase in our intangible assets as of June 30, 2010 from December 31, 2009 was primarily due to the addition of RMB9.3 million in patents from our acquisition of Jian Shi Xing in May 2010 and an addition of RMB4.5 million in patents from our acquisition of Zhuhai Qi Jia in January 2010, partially offset by amortization of our 碧生源 (Besunyen) trademark of RMB0.6 million and amortization of capitalized research and development costs relating to our VS Series tea products of RMB0.4 million. The increase in our intangible assets as of December 31, 2009 from December 31, 2008 was primarily due to an increase in our capitalized borrowing costs, in particular related to our VS Series tea products, to RMB3.3 million from nil, partially offset by amortization of our 碧生源 (Besunyen) trademark of RMB1.3 million. The decrease in our intangible assets as of December 31, 2008 from December 31, 2007 was primarily due to a amortization of 碧生源 (Besunyen) trademark of RMB1.3 million, partially offset by an increase of RMB0.4 million in patents.

INDEBTEDNESS

Bank Borrowings

Our indebtedness during the Track Record Period principally consisted of bank borrowings. The following table sets forth the maturity profiles of our bank borrowings as of the dates indicated:

	As of December 31,			As of June 30,	As of July 31,
	2007	2008	2009	2010	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
Secured bank borrowings repayable:					
On demand or within one year	7,800	—	50,000	32,000	37,000
More than one year but not exceeding two years	—	—	15,000	15,000	20,000
More than two year but not more than five years	—	35,000	—	30,000	20,000
	7,800	35,000	65,000	77,000	77,000
Less: Amounts due within one year shown under current liabilities	(7,800)	—	(50,000)	(32,000)	(37,000)
	—	35,000	15,000	45,000	40,000

All of our bank borrowings were secured by property, plant and equipment and land use rights. Our bank borrowings were guaranteed by Mr. Zhao Yihong, our founder, Chairman and Chief Executive Officer, Ms. Gao Yan, an executive Director, and BSYI, a company in which Mr. Zhao Yihong has a beneficial interest. Such guarantees were released prior to September 29, 2010. The bank borrowings are denominated in Renminbi. The effective interest rates for our bank borrowings ranged from 8.02% to 8.75%, 5.94% to 5.94%, 5.84% to 5.94% and 5.94% to 5.94% in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively. In January 2010 Beijing Outsell borrowed RMB50 million from Bank of Beijing Fangshan Branch for purchasing additional production equipment. This loan matures on February 2013 and carries a floating interest rate of 110% of the benchmark rate published by the PBOC.

We had no credit facilities as of July 31, 2010.

The January 2010 RMB50 million loan contains a covenant requiring Beijing Outsell to obtain the prior consent of the lender prior to incurring any material debt. Other than this covenant, there are no material covenants relating to our outstanding debt that would restrict our ability to raise additional capital through debt or equity financing. We have been in compliance with the covenants in the RMB50 million loan agreement since the inception of the loan.

Gearing Ratio

Gearing ratio represents total debt as a percentage of total assets. Our gearing ratio was 10.5%, 12.8%, 35.5% and 38.3% as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively. The increase in our gearing ratio from December 31, 2009 to June 30, 2010 was primarily due to an increase in payables on our Series A Preferred Shares to RMB191.6 million from RMB135.9 million due to fair value gains and an increase in our bank borrowings to RMB77.0 million from RMB65.0 million. The significant increase in our gearing ratio from December 31, 2008 to December 31, 2009 was primarily due to payables on our Series A Preferred Shares of RMB135.9 million as of December 31, 2009 compared to nil as of December 31, 2008 and an increase in our bank borrowings to RMB65.0 million from RMB35.0 million. The increase in our gearing ratio from 10.5% in 2007 to 12.8% in 2008 was primarily due to an increase in bank borrowings from RMB7.8 million in 2007 to RMB35 million in 2008.

Contingent Liabilities and Guarantees

As of December 31, 2007, 2008 and 2009 and June 30, 2010, we had no material contingent liabilities.

Off-Balance Sheet Commitments and Arrangements

As of June 30, 2010, being the most recent practicable date such information is available to us, we had no off-balance sheet commitments or arrangements.

Subsequent Changes

The Directors have confirmed that there has not been any material change to the indebtedness or contingent liabilities of the Group since July 31, 2010.

KEY FINANCIAL RATIOS

Current Ratio and Quick Ratio

Our current ratio, calculated by dividing current assets by current liabilities, was 0.8, 2.1, 3.0 and 2.6 as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively, while our quick ratio, calculated by dividing current assets less inventories by current liabilities, was 0.7, 2.0, 2.9 and 2.5 as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively. The decrease in our current and quick ratios from December 31, 2009 to June 30, 2010 was primarily due to a decrease in our bank balances and cash primarily related to payments made for the acquisition of land and other property, plant and equipment in the first half of 2010, which resulted in a RMB125.6 million increase in our non-current property, plant and equipment and a RMB51.6 million increase in non-current prepaid lease payments. The increases in our current and quick ratios in 2007, 2008 and 2009 were primarily due to the increases in our net profit during those periods. The RMB102.4 million of the proceeds received from the issuance of the Series A Preferred Shares in October 2009 also contributed to the increases in our current and quick ratios in 2009.

Return on Equity

Return on equity represents net profit as a percentage of the arithmetic mean of the opening and closing balances of shareholders' equity for the relevant period. Our return on equity was 157.7%, 123.3% and 61.7% in 2007, 2008 and 2009, respectively. The decrease in our return on equity in 2009 from 2008 was due to slower profit growth, which was by due in part to a RMB33.5 million charge related to change in fair value of the Series A Preferred Shares. The decrease in our return on equity in 2008 from 2007 was primarily the result of normalization of our return on equity from the unusually high return on equity in 2007, which was due to our low shareholders' equity base in 2007.

Return on Assets

Return on assets represents net profit as a percentage of the arithmetic mean of the opening and closing balances of total assets for the relevant period. Our return on assets was 57.5%, 63.3% and 33.6% in 2007, 2008 and 2009, respectively. The increase in the return on assets from 57.5% in 2007 to 63.3% in 2008 was primarily due to our effective expenditure control in 2008 which contributed to faster growth in the net profit than the growth of average total assets in supporting our business expansion. The decrease in our return on assets in 2009 from 2008 was primarily due to slower profit growth, partially due to a RMB33.5 million charge related to change in fair value of the Series A Preferred Shares, and the increase in total assets generated from the issuance of our Series A Preferred Shares in October 2009.

MARKET RISKS

We are exposed to various types of market risks, including foreign currency exchange rate risk and interest rate risk.

Foreign Exchange Rate Risk

Foreign exchange rate risk refers to the risk that movement in foreign currency exchange rates will affect the Group's financial results and cash flows. Substantially all of our turnover, costs and expenses, assets and debt are denominated in Renminbi. As a result, our management does not believe we are currently exposed to significant foreign exchange rate risk. However, as we expand our operations, we may incur a significant amount of debt in a currency other than Renminbi. In this case, we would be exposed to risks related to the exchange rate and the currency in which our debt is denominated. A depreciation of Renminbi would require us to use more Renminbi funds to service the same amount of foreign currency debt. We currently do not engage in hedging activities designed or intended to manage such exchange rate risk. Because the Renminbi is not freely convertible, our ability to reduce foreign exchange rate risk is limited.

Interest Rate Risk

Our interest rate risk relates primarily to our bank deposits and bank borrowings. We currently have not entered into interest rate swaps to hedge against our exposure to changes in fair values of our borrowings. It is our policy to maintain an appropriate level between our borrowings so as to balance the fair value and cash flow interest rate risk. In addition, to the extent that we may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debts. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of our debt obligations. We currently do not use any derivative instruments to manage our interest rate risk. To the extent we decide to do so in the future, there can be no assurance that any future hedging activities will protect us from fluctuations in interest rates.

PROPERTY VALUATION

Savills, an independent property valuer, has valued the property interests of the Group, comprising our operations, as of July 31, 2010. Texts of its letters, summary of valuation and valuation certificates issued by Savills are included in Appendix IV to this document.

DISTRIBUTABLE RESERVES

As of June 30, 2010, the Company had no distributable reserves available for distribution to its Shareholders.

PROFIT FORECAST

The following sets forth certain forecast data for our Company for the year ending December 31, 2010, which should be read in conjunction with Appendices II and III to this prospectus:

Forecast consolidated net profit attributable to the equity holders of the Company for the year ending December 31, 2010[(1)]	not less than RMB80.3 million (approximately HK$91.8 million)
Adjustment[(2)]:	
Loss on increase in fair value of the Series A Preferred Shares	RMB90.9 million (approximately HK$104.0 million)
Forecast consolidated net profit attributable to equity holders of the Company before loss on increase in fair value of the Series A Preferred Shares[(2)]	not less than RMB171.2 million (approximately HK$195.8 million)
Unaudited pro forma forecast profit per Share[(3)]	RMB0.05 (approximately HK$0.06)

(1) The bases and assumptions on which the forecast consolidated profit for the year ending December 31, 2010 attributable to owners of the Company has been prepared are summarized in Appendix III to this prospectus.

(2) The calculation of forecast consolidated net profit before loss on increase in fair value of the Series A Preferred Shares attributable to the equity holders of the Company is based on the forecast consolidated net profit attributable to the equity holders of the Company for the year ending December 31, 2010, adjusted for the estimated fair value adjustment on the Series A Preferred Shares of RMB90.9 million (approximately HK$104.0 million) for the year ending December 31, 2010.

(3) The unaudited pro forma forecast profit per share are converted into Hong Kong dollars at an exchange rate of RMB0.8743 to HK$1, the rate of The People's Bank of China prevailing on September 9, 2010. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

DIVIDENDS AND DIVIDEND POLICY

We declared a dividend of RMB34.3 million to our then shareholders in 2007 with respect to our distributable profits for 2007, RMB8.6 million of which was paid in 2007 and the remainder of which was paid in 2009. We also declared a special cash dividend in an aggregate amount of the US Dollar equivalent of RMB47.5 million (the "Special Dividend") to Foreshore, one of our immediate holding companies, in April 2010. Each of our Shareholders other than Foreshore forfeited and waived in writing any and all of its rights and interest in the

Special Dividend. The US Dollar equivalent of RMB45.0 million of the Special Dividend was paid in May 2010 and the remainder of the Special Dividend was paid in August 2010. We have not made any other dividends or distributions to our Shareholders during the Track Record Period. Our historical distributions of dividends are not indicative of our future declarations of dividends.

Our Board may declare dividends in the future after taking into account our financial and business conditions, earnings, capital requirements and other factors as it may deem relevant at such time. Any declaration and payment, as well as the amount of, dividends will be subject to the requirements of our constitutional documents and the Cayman Companies Law. Our Shareholders in general meeting must approve any declaration of dividends, which may not exceed the amount recommended by our Board. In addition, our Directors may from time to time pay such interim dividends as appear to our Board to be justified by our profits, or special dividends of such amounts and on such dates as they think fit. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profit under PRC accounting standards each year to its general reserves or statutory capital reserve fund until the aggregate amount of such reserves reaches 50% of its respective registered capital. These reserves are not available for distribution as cash dividends.

Subject to the considerations and constraints above, we currently intend to distribute as dividends to all our Shareholders approximately 20% to 30% of our consolidated net profit after tax in respect of the year ended December 31, 2010 and each year thereafter.

NO SIGNIFICANT INTERRUPTIONS

Our Directors confirm that there have been no interruptions in our business that may have a significant effect on our results of operations and financial position in the last 12 months.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2010.

FUTURE PLANS

We aim to become the dominant player in China's overall therapeutic tea market. We intend to achieve this through our business strategies, details of which are set out in the section headed "Business — Our Strategies" in this document.

The following is the text of a report, prepared for the purpose of inclusion in this document, received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

[September 16, 2010]

The Directors
Besunyen Holdings Company Limited
Credit Suisse (Hong Kong) Limited
Morgan Stanley Asia Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Besunyen Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended December 31, 2009 and the six months ended June 30, 2010 (the "Relevant Periods") for inclusion in this document.

The Company was incorporated in the Cayman Islands and registered as an exempted company with limited liability under the Companies Law (2007 Revision) Chapter 22 of the Cayman Islands on August 5, 2009. Through a group reorganization, as more fully explained in the paragraph headed "History, Reorganization and Group Structure" to the document (the "Reorganization"), the Company became the holding company of the Group on October 5, 2009.

As of each of the respective reporting period ends and the date of this report, the Company had the following subsidiaries:

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group					Principal activities
			As of December 31,			As of June 30,	Date of this report	
			2007	2008	2009	2010		
Beijing Besunyen Trading Co., Ltd. ("Besunyen Trade") (Note i) 北京碧生源商貿有限公司	May 25, 2008 The People's Republic of China (the "PRC")	RMB5,000,000	N/A	100%	100%	100%	100%	Sales of therapeutic tea products
Beijing Besunyen Food and Beverage Co., Ltd. ("Besunyen Food and Beverage") (formerly known as Beijing Benefit Food and Beverage Co., Ltd.) (Note ii) 北京碧生源食品飲料有限公司	June 29, 2007 The PRC	RMB20,000,000	100%	100%	100%	100%	100%	Sales of therapeutic tea products
Beijing Outsell Trading Co., Ltd. ("Outsell Trade") (Note i) 北京澳特舒爾商貿有限公司	May 26, 2008 The PRC	RMB5,000,000	N/A	100%	100%	100%	100%	Sales of therapeutic tea products
Besunyen (Hong Kong) Co., Limited ("Besunyen HK") (formerly known as Outsell Herbal Tea Limited) 碧生源(香港)有限公司	June 10, 2009 Hong Kong	HKD1	N/A	N/A	100%	100%	100%	Investment holding
Chengdu Outsell Trading Co., Ltd. (Note iii)	January 14, 2009 The PRC	RMB200,000	N/A	N/A	N/A	N/A	N/A	Inactive and deregistered

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group					Principal activities
			As of December 31,			As of June 30,	Date of this report	
			2007	2008	2009	2010		
Besunyen Investment (BVI) Co., Ltd. ("Besunyen Investment") (formerly known as Tea-Care Holding Co. Universal Ltd)	August 11, 2009 British Virgin Islands ("BVI")	USD1	N/A	N/A	100%	100%	100%	Investment holding
Dongguan Benefit Trading Co., Ltd. (Note iii)	December 27, 2007 The PRC	RMB200,000	100%	100%	N/A	N/A	N/A	Inactive and deregistered
Ever Assure Limited ("Ever Assure") (Note vi)	April 23, 2010 Hong Kong	HKD1	N/A	N/A	N/A	100%	100%	Investment holding
Foshan Benefit Trading Co., Ltd (Note v)	February 2, 2008 The PRC	RMB100,000	N/A	100%	100%	N/A	N/A	Inactive and deregistered
Guangzhou Outsell Trading Co., Ltd. ("GZ Trading") (Note i) 廣州澳特舒爾商貿有限公司	September 19, 2008 The PRC	RMB5,000,000	N/A	100%	100%	100%	100%	Sales of therapeutic tea products
Hefei Benefit Trading Co., Ltd. (Note iii)	December 15, 2008 The PRC	RMB200,000	N/A	100%	N/A	N/A	N/A	Inactive and deregistered
Jian Shi Xing Biotech Research and Development (Shanghai) Co., Ltd ("Jian Shi Xing") (Note vi) 健士星生物技術研發(上海)有限公司	March 10, 2008 The PRC	USD3,000,000	N/A	N/A	N/A	100%	100%	Research and development of tea and Chinese medicinal herbal products
Jinan Benefit Trading Co., Ltd. (Note iii)	May 23, 2008 The PRC	RMB200,000	N/A	100%	N/A	N/A	N/A	Inactive and deregistered
Nanjing Outsell Trading Co., Ltd. (Note v)	January 12, 2009 The PRC	RMB200,000	N/A	N/A	100%	N/A	N/A	Inactive and deregistered
Nanning Benefit Trading Co., Ltd. (Note iii)	November 6, 2008 The PRC	RMB200,000	N/A	100%	N/A	N/A	N/A	Inactive and deregistered
Beijing Outsell Health Product Development Co., Ltd. ("Beijing Outsell") (Note iv) 北京澳特舒爾保健品開發有限公司	September 26, 2000 The PRC	RMB322,771,969	100%	100%	100%	100%	100%	Manufacture and sales of therapeutic tea products
Shenzhen Jundacheng Trading Co., Ltd. (Note v)	January 8, 2008 The PRC	RMB200,000	N/A	100%	100%	N/A	N/A	Inactive and deregistered
Tianjin Outsell Health and Food Product Trading Co., Ltd. (Note iii)	December 1, 2008 The PRC	RMB600,000	N/A	100%	N/A	N/A	N/A	Inactive and deregistered
Wuhan Benefit Trading Co., Ltd. (Note iii)	December 10, 2007 The PRC	RMB200,000	100%	100%	N/A	N/A	N/A	Inactive and deregistered
Xian Benefit Trading Co., Ltd. (Note v)	March 18, 2008 The PRC	RMB200,000	N/A	100%	100%	N/A	N/A	Inactive and deregistered

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group					Principal activities
			As of December 31,			As of June 30,	Date of this report	
			2007	2008	2009	2010		
Zhongshan Benefit Trading Co., Ltd. (Note iii)	September 24, 2008 The PRC	RMB500,000	N/A	100%	N/A	N/A	N/A	Inactive and deregistered
Zhuhai Qi Jia Medical Industry Co., Ltd. ("Zhuhai Qi Jia") (Note vi) 珠海奇佳藥業有限公司	July 6, 2001 The PRC	RMB12,000,000	N/A	N/A	N/A	100%	100%	Manufacture and sales of therapeutic tea products

(i) These companies are limited liability companies and operate in the PRC and have been wholly owned by Beijing Outsell since establishment.

(ii) Besunyen Food and Beverage was established on June 29, 2007 as a foreign-invested enterprise in the PRC. Upon the establishment, Madam Zhang Hong Li held the entire shareholding in Besunyen Food and Beverage on behalf of Mr. Zhao Yihong, who is controlling shareholder of the Group. On December 5, 2008, Madam Zhang Hong Li transferred her entire shareholding in Besunyen Food and Beverage to Besunyen Investment Co., Ltd., which is a related company controlled by Mr. Zhao Yihong. On October 9, 2009, Besunyen Investment Co., Ltd. transferred its entire shareholding in Besunyen Food and Beverage to Beijing Outsell.

(iii) These companies were limited liability companies and operated in the PRC and had been wholly owned by Beijing Outsell since establishment. They had been inactive since establishment and were deregistered during 2009.

(iv) Beijing Outsell, was established as a sino-foreign equity joint venture in the PRC on September 26, 2000. Beijing Outsell transferred from a sino-foreign equity joint venture to a foreign-invested enterprise in April 2005. Beijing Outsell was held by other nominees on behalf of Mr. Zhao Yihong since its establishment to August 31, 2009. On September 1, 2009, Mr Cui Shan, a nominee shareholder, transferred his entire shareholding in Beijing Outsell to Besunyen HK, and since then, Besunyen HK had held the entire shareholding in Beijing Outsell.

(v) These companies were limited liability companies and operated in the PRC and were wholly owned by Beijing Outsell. They had been inactive since establishment and were deregistered subsequent to December 31, 2009.

(vi) These companies were acquired by the Group during the six months ended June 30, 2010. Details are set out in note 43.

The PRC statutory financial statements of the following subsidiaries for each of the three years ended December 31, 2009 were prepared in accordance with relevant accounting principles and financial regulations applicable to PRC enterprises and were audited by the following certified public accountants registered in the PRC.

Name of subsidiary	Financial year/period ended	PRC Auditor
Besunyen Food and Beverage	December 31, 2007	Note vii
	December 31, 2008	Beijing Zhong Yong Xin CPA Ltd.* (北京中永信會計師事務所)
	December 31, 2009	Beijing Zhong Yong Xin CPA Ltd.* (北京中永信會計師事務所)
Beijing Outsell	December 31, 2007	Beijing Zhong Yong Xin CPA Ltd.* (北京中永信會計師事務所)
	December 31, 2008	Beijing Zhong De Heng CPA Ltd.* (中德恒會計師事務所)
	December 31, 2009	Beijing Zhong Yong Xin CPA Ltd.* (北京中永信會計師事務所)
Besunyen Trade	December 31, 2008	Note vii
	December 31, 2009	Beijing Zhong Yong Xin CPA Ltd.* (北京中永信會計師事務所)
Dongguan Benefit Trading Co., Ltd.	December 31, 2007	Note vii
	December 31, 2008	Note vii
Foshan Benefit Trading Co., Ltd.	December 31, 2008	Note vii
GZ Trading	December 31, 2008	Note vii
	December 31, 2009	Beijing Zhong Yong Xin CPA Ltd.* (北京中永信會計師事務所)
Hefei Benefit Trading Co., Ltd.	December 31, 2008	Note vii
Jinan Benefit Trading Co.	December 31, 2008	Note vii
Jian Shi Xing	December 31, 2008	Note vii
	December 31, 2009	Shanghai Zhongjian CPA Co., Ltd.* (上海中鑒會計師事務所)
Nanning Benefit Trading Co., Ltd.	December 31, 2008	Note vii
Outsell Trade	December 31, 2008	Note vii
Shenzhen Jundacheng Trading Co., Ltd.	December 31, 2008	Note vii
Tianjin Outsell Health and Food Product Trading Co., Ltd.	December 31, 2008	Note vii
Wuhan Benefit Trading Co., Ltd.	December 31, 2007	Note vii
	December 31, 2008	Note vii
Xian Benefit Trading Co., Ltd.	December 31, 2008	Note vii
Zhuhai Qi Jia	December 31, 2007	Note viii
	December 31, 2008	Note viii
	December 31, 2009	Note viii
Zhongshan Benefit Trading Co., Ltd.	December 31, 2008	Note vii

* The English name is for identification purpose only.

vii No statutory financial statements were prepared for these companies because (a) these companies were inactive and deregistered during the Relevant Periods; or (b) these companies had not commenced their business operations during the relevant year/period.

viii No statutory financial statements were required to prepare under the government regulations in Zhuhai during the Relevant Periods.

The following subsidiaries were deregistered during the year ended December 31, 2009 or the six months ended June 30, 2010 and the PRC statutory financial statements from January 1, 2009 until the date of deregistration were audited by Beijing Zhong Yong Xin CPA Ltd. (北京中永信會計師事務所):

Name of subsidiary	Deregistration date
Chengdu Outsell Trading Co., Ltd.	December 31, 2009
Dongguan Benefit Trading Co., Ltd.	July 23, 2009
Foshan Benefit Trading Co., Ltd.	March 1, 2010
Hefei Benefit Trading Co., Ltd.	August 20, 2009
Jinan Benefit Trading Co.Ltd.	September 14, 2009
Nanjing Outsell Trading Co., Ltd.	January 5, 2010
Nanning Benefit Trading Co., Ltd.	December 28, 2009
Shenzhen Jundacheng Trading Co., Ltd.	January 11, 2010
Tianjin Outsell Health and Food Product Trading Co., Ltd.	October 15, 2009
Wuhan Benefit Trading Co., Ltd.	October 18, 2009
Xian Benefit Trading Co., Ltd.	March 4, 2010
Zhongshan Benefit Trading Co., Ltd.	December 21, 2009

No statutory audited financial statements have been prepared for the Company and Besunyen Investment as they were incorporated in jurisdictions where there are no statutory audit requirements. No statutory audited financial statements have been prepared for Besunyen HK and Ever Assure as they were incorporated in 2009 and 2010, respectively.

For the purposes of this report, the directors of the Company have prepared the consolidated financial statements of the Company and its subsidiaries for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") (the "Underlying Financial Statements"). We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 1 below. No adjustments are considered necessary to adjust the Underlying Financial Statements for the preparation of this report for inclusion in this document.

The directors of the Company are responsible for preparing the Underlying Financial Statements and the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information, and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 1 below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as of December 31, 2007, 2008 and 2009 and June 30, 2010 and of the Company as of December 31, 2009 and June 30, 2010 and of the consolidated profit and cash flows of the Group for the Relevant Periods.

The comparative consolidated statements of comprehensive income, cash flows and changes in equity of the Group for the six months ended June 30, 2009 together with the notes thereon have been extracted from the Group's unaudited consolidated financial information for the same period (the "June 30, 2009 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the June 30, 2009 Financial Information in accordance with the Hong Kong Standard on Review

Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the HKICPA. Our review of the June 30, 2009 Financial Information consisted of making enquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the June 30, 2009 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 30, 2009 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conforms with IFRSs.

A. FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

		Year ended December 31,			Six months ended June 30,	
	NOTES	2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Turnover	6	163,100	358,231	646,535	223,679	368,684
Cost of sales		(47,728)	(60,114)	(68,401)	(21,999)	(37,962)
Gross profit		115,372	298,117	578,134	201,680	330,722
Other income (expenses)	7	1,853	(335)	13,338	5,425	(10,841)
Selling and marketing expenses		(63,740)	(162,872)	(343,808)	(112,719)	(186,686)
Administrative expenses		(5,522)	(11,524)	(27,800)	(11,436)	(29,952)
Finance costs	8	(366)	(1,353)	(8,654)	(439)	(2,734)
Change in fair value on redeemable convertible preferred shares	34	—	—	(33,497)	—	(56,661)
Profit before taxation		47,597	122,033	177,713	82,511	43,848
Taxation	9	(2)	(54)	(36,006)	(13,567)	(22,740)
Profit and total comprehensive income for the year/period	10	47,595	121,979	141,707	68,944	21,108
Earnings per share						
Basic	13	0.04	0.11	0.13	0.06	0.02
Diluted	13	N/A	N/A	0.13	N/A	0.02

Consolidated Statements of Financial Position

		The Group				The Company	
		At December 31,			At June 30,	At December 31,	At June 30,
	NOTES	2007	2008	2009	2010	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS							
Property plant and equipment	14	39,976	54,138	130,935	256,577	—	—
Prepaid lease payments	15	4,900	17,619	18,025	69,580	—	—
Intangible assets	16	5,902	5,343	7,138	24,466	—	—
Non-current deposits	17	4,672	28,480	93,056	22,168	—	—
Investment in a subsidiary	19	—	—	—	—	9,204	13,646
Amounts due from subsidiaries	23	—	—	—	—	82,993	130,688
Deferred tax assets	31	—	413	976	3,703	—	—
Goodwill	18	—	—	—	20,785	—	—
		55,450	105,993	250,130	397,279	92,197	144,334
CURRENT ASSETS							
Inventories	20	5,664	6,695	6,397	13,245	—	—
Trade and notes receivables	21	6,401	8,095	94,723	109,289	—	—
Deposits, prepayments and other receivables	22	2,095	22,217	44,506	121,119	—	—
Amounts due from related parties	42	2,283	29,802	20	20	20	20
Investments held for trading	24	6,791	5,151	—	—	—	—
Pledged bank deposits	25	500	12,154	1,955	—	—	—
Bank balances and cash	26	27,753	88,078	168,777	60,935	2,914	8,005
		51,487	172,192	316,378	304,608	2,934	8,025
CURRENT LIABILITIES							
Trade payables	27	376	4,756	10,512	3,113	—	—
Other payables and accrued expenses	28	28,126	49,418	31,981	63,644	—	250
Amounts due to related parties	42	4,911	883	—	1,500	—	—
Amount due to a subsidiary	23	—	—	—	—	875	875
Dividend payable	12	25,759	25,759	—	2,500	—	2,500
Taxation payable		—	425	13,436	15,258	—	—
Bank borrowings	29	7,800	—	50,000	32,000	—	—
		66,972	81,241	105,929	118,015	875	3,625
NET CURRENT (LIABILITIES) ASSETS		(15,485)	90,951	210,449	186,593	2,059	4,400
TOTAL ASSETS LESS CURRENT LIABILITIES		39,965	196,944	460,579	583,872	94,256	148,734
CAPITAL AND RESERVES							
Paid-in capital/share capital	32	34,721	61,994	63	65	63	65
Reserves	33	3,244	97,950	299,451	332,104	(41,728)	(42,920)
		37,965	159,944	299,514	332,169	(41,665)	(42,855)
NON-CURRENT LIABILITIES							
Bank borrowings	29	—	35,000	15,000	45,000	—	—
Deferred government grant	30	2,000	2,000	3,944	5,588	—	—
Deferred tax liabilities	31	—	—	6,200	9,526	—	—
Redeemable convertible preferred shares	34	—	—	135,921	191,589	135,921	191,589
		2,000	37,000	161,065	251,703	135,921	191,589
		39,965	196,944	460,579	583,872	94,256	148,734

Consolidated Statements of Changes in Equity

	Paid-in capital/ Share capital	Share premium	Capital reserve	Special reserve	Statutory surplus reserve	Share option reserve	Accumulated (losses) profits	Attributable to owners of the Company
	RMB'000	RMB'000	RMB'000 Note 33 (a)	RMB'000 Note 33 (b)	RMB'000 Note 33 (c)	RMB'000	RMB'000	RMB'000
At January 1, 2007	32,521	—	198	—	—	—	(10,305)	22,414
Profit and total comprehensive income for the year	—	—	—	—	—	—	47,595	47,595
Transfer	—	—	—	—	3,813	—	(3,813)	—
Capital contribution from a shareholder	2,200	—	74	—	—	—	—	2,274
Dividends (note 12)	—	—	—	—	—	—	(34,318)	(34,318)
At December 31, 2007	34,721	—	272	—	3,813	—	(841)	37,965
Profit and total comprehensive income for the year	—	—	—	—	—	—	121,979	121,979
Transfer	—	—	—	—	12,999	—	(12,999)	—
Capitalization of accumulated profits	27,273	—	—	—	—	—	(27,273)	—
At December 31, 2008	61,994	—	272	—	16,812	—	80,866	159,944
Profit and total comprehensive income for the year	—	—	—	—	—	—	141,707	141,707
Transfer	—	—	—	—	10,987	—	(10,987)	—
Capitalization of accumulated profits	170,798	—	—	—	—	—	(170,798)	—
Distribution to a shareholder (note 1(d))	—	—	—	(2,200)	—	—	—	(2,200)
Issuance of ordinary shares	63	—	—	—	—	—	—	63
Transfer upon the Reorganization	(232,792)	—	(272)	233,064	—	—	—	—
At December 31, 2009	63	—	—	230,864	27,799	—	40,788	299,514
Profit and total comprehensive income for the period	—	—	—	—	—	—	21,108	21,108
Dividends	—	—	—	—	—	—	(47,500)	(47,500)
Issuance of ordinary shares	2	51,332	—	—	—	—	—	51,334
Share-based payments	—	—	—	—	—	7,713	—	7,713
At June 30, 2010	65	51,332	—	230,864	27,799	7,713	14,396	332,169
For the six months ended June 30, 2009 (unaudited)								
At January 1, 2009	61,994	—	272	—	16,812	—	80,866	159,944
Profit and total comprehensive income for the period	—	—	—	—	—	—	68,944	68,944
Capitalization of accumulated profits	170,798	—	—	—	—	—	(170,798)	—
At June 30, 2009 (unaudited)	232,792	—	272	—	16,812	—	(20,988)	228,888

Consolidated Statements of Cash Flows

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
OPERATING ACTIVITIES					
Profit before taxation	47,597	122,033	177,713	82,511	43,848
Adjustments for:					
Amortization of intangible assets	1,622	1,709	1,807	903	1,607
Depreciation of property, plant and equipment	1,664	2,223	4,081	1,379	5,164
Release of deferred government grant	—	—	—	—	(168)
Finance costs	366	1,353	8,654	439	2,734
Fair value change on redeemable convertible preferred shares	—	—	33,497	—	56,661
Exchange gain on redeemable convertible preferred shares	—	—	—	—	(993)
Fair value change of investments held for trading	(1,698)	7,513	(2,604)	(2,604)	—
Impairment loss on trade receivables	323	—	(323)	(323)	—
Interest income	(60)	(1,255)	(3,328)	(1,915)	(270)
Share-based compensation	—	—	—	—	7,713
Loss on deregistration of subsidiaries	—	—	86	—	—
Loss on disposal of property, plant and equipment	15	45	642	2	177
Release of prepaid lease payments	101	373	368	184	399
Operating cash flows before movements in working capital	49,930	133,994	220,593	80,576	116,872
Decrease (increase) in inventories	2,309	(1,031)	298	(4,154)	(6,534)
Increase in trade and notes receivables	(3,612)	(1,694)	(86,305)	(2,954)	(14,566)
Decrease (increase) in deposits, prepayments and other receivables	508	(15,795)	(26,833)	(44,552)	(71,915)
Decrease (increase) in amounts due from related parties	307	(10,439)	10,622	1,620	—
(Increase) decrease in investments held for trading	(5,093)	(5,873)	7,755	7,755	—
Increase (decrease) in trade payables	360	4,380	5,756	396	(7,399)
Increase (decrease) in other payables and accrued expenses	12,309	21,184	(17,561)	(13,252)	5,715
Decrease in amounts due to related parties	(14,818)	(1,115)	(383)	(383)	—
Cash generated from operations	42,200	123,611	113,942	25,052	22,173
Interest received	60	1,255	3,328	1,915	270
Interest paid	(356)	(3,396)	(3,348)	(2,344)	(2,882)
Income taxes paid	(2)	(42)	(17,358)	(11,789)	(26,015)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	41,902	121,428	96,564	12,834	(6,454)
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(9,927)	(19,479)	(142,518)	(61,397)	(75,987)
Purchase of land use rights	(1,606)	(32,613)	(994)	—	(9,546)
Loan to a related party	—	—	(60,700)	(48,865)	(6,500)
Deposit for establishment of a group company	—	—	—	—	(1,000)
Purchase of intangible assets	(201)	(520)	(3,602)	(951)	(416)
Loan repayment from a related party	—	—	60,700	25,550	6,500
Deposit paid for acquisition of a subsidiary	—	—	(2,000)	—	—
Refund of a deposit for acquisition of a subsidiary	—	—	—	—	2,000
Receipt of government grant income	2,000	—	2,080	—	2,000
(Increase) decrease in pledged bank deposits	(500)	(11,654)	10,199	12,154	1,955
Acquisition of subsidiaries (note 43)	—	—	—	—	1,122
Loan repayment from a third party	—	—	4,560	—	—
Proceeds from disposal of property, plant and equipment	275	16	540	—	—
Loan to a third party	(500)	(4,060)	—	—	—
NET CASH USED IN INVESTING ACTIVITIES	(10,459)	(68,310)	(131,735)	(73,509)	(79,872)
FINANCING ACTIVITIES					
Proceeds from bank borrowings	7,800	35,000	30,000	30,000	50,000
Proceeds from issuance of ordinary shares	—	—	63	—	20,484
Proceeds from issuance of redeemable convertible preferred shares	—	—	102,424	—	—
Advances from related parties	2,600	2,647	19,180	—	1,000
Dividend paid	(8,559)	—	(25,759)	(25,759)	(45,000)
Repayment of bank borrowings	(5,000)	(7,800)	—	—	(38,000)
Advances repayment to related parties	(8,237)	(22,640)	(520)	—	—
Loan repayment to third party	—	—	—	—	(10,000)
Issuance cost for redeemable convertible preferred shares	—	—	(7,318)	—	—
Distribution to a shareholder	—	—	(2,200)	—	—
Contribution from a shareholder	2,274	—	—	—	—
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(9,122)	7,207	115,870	4,241	(21,516)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	22,321	60,325	80,699	(56,434)	(107,842)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD REPRESENTING BANK BALANCES AND CASH	5,432	27,753	88,078	88,078	168,777
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD REPRESENTING BANK BALANCES AND CASH	27,753	88,078	168,777	31,644	60,935

Notes to the Financial Information

1. GROUP REORGANIZATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated in the Cayman Islands on August 5, 2009 as an exempted company under the Cayman Companies Law. The addresses of the registered office and the principal place of business of the Company are set out in the Corporate Information section of the prospectus.

In preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company underwent the Reorganization which included the following steps:

(a) Prior to the Reorganization, Mr. Cui Shan held the entire shareholding of Beijing Outsell on trust for Mr. Zhao Yihong. Pursuant to the sales and purchase agreement dated September 1, 2009, Mr. Cui Shan agreed to transfer the entire equity interest in Beijing Outsell to Besunyen HK in exchange for all of the share of Besunyen HK.

(b) Besunyen Investment was incorporated in the BVI with limited liability on August 11, 2009 and was owned by Mr. Zhao Yihong. On September 25, 2009, 100% of equity interest owned by Mr. Zhao Yihong in Besunyen Investment was transferred to the Company.

(c) Besunyen HK was incorporated in Hong Kong with limited liability on June 10, 2009 and was owned by Mr. Cui Shan. On October 5, 2009, 100% of equity interest owned by Mr. Cui Shan was transferred to Besunyen Investment in exchange for one share at par value of US$1 pursuant to a share transfer agreement. Thereafter, the Company has become the holding company of the Group since October 5, 2009.

(d) Besunyen Food and Beverage was established on June 29, 2007 and the beneficial owner is Mr. Zhao Yihong. On October 9, 2009, Beijing Outsell acquired 100% of equity interest of Besunyen Food and Beverage from Besunyen Investment Co., Ltd., a company owned by Mr. Zhao Yihong, for a consideration of RMB2,200,000. Such consideration was accounted for as a distribution to shareholder.

The Group resulting from the Reorganization is regarded as a continuing entity. Accordingly, the Financial Information of the Group which has been prepared by applying the principles of merger accounting, as if the group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment where this is a shorter period.

The Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are the manufacture and sales of therapeutic tea products.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has consistently adopted International Accounting Standards ("IASs"), IFRSs, amendments and the related Interpretations ("IFRICs"), which are effective for the accounting period beginning on January 1, 2010 throughout the Relevant Periods, except for IFRS 3 (revised 2008), which has been applied for business combination for which the acquisition date is on or after January 1, 2010 and IAS 27 (revised 2008) which has been applied for accounting period beginning on January 1, 2010.

At the date of this report, the IASB has issued the following new and revised standards, amendments and interpretations which are not yet effective during the Relevant Periods.

IFRSs (Amendments)	Improvements to IFRS May 2010[(i)]
IAS 24 (Revised)	Related Party Disclosures[(ii)]
IAS 32 (Amendment)	Classification of Rights Issues[(iii)]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[(iv)]
IFRS 9	Financial Instruments[(v)]
IFRIC 14 (Amendment)	Prepayment of a Minimum Funding Requirement[(ii)]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[(v)]

(i) Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate

(ii) Effective for annual periods beginning on or after January 1, 2011

(iii) Effective for annual periods beginning on or after February 1, 2010

(iv) Effective for annual periods beginning on or after July 1, 2010

(v) Effective for annual periods beginning on or after January 1, 2013

The Group has not early adopted these new and revised standards, amendments and interpretations in the preparation of the Financial Information.

The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the Financial Information of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs issued by the IASB. These policies have been consistently applied throughout the Relevant Periods. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

Business combinations after January 1, 2010

The acquisition of subsidiaries is accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognized at their fair values, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Goodwill

Capitalized goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Merger accounting for business combinations involving entities under common control

Business combinations under common control are accounted for in accordance with the merger accounting. In applying merger accounting, the Financial Information incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or business first came under the control of controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values prior to the common control combinations from the controlling parties' perspective. No amount is recognized in respect of goodwill or excess acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of common control combination.

The comparative amounts in the Financial Information are presented as if the entities or businesses had been combined at the end of each of the previous reporting period or when they first came under common control, whichever is earlier.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts, returns, rebates, and sales related tax.

Revenue from sales of goods is recognized when the goods are delivered and title has passed.

Service income is recognized when services are rendered.

Interest income from a financial asset excluding financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's financial position at cost less any identified impairment losses. The results of the subsidiary are accounted for by the Company on the basis of dividend received and receivable during the year/period.

Leasing

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized as and included in finance costs in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the Relevant Periods.

Government grants

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognized as deferred income in the consolidated statements of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognized as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as expenses when employees have rendered services entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognized in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognized in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share option reserve will be transferred to retained profits.

Share options granted to suppliers/consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognized as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost, other than construction in progress, over their estimated useful lives, and after taking into account their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognized.

Prepaid lease payments

Payment for obtaining land use rights is accounted for as prepaid lease payments and is charged to the statement of comprehensive income on a straight-line basis over the lease terms.

Intangible assets

Intangible assets acquired separately

Intangible assets represent product trademarks and patent, product development costs, contract backlog, customers base and non-compete agreement for the manufacturing of therapeutic tea products and with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets including financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as of FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and notes receivables, other receivables, amounts due from related parties, pledged bank deposits, bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade and notes receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60-180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into finance liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognized on an effective interest basis other than those financial liabilities classified as of FVTPL, of which the interest expense is included in net gains or losses.

Financial liabilities at fair value through profit or loss

Redeemable convertible preferred shares issued by the Company comprise the host debt instrument and the embedded derivatives (including the redemption option and conversion option) and are designated as financial liabilities at FVTPL on initial recognition. The conversion option allows the holder to convert the preferred shares into ordinary shares and will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, and therefore it does not meet the equity classification. At the end of each reporting period subsequent to initial recognition, the entire redeemable convertible preferred shares are measured at fair value, with changes in fair value arising on remeasurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss includes any interest paid on the financial liabilities.

Transaction costs that relate to the issue of the redeemable convertible preferred shares designated as financial liabilities at FVTPL are charged to profit or loss immediately.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to related companies, bank borrowings and dividend payable are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight line method. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. As of December 31, 2007, 2008 and 2009 and June 30, 2010, the carrying amount of property, plant and equipment is RMB39,976,000, RMB54,138,000 and RMB130,935,000 and RMB256,577,000, respectively. Any change in these estimates may have a material impact on the results of the Group.

Amortization of intangible assets

The Group amortizes its intangible assets on a straight-line basis over the estimated useful life ranged from 0.8 to 10 years commencing from the date on which the intangible assets are available for use. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from its intangible assets. As of December 31, 2007, 2008 and 2009 and as of June 30, 2010, the carrying amount of intangible assets was RMB5,902,000, RMB5,343,000 and RMB7,138,000 and RMB24,466,000, respectively. Any change in these estimates may have a material impact on the results of the Group.

Allowances for doubtful debts

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade and notes receivables. Allowances are applied to trade and notes receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying amounts of trade and notes receivables and doubtful debts expenses in the year in which such estimate is changed. As of December 31, 2007, 2008 and 2009 and June 30, 2010, the carrying amounts of trade and notes receivables were RMB6,401,000, RMB8,095,000 and RMB94,723,000 and RMB109,289,000, respectively. The allowance for doubtful debts was RMB323,000, RMBNil, RMBNil, and RMBNil for the years ended December 31, 2007 and 2008, 2009 and for the six months ended June 30, 2010, respectively. An amount of RMB323,000 was reversed during the year ended December 31, 2009.

Fair value of redeemable convertible preferred shares

The fair value of the redeemable convertible preferred shares as a whole is calculated using the valuation techniques. These techniques include using recent arm's length market transactions, with reference to the current fair value of similar instruments, discounts cash flow analysis and binominal option pricing models. Valuation techniques are certified by independent and recognized international business valuers before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by valuers make the maximum use of market inputs and rely as little as possible on the Group's specific data. The model involves estimates on time to maturity, risk free rate, other comparable public companies share price volatility and others. As of December 31, 2009 and June 30, 2010, the carrying amount of the redeemable convertible preferred shares is RMB135,921,000 and 191,589,000, respectively.

Should any of the estimates be revised, it may lead to a material change to the fair value of the redeemable convertible preferred shares.

5. TURNOVER

Turnover represents the invoiced value of therapeutic tea products sold to customers by the Group less returns, discounts, rebates, and value-added tax.

6. TURNOVER AND SEGMENT INFORMATION

The Group operates and manages its business as a single segment that includes primarily the manufacture and sales of therapeutic tea products. The Group's chief operating decision maker has been identified as the Company's Chairman and Chief Executive Officer, who reviews the revenue analysis by major products of the Group when making decisions about allocating resources and assessing performance of the Group. As no other discrete financial information is available for the assessment of performance of different products, no other segment information is presented.

The revenues attributable to the Group's major products are as follows:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Detox tea	102,545	222,187	373,135	122,509	178,173
Slimming tea	38,985	121,913	265,706	96,161	187,493
Other tea products	21,570	14,131	7,694	5,009	3,018
	163,100	358,231	646,535	223,679	368,684

Major customers

No single customers contribute over 10% or more of total revenue of the Group during the Relevant Periods.

Geographical disclosures

The Group operates in the PRC. All of the non-current assets of the Group are located in the PRC.

7. OTHER INCOME (EXPENSES)

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Government grants(Note)	—	5,890	7,446	878	3,519
Interest income					
— Bank interest income	60	1,255	1,904	851	150
— Interest income from a related company	—	—	1,424	1,064	120
	60	1,255	3,328	1,915	270
Gain (loss) on investments held for trading	1,698	(7,513)	2,604	2,604	—
Net foreign exchange gain	—	—	—	—	993
Loss on deregistration of subsidiaries	—	—	(86)	—	—
Listing expenses	—	—	—	—	(14,665)
Acquisition-related expenses	—	—	—	—	(942)
Service income	—	—	—	—	82
Others	95	33	46	28	(98)
	1,853	(335)	13,338	5,425	(10,841)

Note:

The government grants mainly represented the various subsidies from the PRC government for supporting the business operations in which the Company's headquarters is located.

The amount for the six months ended June 30, 2010 also includes a government grant of RMB168,000 which related to the construction of the plant facilities (see note 30).

8. FINANCE COSTS

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Issuance costs of redeemable convertible preferred shares	—	—	7,318	—	—
Interest expense on bank borrowings and banking facilities	366	3,504	3,336	2,344	2,882
Less: amounts capitalized	—	(2,151)	(2,000)	(1,905)	(148)
	366	1,353	8,654	439	2,734

Borrowings cost capitalized during the years arose from borrowings specifically for the purpose of obtaining qualifying assets.

9. TAXATION

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
The charge comprises	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
PRC income tax	2	467	30,369	11,996	27,837
Deferred taxation					
— current year/period	—	(413)	5,637	1,571	(5,097)
	2	54	36,006	13,567	22,740

The income tax expense for the year/period can be reconciled to the profit before tax as follows:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation	47,597	122,033	177,713	82,511	43,848
Tax at PRC Enterprise Income Tax rate of 33%, 25%, 25%, 25% and 25% respectively	15,707	30,508	44,428	20,627	10,962
Effect of tax exemption granted	(13,958)	(50,701)	(27,320)	(11,504)	(11,243)
Tax effect of tax loss not recognized	123	1,293	1,359	1,658	206
Utilization of tax loss previously not recognized	(2,477)	—	(986)	(16)	(752)
Tax effect of income not taxable for tax purposes	(216)	—	(233)	—	—
Tax effect of expenses not deductible for tax purposes	823	18,954	12,558	811	20,845
Withholding tax on undistributed earnings	—	—	6,200	1,991	2,722
Tax charge for the year/period	2	54	36,006	13,567	22,740

The Company was incorporated in the Cayman Islands and Besunyen Investment was incorporated in the BVI that are tax exempted under the tax laws of the Cayman Islands and the BVI.

The PRC subsidiaries were established in the PRC and are governed by the Enterprise Income Tax Law and the Income Tax Law of the People's Republic of China concerning Foreign Investment Enterprises and Foreign Enterprises (collectively the "PRC Income Tax Laws") in 2007. Pursuant to the PRC Income Tax Laws, Beijing Outsell was entitled to the preferential enterprise income tax at a statutory rate of 27% (24% national income tax plus 3% local income tax) granted by the government to the manufacturing enterprises located in the coastal city of open economy. Starting from January 1, 2008, Beijing Outsell applied the statutory rate of 25% due to the change of the PRC Income Tax Laws. Beijing Outsell is exempted from PRC income tax for two years starting from its first profit making year, followed by a 50% reduction for the next three years. Beijing Outsell was exempted from PRC income tax in 2007 and 2008, and entitled to 50% reduction in PRC income tax in 2009, 2010 and 2011.

On March 16, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Except for Beijing Outsell, the remaining PRC subsidiaries are subject to a unified tax rate at 25% from January 1, 2008 onwards.

The EIT rate for entities operating in the PRC, other than Beijing Outsell, was 33% in 2007 and 25% in 2008 and 2009 and 2010.

According to a joint circular of Ministry of Finance and the State Administration of Taxation, Cai Shui No. 1 of 2008, only the profits earned by foreign-investment enterprise prior to January 1, 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profit generated thereafter, shall be subject to EIT at 10% and withheld by the PRC entity, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Details Implementation Rules. By the Tax Arrangement for Avoidance of Double Taxation between China and Hong Kong (China-HK TA), a Hong Kong resident company should be entitled to preferential tax rate of 5% when receiving dividend from its PRC subsidiary. The immediate holding company of Beijing Outsell, which is incorporated in Hong Kong and has been holding Beijing Outsell for less than a year, cannot enjoy the preferential tax rate aforementioned. There were no deferred tax liabilities on the undistributed profits earned during the year ended December 31, 2008 because Beijing Outsell was held by the foreign individual, Mr Cui Shan. During the year ended December 31, 2009 and the six months ended June 30, 2010, deferred tax liabilities have been accrued at the tax rate of 10% on the expected dividend stream of 25% of profit for the year which is determined by the directors of the Company.

No provision for Hong Kong Profits Tax has been made as the Group's operations in Hong Kong had no assessable profit during the Relevant Periods.

10. PROFIT FOR THE YEAR

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit for the year/period has been arrived at after charging (crediting):					
Staff costs, including directors' remuneration					
— salaries and other allowances	11,221	20,105	54,267	29,150	40,284
— retirement benefit scheme contributions	371	1,279	5,748	1,529	2,327
Total staff costs	11,592	21,384	60,015	30,679	42,611
Allowance for (reversal of allowance for) doubtful debts	323	—	(323)	(323)	—
Amortization of intangible assets	1,622	1,709	1,807	903	1,607
Auditors' remuneration	20	556	1,088	802	447
Cost of inventories recognized as expense	47,728	60,114	68,401	21,999	37,962
Depreciation of property, plant and equipment	1,664	2,223	4,081	1,379	5,164
Loss on disposal of property, plant and equipment	15	45	642	2	177
Release of prepaid lease payments	101	373	368	184	399
Research and development costs	—	891	1,946	801	1,319

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

Details of the emoluments paid to the directors of the Company for the Relevant Periods are as follows:

For the year ended December 31, 2007:

	Directors' fee	Salaries and other allowances	Share-based compensation	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Zhao Yihong	—	150	—	4	154
Gao Yan	—	108	—	3	111
	—	258	—	7	265
Non-executive directors					
Zhuo Fumin	—	—	—	—	—
Wang Bing	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors					
Arthur Wong	—	—	—	—	—
Huang Jingsheng	—	—	—	—	—
Xin Rong	—	—	—	—	—
	—	—	—	—	—

For the year ended December 31, 2008:

	Directors' fee	Salaries and other allowances	Share-based compensation	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Zhao Yihong	—	228	—	19	247
Gao Yan	—	173	—	17	190
	—	401	—	36	437
Non-executive directors					
Zhuo Fumin	—	—	—	—	—
Wang Bing	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors					
Arthur Wong	—	—	—	—	—
Huang Jingsheng	—	—	—	—	—
Xin Rong	—	—	—	—	—
	—	—	—	—	—

For the year ended December 31, 2009:

	Directors' fee	Salaries and other allowances	Share-based compensation	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Zhao Yihong	—	379	—	26	405
Gao Yan	—	300	—	21	321
	—	679	—	47	726
Non-executive directors					
Zhuo Fumin	—	—	—	—	—
Wang Bing	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors					
Arthur Wong	—	—	—	—	—
Huang Jingsheng	—	—	—	—	—
Xin Rong	—	—	—	—	—
	—	—	—	—	—

For the six months ended June 30, 2010:

	Directors' fee	Salaries and other allowances	Share-based compensation	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Zhao Yihong	50	549	1,806	13	2,418
Gao Yan	50	445	903	12	1,410
	100	994	2,709	25	3,828
Non-executive directors					
Zhuo Fumin	50	—	19	—	69
Wang Bing	50	—	19	—	69
	100	—	38	—	138
Independent non-executive directors					
Arthur Wong	—	—	—	—	—
Huang Jiangsheng	50	—	24	—	74
Xin Rong	—	—	—	—	—
	50	—	24	—	74

For the six months ended June 30, 2009 (unaudited):

	Directors' fee	Salaries and other allowances	Share-based compensation	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Zhao Yihong	—	93	—	5	98
Gao Yan	—	68	—	4	72
	—	161	—	9	170
Non-executive directors					
Zhuo Fumin	—	—	—	—	—
Wang Bing	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors					
Arthur Wong	—	—	—	—	—
Huang Jingsheng	—	—	—	—	—
Xin Rong	—	—	—	—	—
	—	—	—	—	—

The bonus and other related incentive payments, which were discretionary, were determined based on a financial performance of the Group for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and June 30, 2010 and have been included the salaries and other allowances disclosed above.

Employees

The five highest paid individuals of the Group for the Relevant Periods included two directors for each of the years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2009 and June 30, 2010, respectively. The emoluments of the remaining three, three, three, three and three individuals for the years ended December 31, 2007, 2008 and 2009 and six months ended June 30, 2009 and June 30, 2010, respectively, are as follows:

	For the year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and other benefits	223	298	703	144	1,167
Share-based compensation	—	—	—	—	1,825
Retirement benefit scheme contributions	7	35	29	6	19
	230	333	732	150	3,011

The emoluments of each of the remaining three highest paid individuals in the Group for the years ended December 31, 2007, 2008 and 2009 were below HK$1,000,000.

The emoluments of the employees were within the following bands:

	Number of employees				
	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009 (unaudited)	2010
HK$nil to HK$1,000,000	3	3	3	3	1
HK$1,000,001 to HK$1,500,000	—	—	—	—	1
HK$1,500,001 to HK$2,000,000	—	—	—	—	1

During the Relevant Periods, no remuneration was paid by the Group to the directors or the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration during the Relevant Periods.

12. DIVIDENDS

No dividend has been paid or declared by the Company from its incorporation date to December 31, 2009. In April 2010, the Company declared a special cash dividend of an aggregate amount of the US dollar equivalent of RMB47,500,000, of which RMB45,000,000 was paid in May 2010 and the remaining balance of RMB2,500,000 has not been paid and was disclosed as dividend payable as of June 30, 2010. In addition, during the Relevant Periods, Beijing Outsell distributed dividends amounting to RMB34,318,000 to its then owner in 2007 prior to the Reorganization.

The rate of dividend and the number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	December 31,			June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Earnings:					
Earnings for the purpose of calculating basic and diluted earnings per share	47,595	121,979	141,707	68,944	21,108

	Number of shares				
	December 31,			June 30,	
	2007	2008	2009	2009	2010
	'000	'000	'000	'000 (unaudited)	'000
Numbers of shares:					
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	1,079,927	1,114,560	1,114,560	1,114,560	1,122,004

The weighted average number of ordinary shares for the purpose of calculating the basic earnings per share for the Relevant Periods has been retrospectively adjusted for the Reorganization and assuming that the Reorganization had been effective on January 1, 2007, and also for the 120-for-one share sub-division that became effective on September 10, 2010.

No diluted earnings per share is presented for the years ended December 31, 2007 and 2008 and for the six months ended June 30, 2009 because the Company did not have potential ordinary shares outstanding during such years/period.

For the year ended December 31, 2009, the computation of diluted earnings per share does not assume the conversion of the Company's outstanding redeemable convertible preferred shares since their exercise would result in an increase in earnings per share.

For the six months ended June 30, 2010, the computation of diluted earnings per share does not assume the conversion of the Company's outstanding redeemable convertible preferred shares since their exercise would result in an increase in earnings per share, and nor does it assume the exercise of the Company's share options because the exercise prices of those share options were higher than the average fair value of shares of the Company.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Furniture and fixtures	Computer equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At January 1, 2007	13,588	3,842	3,113	493	431	13,344	34,811
Additions	—	2,356	1,153	99	153	6,166	9,927
Disposals	—	(59)	(323)	(42)	—	—	(424)
At December 31, 2007	13,588	6,139	3,943	550	584	19,510	44,314
Additions	127	2,838	1,564	298	280	11,338	16,445
Disposals	—	(61)	(155)	(83)	(111)	—	(410)
At December 31, 2008	13,715	8,916	5,352	765	753	30,848	60,349
Additions	32	42,371	1,971	291	1,759	35,636	82,060
Disposals	—	(918)	(533)	(60)	(257)	—	(1,768)
At December 31, 2009	13,747	50,369	6,790	996	2,255	66,484	140,641
Additions	24,830	60,273	5,896	818	1,422	28,685	121,924
Transfer	82,805	—	—	—	—	(82,805)	—
Acquisition through business combination	4,030	4,387	151	241	250	—	9,059
Disposals	—	(135)	(74)	—	(17)	—	(226)
At June 30, 2010	125,412	114,894	12,763	2,055	3,910	12,364	271,398
DEPRECIATION							
At January 1, 2007	624	866	909	188	221	—	2,808
Provided for the year	414	492	604	73	81	—	1,664
Eliminated on disposals	—	(42)	(82)	(10)	—	—	(134)
At December 31, 2007	1,038	1,316	1,431	251	302	—	4,338
Provided for the year	418	727	841	119	118	—	2,223
Eliminated on disposals	—	(56)	(120)	(74)	(100)	—	(350)
At December 31, 2008	1,456	1,987	2,152	296	320	—	6,211
Provided for the year	422	2,084	1,071	162	342	—	4,081
Eliminated on disposals	—	(212)	(211)	(36)	(127)	—	(586)
At December 31, 2009	1,878	3,859	3,012	422	535	—	9,706
Provided for the period	1,177	2,798	631	146	412	—	5,164
Eliminated on disposals	—	(31)	(9)	—	(9)	—	(49)
At June 30, 2010	3,055	6,626	3,634	568	938	—	14,821
NET BOOK VALUES							
At December 31, 2007	12,550	4,823	2,512	299	282	19,510	39,976
At December 31, 2008	12,259	6,929	3,200	469	433	30,848	54,138
At December 31, 2009	11,869	46,510	3,778	574	1,720	66,484	130,935
At June 30, 2010	122,357	108,268	9,129	1,487	2,972	12,364	256,577

The above items of property, plant and equipment, after taking into account their estimated residual value of 5% to 10% of the cost, are depreciated on a straight-line basis at the following rates per annum:

Buildings	3% - 7%
Plant and machinery	10% - 20%
Motor vehicles	20%
Furniture and fixtures	20%
Computer equipment	20% - 50%

At December 31, 2007, 2008 and 2009 and June 30, 2010, the Group had pledged its buildings with an aggregate carrying value of RMBNil, RMBNil and RMB11,869,000 and RMB11,318,000, respectively, to Beijing Rural Commercial Bank Co., LTD. Liangxiang Bank to secure the credit facilities granted to the Group.

The Group's buildings are situated on land in the PRC held by the Group under medium-term lease.

At December 31, 2007, 2008 and 2009 and at June 30, 2010, the accumulated borrowing costs capitalized to construction in progress were RMBNil, RMB2,151,000 and RMB4,151,000 and RMBNil, respectively.

At June 30, 2010, the Group is in the process of obtaining a property certificate for the buildings with carrying values approximate to RMB3,959,000 which are located in the PRC.

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land in the PRC under medium-term lease and are analyzed for reporting purposes as:

	December 31,			June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets (included in deposits, prepayment and other receivables)	105	373	388	1,360
Non-current assets	4,900	17,619	18,025	69,580
	5,005	17,992	18,413	70,940

The prepaid lease payments represent the land use rights and are amortized on a straight-line basis over lease terms of 50 years as stated in the relevant land use right certificates granted for usage by the Group in the PRC.

At December 31, 2007, 2008 and 2009 and June 30, 2010, the Group had pledged of its land use rights with an aggregate carrying value of approximately RMB246,000, RMB17,738,000, RMB18,413,000 and RMB18,223,000, respectively, to Beijing Rural Commercial Bank Co., LTD. Liangxiang Branch to secure the credit facilities granted to the Group.

16. INTANGIBLE ASSETS

	Trademarks	Patents	Product development costs	Contract backlog	Customers base	Non-compete agreement	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At January 1, 2007	9,023	1,662	—	—	—	—	10,685
Additions	21	—	—	—	—	—	21
At December 31, 2007	9,044	1,662	—	—	—	—	10,706
Additions	370	780	—	—	—	—	1,150
At December 31, 2008	9,414	2,442	—	—	—	—	11,856
Additions	102	190	3,310	—	—	—	3,602
At December 31, 2009	9,516	2,632	3,310	—	—	—	15,458
Additions	—	15	—	—	—	—	15
Acquisition through business combination	—	14,030	—	200	2,430	2,260	18,920
At June 30, 2010	9,516	16,677	3,310	200	2,430	2,260	34,393
AMORTIZATION							
At January 1, 2007	2,793	389	—	—	—	—	3,182
Provided for the year	1,290	332	—	—	—	—	1,622
At December 31, 2007	4,083	721	—	—	—	—	4,804
Provided for the year	1,319	390	—	—	—	—	1,709
At December 31, 2008	5,402	1,111	—	—	—	—	6,513
Provided for the year	1,416	391	—	—	—	—	1,807
At December 31, 2009	6,818	1,502	—	—	—	—	8,320
Provided for the period	596	520	382	21	41	47	1,607
At June 30, 2010	7,414	2,022	382	21	41	47	9,927
CARRYING VALUES							
At December 31, 2007	4,961	941	—	—	—	—	5,902
At December 31, 2008	4,012	1,331	—	—	—	—	5,343
At December 31, 2009	2,698	1,130	3,310	—	—	—	7,138
At June 30, 2010	2,102	14,655	2,928	179	2,389	2,213	24,466

The above intangible assets are amortized on a straight-line basis over the following estimated useful lives:

Trademarks	10 years
Patents	5-10 years
Product development costs	3 years
Contract backlog	0.8 year
Customers base	5 years
Non compete agreement	4 years

All of the Group's intangible assets other than product development costs were acquired from third parties or through acquisition of subsidiaries. The product development costs represent payments to an independent third party, Jian Shi Xing for the development of new tea products. Jian Shi Xing is engaged in the research and development of tea and Chinese medicinal herbal products and was acquired by the Group in May 2010 (see Note 43(b) for further details).

17. NON-CURRENT DEPOSITS

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Deposit for purchase of property, plant and equipment(Note a)	—	5,184	67,556	21,767
Deposit for prepaid lease payments(Note b)	4,042	23,296	23,500	—
Deposit for acquisition of a subsidiary(Note c)	—	—	2,000	—
Deposit for purchase of intangible assets	630	—	—	401
	4,672	28,480	93,056	22,168

Notes:

(a) Deposit for purchase of property, plant and equipment represented amounts paid for the acquisition of plant and equipment.

(b) Deposit for prepaid lease payments represented payments for purchase of a land use right that was pending for the approval and registration at December 31, 2009. The balance at December 31, 2008 and 2009 was related to the same land use right and the registration was completed during the six months ended June 30, 2010.

(c) Deposit for acquisition of a subsidiary represented a partial payment for the acquisition of a 100% equity interest in Zhuhai Qi Jia. The Group obtained a 100% beneficial interest in Zhuhai Qi Jia and the amount was fully refunded from the former shareholders of Zhuhai Qi Jia during the six months ended June 30, 2010 (see Note 43(a) for further details).

18. GOODWILL

	RMB'000
Cost	
Arising on acquisition of subsidiaries during the six months ended June 30, 2010 and as of June 30, 2010	20,785

There was no goodwill as of December 31, 2007, 2008 and 2009.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	RMB'000
CGUs:	
Zhuhai Qi Jia (note 43(a))	5,305
Jian Shi Xing (note 43(b))	15,480
	20,785

19. INVESTMENT IN A SUBSIDIARY

The Company	At December 31, 2009	At June 30, 2010
	RMB'000	RMB'000
Investment in unlisted shares, at cost	—	—
Deemed capital contribution	9,204	13,646
	9,204	13,646

The investment cost as of December 31, 2009 represented the Company's investment in Besunyen Investment US$1 (equivalent to RMB7).

Deemed capital contribution represented the fair value adjustments on non-current interest-free advances to subsidiaries at initial recognition (note 23).

20. INVENTORIES

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	3,891	3,030	2,943	4,009
Work in progress	271	3,489	3,042	2,053
Finished goods	1,502	176	412	7,183
	5,664	6,695	6,397	13,245

21. TRADE AND NOTES RECEIVABLES

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	6,724	7,239	39,428	72,361
Notes receivables	—	1,179	55,295	36,928
Less: Allowance for doubtful debts	(323)	(323)	—	—
	6,401	8,095	94,723	109,289

The doubtful debts of RMB323,000 for which the Group made an allowance during the year ended December 31, 2007 were fully settled during the year ended December 31, 2009, and therefore such allowance was reversed during the year ended December 31, 2009.

The Group allows a credit period of 60-180 days to its trade customers. The following is an aged analysis of trade and notes receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
0 - 90 days	6,296	7,438	93,150	107,335
91 - 180 days	8	467	1,502	1,954
181 to 365 days	62	183	71	—
Over 1 year	35	7	—	—
	6,401	8,095	94,723	109,289

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines credit limits by customer internally. Limits and scoring attributed to customers are reviewed every year.

Included in the Group's trade and notes receivables are debtors with an aggregate carrying amount of approximately RMB214,000, RMB1,369,000 and RMB1,524,000 and RMB1,656,000 which are past due at December 31, 2007, 2008 and 2009 and June 30, 2010, respectively, for which the Group has not provided for an impairment loss. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired is as follows:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
0 - 90 days	109	712	—	—
91 - 180 days	8	467	1,453	1,656
181 - 365 days	62	183	71	—
Over 1 year	35	7	—	—
	214	1,369	1,524	1,656

The Group anticipates a full recovery of these amounts, and therefore no impairment has been recorded against these receivables. The credit risk on the receivables has been further discussed in Note 39.

No interest is charged on trade receivables. Allowances on trade receivables are made based on estimated irrecoverable amounts from the sales of goods by reference to past default experience and objective evidences of impairment determined by the difference between the carrying amount and the present value of the estimate future cash flow discounted at the original effective interest rate.

Movement in the allowance for doubtful debts

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at beginning of the year/period	—	323	323	—
Amounts provided (reversed) during the year/period	323	—	(323)	—
Balance at end of the year/period	323	323	—	—

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Prepaid advertising	58	10,017	36,243	111,751
Other prepayments	851	2,630	5,223	3,838
Prepaid lease payments	105	373	388	1,360
Other receivables	500	4,572	1,392	1,255
Prepayment to suppliers	31	925	349	1,191
Deposits paid	291	2,871	807	713
Staff advances	259	829	104	1,011
	2,095	22,217	44,506	121,119

As of December 31, 2007 and 2008, included in other receivable is a loan to an independent third party of RMB500,000 and RMB4,060,000, respectively. The amount was unsecured, interest free and was settled in the first quarter of 2009. As advised by the Company's PRC legal advisor, these interest free loan transactions were not in compliance with the relevant laws and regulations in the PRC, however, such non-compliance does not have a significant risk on the Group because these loans were fully settled and there was no administrative penalty from the relevant government authorities. As such, the Company's directors do not consider these transactions will have a significant impact on the Group's results or financial position.

During the six months ended June 30, 2010, Mr. Zhao Yihong advanced RMB1,000,000 to an employee of the Group for setting up a domestic company in the PRC.

23. AMOUNTS DUE FROM (TO) SUBSIDIARIES

At the end of the reporting period, the Company had the following balances with its subsidiaries:

			At June 30, 2010	
	Amounts due from subsidiaries	Amount due to a subsidiary	Amounts due from subsidiaries	Amount due to a subsidiary
	RMB'000	RMB'000	RMB'000	RMB'000
Beijing Outsell	—	875	4,937	875
Besunyen Investment	8	—	27,901	—
Besunyen HK	82,985	—	85,512	—
Ever Assure	—	—	12,338	—
	82,993	875	130,688	875

The amounts due from subsidiaries are unsecured, non-traded related, interest free and repayable on demand. In the opinion of the Company's Directors, the Company will not demand for repayment within one year from the end of reporting period and the advances are therefore considered as non-current. Such interest-free advances are measured at amortized cost using the effective interest method at an interest rate of 5.4% per annum.

The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

24. INVESTMENTS HELD FOR TRADING

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Equity securities listed in the PRC	6,791	5,151	—	—

The fair values of the investments held for trading were determined based on the quoted market bid prices available on the Shanghai Stock Exchange in the PRC at the end of each reporting period.

25. PLEDGED BANK DEPOSITS

The pledged bank deposits represent deposits pledged to a bank as guarantees for short-term trade facilities granted to the Group and are therefore classified as current assets. The pledged deposits at December 31, 2009 were released upon the settlement of trade facilities during the six months ended June 30, 2010.

26. BANK BALANCES AND CASH

The Group and the Company

Bank balances and cash comprise cash and short-term deposits held by the Group with an original maturity of three months or less.

The bank deposit carries a weighted-average interest rate of 0.72%, 0.72%, 0.36% and 0.36% per annum as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively.

At the end of the reporting period, included in bank balances are the following amounts denominated in currencies other than the functional currency of the relevant group entity to which they relate.

	The Group				The Company	
	At December 31,			At June 30,	At December 31,	At June 30,
	2007	2008	2009	2010	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
United States Dollars	37	79	95,141	8,270	2,914	8,005

27. TRADE PAYABLES

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	376	3,968	10,512	3,113
Bills payables	—	788	—	—
	376	4,756	10,512	3,113

The credit period granted by suppliers is 60-90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe. The following is an aged analysis of trade and notes payables and bills payables presented based on invoiced date at the end of each reporting period:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
0 to 90 days	376	4,689	10,512	3,094
91 to 180 days	—	67	—	19
	376	4,756	10,512	3,113

28. OTHER PAYABLES AND ACCRUED EXPENSES

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Other tax payables	3,523	6,381	14,326	8,348
Payable for land use right	—	—	—	15,210
Accrued payroll	1,927	5,783	6,354	5,780
Advances from customers	3,430	19,488	5,528	6,514
Payable to former shareholders of Zhuhai Qi Jia	—	—	—	7,050
Accrued expenses	—	879	3,033	15,195
Advertising expenses payable	14,952	11,267	1,855	513
Other payables	4,272	5,491	632	2,578
Accrued interest expenses	22	129	117	132
Deferred government grant	—	—	136	324
Payable for acquisition of a subsidiary	—	—	—	2,000
	28,126	49,418	31,981	63,644

At June 30, 2010, the Company's other payables and accrued expenses were accrued payroll.

The amounts due to former shareholders of Zhuhai Qi Jia are unsecured, non-trade related, interest free and repayable on demand.

29. BANK BORROWINGS

	December 31,			June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank borrowings repayable:				
On demand or within one year	7,800	—	50,000	32,000
More than one year but not exceeding two years	—	—	15,000	15,000
More than two year but not more than five years	—	35,000	—	30,000
	7,800	35,000	65,000	77,000
Less: Amounts due within one year shown under current liabilities	(7,800)	—	(50,000)	(32,000)
	—	35,000	15,000	45,000

The borrowings carrying variable interests with reference to the Benchmark Borrowing Rate of The People's Bank of China ("Benchmark Rate") were as follows:

	December 31,			June 30,
	2007	2008	2009	2010
Effective interest rate:				
Variable-rate borrowings	Benchmark Rate -0.5% to +1%	Benchmark Rate -0.5% to +1%	Benchmark Rate -0.5% to +1%	Benchmark Rate -0.5% to +1%

The borrowings are arranged at variable interest rates and expose the Group to cash flow interest rate risk. Bank borrowings are guaranteed by Mr. Zhao Yihong, Ms. Gao Yan and Besunyen Investment Co., Ltd. a related company in which Mr. Zhao Yihong has a beneficial interest. Such guarantees will be released before the Company's listing in the stock exchange of Hong Kong.

The borrowings are secured by the Group's property, plant and equipment and prepaid lease payments as set out in notes 14 and 15 respectively.

All of the borrowings are denominated in RMB which is the same as the functional currency of the corresponding group entities.

30. DEFERRED GOVERNMENT GRANT

In August 2007, October 2009 and May 2010, the Group received government grants of RMB2,000,000, RMB2,080,000 and RMB2,000,000 respectively for the construction of a plant facility in the PRC.

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Analyzed for reporting purposes as:				
Current liabilities (included in other payables and accrued expenses)	—	—	136	324
Non-current liabilities	2,000	2,000	3,944	5,588
	2,000	2,000	4,080	5,912

At December 31, 2007, 2008 and 2009, the construction of the plant facility had not been completed and such government grant was recorded as liabilities in the consolidated statements of financial position.

During the six months ended June 30, 2010, the construction of the plant facilities was completed, and the Group has commenced to use the plant facilities for production. As a result, the government grant is recognized over the estimated useful life of the relevant assets. The amount that will be recognized in the Group's consolidated statements of comprehensive income within a year is classified as a current liability.

31. DEFERRED TAX

The following are the major deferred tax (liability) asset recognized and movements thereon during the Relevant Periods:

	Fair value adjustment on assets acquired through business combinations	Accrued payroll	Prepaid Advertising	Withholding tax on undistributed earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2007 and December 31, 2007	—	—	—	—	—
Credit to profit or loss during the year	—	413	—	—	413
At December 31, 2008	—	413	—	—	413
Credit (charge) to profit or loss during the year	—	563	—	(6,200)	(5,637)
At December 31, 2009	—	976	—	(6,200)	(5,224)
Acquisitions of subsidiaries	(5,696)	—	—	—	(5,696)
Reversal upon payment of withholding tax	—	—	—	5,000	5,000
Credit (charge) to profit or loss during the period	92	(68)	2,795	(2,722)	97
At June 30, 2010	(5,604)	908	2,795	(3,922)	(5,823)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2007	2008	2009	June 30, 2010
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	—	413	976	3,703
Deferred tax liabilities	—	—	(6,200)	(9,526)
	—	413	(5,224)	(5,823)

32. PAID-IN CAPITAL/SHARE CAPITAL

The amount at January 1, 2007 represented the combined paid-in capital of Beijing Outsell. The amounts at December 31, 2007 and 2008 represented the combined paid-in capital of Beijing Outsell and Besunyen Food and Beverage, while the amounts at December 31, 2009 and June 30, 2010 represented the then issued and fully paid share capital of the Company.

On June 29, 2007, the date of establishment of Besunyen Food and Beverage, RMB2,200,000 was contributed by the owner as registered capital of Besunyen Food and Beverage.

In 2008, Beijing Outsell increased its paid-in capital from RMB32,521,000 to RMB59,794,000 through capitalization of its accumulated profits of RMB27,273,000.

Movement of the Company's share capital during the year ended December 31, 2009 and the six months ended June 30, 2010 is set out below.

	Number of shares	Amount	Shown in the Financial Information as
		US$	RMB'000
Authorized:			
At date of incorporation (August 5, 2009)(Note a)	50,000	50,000	341
Increase in authorized capital during the period(Note b)	49,950,000	—	—
Designation and reclassification into Series A Preferred Shares(Note c)	(3,000,000)	(3,000)	(20)
At December 31, 2009 and June 30, 2010	47,000,000	47,000	321
Issued and fully paid:			
At date of incorporation (August 5, 2009)(Note a)	1	—	—
Share cancelled during the period	(1)	—	—
Shares issued during the period(Note c)	9,288,000	9,288	63
At December 31, 2009	9,288,000	9,288	63
Shares issued in connection with acquisition of a subsidiary (Note d)	217,313	217	1
Shares issued during the period (Note e)	144,876	145	1
At June 30, 2010	9,650,189	9,650	65

Notes:

(a) The Company was incorporated on August 5, 2009 with an authorized share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. At the date of incorporation, one ordinary share of US$1 was issued at par to the subscriber to the Memorandum of Association to provide the initial capital to the Company.

(b) On October 21, 2009, the authorized shares were divided into 47,000,000 ordinary shares of US$0.001 each and 3,000,000 Series A Preferred Shares of US$0.001 each with details set out in Note 34.

(c) On October 21, 2009, the Company issued 9,288,000 ordinary shares at US$0.001 each to the shareholder of the Company.

(d) In May 2010, the Company issued 217,313 ordinary shares to acquire the entire equity interest of Jian Shi Xing, further details of which are set out in Note 43(b). These shares rank pari passu with other shares in issue in all respects.

(e) In May 2010, the Company issued 144,876 ordinary shares to third party investors for an aggregate consideration of USD3,000,000 (equivalent to approximately RMB20,484,000). These shares rank pari passu with other shares in issue in all respects.

In September 2010, the directors and shareholders of the Company approved a 120-for-one share sub-division which became effective on September 10, 2010.

33. RESERVES

The Group

(a) Capital reserve

Capital reserve represents the excess of capital contribution by the shareholder over the aggregate registered capital of Beijing Outsell and Besunyen Food and Beverage.

(b) Special reserve

Special reserve represents the aggregate of (i) the difference between the nominal value of the Company's share, issued upon Reorganization and the net assets of Beijing Outsell and Besunyen Food and Beverage, and (ii) a deemed distribution of RMB2,200,000 to the shareholder.

(c) Statutory surplus reserve

According to the relevant laws in the PRC, the enterprises established in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a general reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The general reserve fund can be used to offset the previous year losses, if any. The general reserve fund is non-distributable other than upon liquidation.

The Company

	Share premium	Share option reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At August 5, 2009	—	—	—	—
Loss and total comprehensive expenses for the period	—	—	(41,728)	(41,728)
At December 31, 2009	—	—	(41,728)	(41,728)
Loss and total comprehensive expenses for the period	—	—	(12,737)	(12,737)
Issuance of ordinary shares	51,332	—	—	51,332
Share-based payments	—	7,713	—	7,713
Dividends	—	—	(47,500)	(47,500)
At June 30, 2010	51,332	7,713	(101,965)	(42,920)

34. REDEEMABLE CONVERTIBLE PREFERRED SHARES

The Company and the Group

	Number of shares	Nominal amount
		RMB'000
Redeemable convertible preferred shares of US$0.001 each:		
Authorized		
Authorized during 2009 and balance at December 31, 2009	3,000,000	20
Issued and fully paid		
Issued during 2009 and balance at December 31, 2009	712,000	4
Issued during the period	144,572	1
Balance at June 30, 2010	856,572	5

On October 21, 2009, the Company issued 712,000 shares of Series A redeemable convertible preferred shares ("Series A Preferred Shares") to an independent third party at a consideration of US$15,000,000 (approximately RMB102,424,000).

Under the Series A Preferred Shares agreements, the number of Series A Preferred Shares that the holder is entitled to receive is subject to earnings adjustment determined based on the Company's consolidated net profit for the year ended December 31, 2009. On May 31, 2010, 125,010 additional Series A Preferred Shares were allotted and issued to the holder at a par value per share in accordance with the exercise of the holder's such earnings adjustment right. Such earnings adjustment was arrived at based on the Company's consolidated net profit for the year ended December 31, 2009. Pursuant to such earnings adjustment, the holder's earnings adjustment right was fully exercised and there will be no further adjustment to the Series A Preferred Shares by such a holder. In addition, under the agreements, the holder is entitled to an anti-dilution protection with respect to the acquisition of Jian Shi Xing. On May 31, 2010, 19,562 Series A Preferred Shares were allotted and issued to the holder at a par value per share in accordance with the anti-dilution protection. Apart from the anti-dilution protection, there are no potential adjustments on the allotment of shares to the holders of Series A Preferred Shares in the future.

Conversion Terms

One redeemable convertible preferred share can be converted to one ordinary share of the Company (before 120-for-one share sub-division) at any time after date of issuance, or is automatically converted upon the earlier of:

(i) the consummation of a qualified initial public offering ("IPO");

(ii) immediately prior to the closing of an acquisition by, merger or other combination with another entity where the Company is not the surviving entity where such surviving entity is listed on an internationally recognized stock exchange; and

(iii) The date specified by written consent or agreement of the holders of a majority of outstanding Series A Preferred Shares.

The conversion price is subject to adjustment for dilution, including but not limited to share dividends, subdivisions, combinations, other distributions, reclassifications, recapitalizations, other dilutive events, reorganizations, mergers, consolidations or sales of assets and certain issuances.

Redemption Terms

The Series A Preferred Shares are redeemable at an amount equal to the greater of the then fair market value for such share, or 200% of the subscription price after five years from date of issuance.

Dividend

The Series A Preferred Shares are denominated in US dollar. Holders of the Series A Preferred Shares shall be entitled to a fixed cumulative dividend of 6% per annum of the principal amount of the Series A Preferred Shares to be payable every six months, in no event later than August 31, and April 30, for every fiscal year, respectively.

The entire Series A Preferred Shares is designated as a financial liability at FVTPL on initial recognition. The entire Series A Preferred shares are measured at fair value with changes in fair value recognized in the consolidated statements of comprehensive income.

The Series A Preferred Shares were valued at fair value by the directors with reference to valuation carried out by an independent firm of professional valuers, Marsh (Beijing) Risk Consulting Co., Ltd. ("Marsh"), whose address is Unit 1506, North Tower, Kerry Center, 1 Guanghua Road, Chaoyang District, Beijing 100020, China, at December 31, 2009 and June 30, 2010, at approximately US$19,906,000 (approximately RMB135,921,000) and US$28,213,000 (approximately RMB191,589,000), respectively.

The fair value of the entire Series A Preferred Shares at FVTPL at December 31, 2009 and June 30, 2010 was determined by using valuation techniques which include discounted cash flow analysis and option pricing model. The present value of the estimated future cash flow is discounted at the weighted average cost of capital ("WACC") of 23% and 21% at December 31, 2009 and June 30, 2010, respectively.

The Series A preferred shareholder waived the dividend for the six months ended June 30, 2010. No dividend was paid to the Series A preferred shareholders during the Relevant Periods.

The assumptions adopted for the valuation of the Series A Preferred Shares are as follows:

	December 31, 2009	June 30, 2010
Methodology	Option-pricing method	Option-pricing method
Estimated probability of the Series A Preferred Shares		
— for liquidation	5%	5%
— for redemption	15%	10%
— for conversion	80%	85%
Risk-free rate		
— for liquidation	0.5%	0.24%
— for redemption	2.6%	2.14%
Time to redemption	4.81 years	4.31 years
Time to automatic conversion	1 year	0.25 years
Preferred shares Dividend yield	6%	6%
Volatility		
— for redemption	42%	43%

The assumptions adopted for the valuation of Series A Preferred Shares were as follows:

1. The estimation of the risk-free rate was made with reference to the yield of United States Treasury Bond as of the valuation dates.

2. Volatility was estimated based on the average historical stock price volatility of comparable listed companies over a period commensurate with the expected time to redemption.

The movement of the Series A Preferred Shares is set out below:

	Total
	RMB'000
At issuance of Series A Preferred Shares	102,424
Changes in fair value recognized in profit or loss	33,497
At December 31, 2009	135,921
Changes in fair value recognized in profit or loss	56,661
Exchange adjustments	(993)
At June 30, 2010	191,589

The issue cost of Series A Preferred Shares amounted to approximately RMB7,318,000 and had been recognized in the consolidated statements of comprehensive income for the year ended December 31, 2009.

35. MAJOR NON-CASH TRANSACTION

Since Beijing Outsell is a High-Technology Enterprise as awarded by Beijing Scientific Technology Committee (北京市科學技術委員會), a third party entity named Yongtai Real Estate (永泰房地產公司) intended to cooperate with Beijing Outsell for a scientific research project on a piece of land owned by Yongtai Real Estate in order to utilize the privileges of the High-Technology Enterprise. As such, Beijing Outsell intended to purchase the piece of land and changed the usage of that piece of land from industrial use to scientific use, had paid a deed duty tax of RMB1,296,000 as of December 31, 2008.

During the year ended December 31, 2009, Beijing Outsell purchased the piece of land from Yongtai Real Estate for a consideration of RMB43,200,000 and the land title deed was transferred to Beijing Outsell. However, this project was terminated as the government's policy regarding the change of the land usage became more stricter than expected. Since the purpose of the project was not achieved, during the same year, Yongtai Real Estate purchased the same piece of land back from Beijing Outsell for a consideration of RMB44,496,000 and the land title deed was transferred back to Yongtai Real Estate. Beijing Outsell had not yet made the payment for the purchase before the land was sold back to Yongtai Real Estate, and therefore, it resulted in a net cash inflow of RMB1,296,000.

In May 2010, the Group acquired 100% of the issued share capital Ever Assure for an aggregate of 217,313 ordinary shares of the Company with a fair value of RMB30,850,000.

36. RETIREMENT BENEFIT PLANS

The employees of the Group in the PRC are members of government-managed retirement benefit schemes operated by the respective local government in the PRC. The Group is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to these schemes is to make the specified contributions.

37. SHARE-BASED PAYMENTS

The Company's pre-IPO share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on April 30, 2010 for the primary purpose of providing incentives to eligible employees. Under the Scheme, the board of directors of the Company may grant options to eligible directors and employees to subscribe for shares in the Company.

The following share option information has been retrospectively adjusted to reflect a 120-for-one share sub-division that became effective on September 10, 2010.

The maximum number of shares which can be granted under the Scheme is 151,200,000.

Details of specific category of options are as follows:

Options type	Date of grant	Share options granted	Vesting period	Exercise period	Exercise price	Fair value at grant date
					RMB	RMB
1st	5.6.2010	94,524,000	5.6.2010 -11.5.2013	11.6.2010 -5.5.2020	1.23	0.50
2nd	5.6.2010	19,872,000	5.6.2010 - 5.5.2014	5.6.2011 - 5.5.2020	1.23	0.51
3rd	5.6.2010	16,800,000	5.6.2010 - 5.5.2013	5.6.2011 - 5.5.2020	1.23	0.50
4th	5.6.2010	4,800,000	5.6.2010 - 5.5.2014	5.6.2011 - 5.5.2020	3.30	0.28
5th	5.31.2010	6,120,000	5.31.2010 -5.5.2014	5.6.2011 -5.30.2020	1.23	0.50
6th	6.21.2010	120,000	6.21.2010 - 5.5.2014	5.6.2011 -6.20.2020	1.23	0.87
7th	6.28.2010	1,680,000	6.28.2010 - 5.5.2014	5.6.2011 -6.27.2020	1.23	0.87

The following table discloses the details of the Company's share options granted to directors, employees and consultant during the six months ended June 30, 2010 and outstanding at June 30, 2010:

	Date of grant	Option type	Vesting period	No. of share options Granted during the period and outstanding at June 30, 2010
Executive directors				
Zhao Yihong	5.6.2010	1st	3.5 Years	28,800,000
Gao Yan	5.6.2010	1st	3.5 Years	14,400,000
				43,200,000
Non-executive directors				
Zhuo Fumin	5.6.2010	2nd	4 Years	480,000
Wang Bing	5.6.2010	2nd	4 Years	480,000
Huang Jingsheng	5.6.2010	2nd	4 Years	600,000
				1,560,000
Independent non-executive directors				
Arthur Wong	6.28.2010	7th	3.9 Years	600,000
Xin Rong	6.28.2010	7th	3.9 Years	600,000
				1,200,000
Employees and consultant				
In aggregate	5.6.2010	1st	3.5 Years	51,324,000
	5.6.2010	2nd	4 Years	18,312,000
	5.6.2010	3rd	3 Years	16,800,000
	5.6.2010	4th	4 Years	4,800,000
	5.31.2010	5th	3.9 Years	6,120,000
	6.21.2010	6th	3.9 Years	120,000
	6.28.2010	7th	3.9 Years	480,000
				97,956,000
	Total			143,916,000

There were no options exercised during the six months ended June 30, 2010 or exercisable at June 30, 2010.

Pursuant to the Scheme, the first option type granted on May 6, 2010 shall be exercisable during the period from the first semi-anniversary of the date of grant (the "first semi-anniversary") and ending on the expiry of the option period in the following manner:

(i) up to 25% of the option will be exercisable during the period from the first semi-anniversary and ending on the expiry of the option period;

(ii) up to 50% of the option will be exercisable during the period from the first anniversary of the first semi-anniversary and ending on the expiry of the option period;

(iii) up to 75% of the option will be exercisable during the period from the second anniversary of the first semi-anniversary and ending on the expiry of the option period;

(iv) up to 100% of the option will be exercisable during the period from the third anniversary of the first semi-anniversary and ending on the expiry of the option period.

Pursuant to the Scheme, the third option type granted on May 6, 2010, shall be exercisable during the period from the first anniversary of the Commencement Date and ending on the expiry of the option period in the following manner:

(i) up to 30% of the option will be exercisable during the period from May 6, 2011 and ending on the expiry of the option period;

(ii) up to 60% of the option will be exercisable during the period from May 6, 2012 and ending on the expiry of the option period;

(iii) up to 100% of the option will be exercisable during the period from May 6, 2013 and ending on the expiry of the option period;

Pursuant to the Scheme, except the first and third option types above, the options granted on May 6, 2010, May 31, 2010, June 21, 2010 and June 28, 2010 shall be exercisable during the period from the first anniversary of the commencement date and ending on the expiry of the option period in the following manner:

(i) up to 25% of the option will be exercisable during the period from the first anniversary of the commencement date and ending on the expiry of the option period;

(ii) up to 50% of the option will be exercisable during the period from the second anniversary of the commencement date and ending on the expiry of the option period;

(iii) up to 75% of the option will be exercisable during the period from the third anniversary of the commencement date and ending on the expiry of the option period; and

(iv) up to 100% of the option will be exercisable during the period from the fourth anniversary of the commencement date and ending on the expiry of the option period;

The binomial option pricing model has been used to estimate the fair value of the options. The following assumptions were used to calculate the fair value of share options granted during the six months ended June 30, 2010:

	Option types						
	1st	2nd	3rd	4th	5th	6th	7th
Fair value of ordinary share (RMB)	1.18	1.18	1.18	1.18	1.18	1.72	1.72
Exercise price (RMB)	1.23	1.23	1.23	3.30	1.23	1.23	1.23
Expected volatility	42%	42%	42%	42%	42%	42%	42%
Contractual Option life	10	10	10	10	10	10	10
Dividend yield	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%
Risk-free interest rate	3.39%	3.39%	3.39%	2.90%	3.28%	3.41%	3.38%
Total estimated fair value of the options granted (RMB'000)	47,225	10,059	8,401	1,331	3,082	105	1,464

Fair values of ordinary share were estimated by the directors with reference to valuations carried out by an independent firm of professional valuers.

Expected volatility: the selected volatility was estimated based on average historical stock price volatility of comparable listed companies over a period commensurate with the contractual option life.

Risk-free interest rate: The risk-free interest rate of the 4th option type was estimated based on the yield of 10-year Hong Kong Sovereign Bond as of the grant date. For all the other options, the risk-free interest rate was estimated based on the yield of 10-year China Sovereign Bond as of the grant date.

Dividend yield: the selected dividend yield was estimated with consideration of the Company's expected dividend policy and analysis of historical trend of share price-to-earnings ratio of comparable listed companies.

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group recognized a total expense of RMB7,713,000 for the six months ended June 30, 2010 in relation to share options granted by the Company.

38. CAPITAL RISK MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of business. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debt, which include bank borrowings disclosed in note 29, redeemable convertible preferred shares disclosed in note 34, bank balance and cash, and equity attributable to equity holders of the Company, comprising capital, reserves and retained profits.

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of redeemable convertible preferred shares to strategic investors or the redemption of the existing debt.

39. FINANCIAL INSTRUMENTS

Categories of financial instruments

	The Group				The Company	
	At December 31,			At June 30,	At December 31,	At June 30,
	2007	2008	2009	2010	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets						
Loans and receivables (including cash and cash equivalents)	37,696	143,530	266,971	172,510	85,927	138,713
Investments held for trading	6,791	5,151	—	—	—	—
	44,487	148,681	266,971	172,510	85,927	138,713
Financial liabilities						
Liabilities measured at amortized cost	58,070	83,156	77,999	111,464	875	3,375
FVTPL — Redeemable convertible preferred shares	—	—	135,921	191,589	135,921	191,589
	58,070	83,156	213,920	303,053	136,796	194,964

Financial liabilities designated as FVTPL — Redeemable convertible preferred shares

	At December 31, 2009	At June 30, 2010
	RMB'000	RMB'000
Changes in fair value attributable to changes in credit risk recognized during the year/period(Note)	—	—
Difference between carrying amount and maturity amount at fair value	135,921	191,589
Amount payable at maturity	204,844	204,844
	68,923	13,255

Note: The entire redeemable convertible preferred shares of the Company are designated as a financial liability at FVTPL on initial recognition. The change in fair value was mainly due to the change in market risk factors. The fair value attributable to change in its credit risk is considered immaterial. The difference between the carrying amount and the maturity amount is RMB68,923,000 and RMB13,255,000 at December 31, 2009 and June 30, 2010, respectively.

Financial risk management objectives

The Group's major financial instruments include trade and notes receivables, other receivables, amounts due from related parties, investments held for trading, bank balances and cash, pledged bank deposits, amounts due to related parties, trade payables, other payables, dividend payable, redeemable convertible preferred shares and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The management of the Group monitors and manages the financial risks relating to the operations of the Group through their degree of magnitude of risks. These risks include market risk, currency risk, interest rate risk, capital risk, credit risk and liquidity risk.

Market risk

Currency risk

Several subsidiaries of the Company and the Company have bank balances, amount due from a related company, and redeemable convertible preferred shares which are denominated in foreign currencies. The carrying amounts of the Group's and the Company's foreign currency denominated monetary assets and monetary liabilities at the end of reporting period are as follows:

	The Group				The Company	
	At December 31,			At June 30,	At December 31,	At June 30,
	2007	2008	2009	2010	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
US dollars						
Assets	37	79	95,161	8,290	85,927	133,776
Liabilities	—	—	135,921	194,089	135,921	194,089

Sensitivity analysis

The Group is mainly exposed to US dollars. The following table details the Group's and the Company's sensitivity to a 5% increase and decrease in Renminbi against US dollars. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year/period end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit before tax where Renminbi strengthens 5% against US dollars. For a 5% weakening of Renminbi against US dollars, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	The Group				The Company	
	Year ended December 31,			Six months ended June 30,	Year ended December 31,	Six months ended June 30,
	2007	2008	2009	2010	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year/period . . .	(2)	(4)	2,038	9,290	2,500	3,016

Equity price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles. The Group's equity price risk is mainly concentrated on equity securities operating in banking and energy resources sectors quoted on the Shanghai Stock Exchange.

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date.

If equity prices of the respective equity interest had been 5% higher or lower, net profit after tax for the years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2009 and 2010 would increase or decrease by RMB340,000, RMB257,000, RMBNil, RMBNil and RMBNil, respectively. This is mainly due to the change in fair value of investments held for trading.

Interest rate risk management

The Group is exposed to cash flow interest rate risk through the impact of rate changes on bank borrowings and bank balances at market rates. The Group currently has not used any derivative contracts to hedge its exposure to interest rate risk. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate bank borrowings at the end of each reporting period and assumed that the amount of liabilities outstanding at the end of each reporting period was outstanding for the whole year/period. The directors of the Company consider that the Group is not exposed to significant interest rate risks attributable to variable-rate bank balances and thus, no sensitivity analysis to interest rate risk is presented.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of benchmark interest rate from the People's Bank of China arising from the Group's bank borrowings. The management considers that the change in interest rate has no significant impact on profit and loss on the Group as the finance cost incurred would be partly capitalized to the eligible assets.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group has adopted procedures in monitoring its credit risk.

The Group's current credit practices include assessment and evaluation of customer's credit reliability and periodic review of their financial status to determine credit limit to be granted. The Group's maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as of end of the financial year/period in relation to each class of recognized financial assets is the carrying amount of those financial assets as stated in the consolidated statements of financial position.

The Group is exposed to some concentration of credit risk. At December 31, 2007, December 31, 2008 and December 31, 2009 and June 30, 2010, the five largest debtors accounted for approximately 60%, 43% and 31% and 26%, respectively of the Group's total trade receivables respectively. The Group has explored new markets and new customers and launched new products in order to minimize the concentration of credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

Liquidity risk management

The Group manages liquidity risk by maintaining adequate bank deposits and cash, monitoring forecast and actual cash flows.

The Group's financial liabilities (including trade payables, other payables, amounts due to related parties, bank borrowings and redeemable convertible preferred shares) are due within five years from the respective reporting date.

Liquidity and interest risk tables

The following tables detail the Group's and the Company's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows. To the extent that interest rates are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

	Weighted average effective interest	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group						
Non derivative financial liabilities						
Trade payables	—	376	—	—	376	376
Other payables	—	19,224	—	—	19,224	19,224
Amounts due to related parties	—	4,911	—	—	4,911	4,911
Dividend payable	—	25,759	—	—	25,759	25,759
Bank borrowings	8.5	163	8,166	—	8,329	7,800
At December 31, 2007		50,433	8,166	—	58,599	58,070
Non derivative financial liabilities						
Trade payables	—	4,690	67	—	4,757	4,756
Other payables	—	16,758	—	—	16,758	16,758
Amounts due to related parties	—	883	—	—	883	883
Dividend payable	—	25,759	—	—	25,759	25,759
Bank borrowings	5.9	507	1,561	36,785	38,853	35,000
At December 31, 2008		48,597	1,628	36,785	87,010	83,156
Non derivative financial liabilities						
Trade payables	—	10,512	—	—	10,512	10,512
Other payables	—	2,487	—	—	2,487	2,487
Bank borrowings	5.9	30,800	21,073	15,199	67,072	65,000
At December 31, 2009		43,799	21,073	15,199	80,071	77,999
FVTPL						
Redeemable convertible preferred shares at December 31, 2009	23	—	—	204,844	204,844	135,921
Non derivative financial liabilities						
Trade payables	—	3,113	—	—	3,113	3,113
Other payables	—	25,351	2,000	—	27,351	27,351
Amounts due to related parties	—	1,500	—	—	1,500	1,500
Dividend payable		2,500	—	—	2,500	2,500
Bank borrowings	5.9	5,103	30,550	47,869	83,522	77,000
At June 30, 2010		37,567	32,550	47,869	117,986	111,464
FVTPL						
Redeemable convertible preferred shares at June 30, 2010	23	—	—	204,844	204,844	191,589
The Company						
Non derivative financial liabilities						
Amount due to a subsidiary at December 31, 2009	—	875	—	—	875	875
FVTPL						
Redeemable convertible preferred shares at December 31, 2009	23	—	—	204,844	204,844	135,921
The Company						
Non derivative financial liabilities						
Amount due to a subsidiary	—	875	—	—	875	875
Dividend payable		2,500	—	—	2,500	2,500
At June 30, 2010		3,375	—	—	3,375	3,375
FVTPL						
Redeemable convertible preferred shares at June 30, 2010	23	—	—	204,844	204,844	191,589

Fair value of financial instruments

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values.

Fair value measurements recognized in the statements of financial position

Financial instruments that are measured subsequent to initial recognition at fair value, are grouped in to Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group	December 31, 2007			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL				
Investments held for trading	6,791	—	—	6,791

	December 31, 2008			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL				
Investments held for trading	5,151	—	—	5,151

The Group and the Company	December 31, 2009			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities at FVTPL				
Redeemable convertible preferred shares	—	—	135,921	135,921

	June 30, 2010			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities at FVTPL				
Redeemable convertible preferred shares	—	—	191,589	191,589

Details of reconciliation from the beginning balance to the ending balance of Level 3 fair value measurements of financial liability regarding the Series A Preferred Shares are set out in note 34.

The consolidated financial statements include Series A Preferred Shares which are measured at fair value. Fair value is estimated using a discounted cash flow model and option pricing model, which included some assumptions that are not supportable by observable market prices or rates. In determining the fair value, probability of automatic conversion of 80% and 85% and a WACC of 23% and 21% are used as of December 31, 2009 and June 30, 2010, respectively. If probability of automatic conversion was 5% higher/lower while all the other variables were held constant, the carrying amount of the Series A Preferred Shares would decrease/increase by approximately RMB5,838,000 and RMB5,846,000 as of December 31, 2009 and as of June 30, 2010, respectively.

If WACC was 1% higher/lower while all the other variables were held constant, the carrying amount of the Series A Preferred Shares would increase/decrease by approximately RMB4,165,000 and RMB8,751,000 as of December 31, 2009 and June 30, 2010, respectively.

40. OPERATING LEASES

Minimum lease payments paid under operating leases during the Relevant Periods:

	At December 31,			At June 30,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Premises	243	2,193	7,832	2,456	3,401

At the end of each reporting period, the Group's commitments for future minimum lease payments under non-cancellable operating leases fall due as follows:

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	—	3,094	3,349	2,470
In the second to fifth year inclusive	—	1,433	714	1,689
	—	4,527	4,063	4,159

Operating lease payments represent rental payable by the Group for certain of its office and staff quarters. Rentals are fixed for an average of 1.5 years.

41. CAPITAL COMMITMENTS

	At December 31,			At June 30,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the Financial Information in respect of the acquisition of				
— property, plant and equipment	—	52,777	70,034	32,485
— intangible assets	—	—	2,665	—
	—	52,777	72,699	32,485

42. RELATED PARTY TRANSACTIONS AND BALANCES

Details of the amounts due from/to related parties, which are controlled by Mr. Zhao Yihong, Ms. Gao Yan and her related party, are as follows:

	Amounts due from related parties						
	The Group					The Company	
Name of related party	January 1,	At December 31,			At June 30,	At December 31,	At June 30,
	2007	2007	2008	2009	2010	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Besunyen Investment Co., Ltd. (i)	—	2,100	8,050	—	—	—	—
Guangzhou Benefit Trading Co., Ltd. (i)	490	183	10,622	—	—	—	—
Chengdu Benefit Biology Technology Co., Ltd. (i)	—	—	250	—	—	—	—
Mr. Zhao Yihong	—	—	10,000	—	—	—	—
Mr. Zhao Yixing (ii)	—	—	880	—	—	—	—
Foreshore Holding Group Limited (i)	—	—	—	6	6	6	6
Booming International Group Ltd (i)	—	—	—	1	1	1	1
Tea-care Limited (i)	—	—	—	13	13	13	13
	490	2,283	29,802	20	20	20	20

	Maximum amount outstanding during the year/period ended					
	The Group				The Company	
	December 31,			June 30,	December 31,	June 30,
Name of related party	2007	2008	2009	2010	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Besunyen Investment Co., Ltd. (i)	2,400	8,050	43,050	6,500	—	—
Guangzhou Benefit Trading Co., Ltd. (i)	3,759	10,679	10,622	—	—	—
Chengdu Benefit Biology Technology Co., Ltd. (i)	—	250	250	—	—	—
Mr. Zhao Yihong	—	10,000	10,000	36	—	—
Mr. Zhao Yixing (ii)	—	880	880	—	—	—
Foreshore Holding Group Limited (i)	—	—	6	6	6	6
Booming International Group Ltd (i)	—	—	1	1	1	1
Tea-care Limited (i)	—	—	13	13	13	13
	6,159	29,859	64,822	6,556	20	20

Name of related party	Amounts due to related parties — The Group — At December 31, 2007 RMB'000	2008 RMB'000	2009 RMB'000	At June 30, 2010 RMB'000
Besunyen Investment Co., Ltd.(i)	—	500	—	500
Beijing Changqingxingda Science Development Co., Ltd.(iii)	1,498	383	—	—
Beijing Kanglitongyuan Science Development Co., Ltd.(i)	2,300	—	—	—
Mr. Zhao Yihong	—	—	—	1,000
Mrs. Gaoyan(ii)	637	—	—	—
Mr. Gao Derun(ii)	476	—	—	—
	4,911	883	—	1,500

The Group has the following significant transactions with related parties:

Name of related party	Nature of transactions	The Group — For the year ended December 31, 2007 RMB'000	2008 RMB'000	2009 RMB'000	Six months ended June 30, 2009 RMB'000 (unaudited)	2010 RMB'000
Guangzhou Benefit Trading Co., Ltd.(i)(iv)	Sales	36,061	55,208	5,409	4,862	—
Beijing Baicaochangqing Science Development Co., Ltd.(i)(iv)	Purchase	(6,407)	—	—	—	—
Beijing Changqingxingda Science Development Co., Ltd.(iii)(iv)	Purchase	(3,092)	—	—	—	—
Besunyen Investment Co., Ltd.(i)(iv)	Interest income	—	—	1,424	1,064	120
Besunyen Investment Co., Ltd.(i)(iv)	Rental expense	—	1,200	1,200	600	600

(i) Mr. Zhao Yihong or Ms. Gao Yan has a beneficial interest in these entities.

(ii) These are closely related family members of Mr. Zhao Yihong or Ms. Gao Yan.

(iii) The closely related family members of Mr. Zhao Yihong or Ms. Gao Yan have beneficial interests in these entities.

(iv) In the opinion of the Company's directors, these related party transactions were conducted on normal commercial terms and in the Group's ordinary and usual course of business.

The amounts due from related parties at June 30, 2010 were settled in July 2010.

During the year ended December 31, 2007, Besunyen Investment Co., Ltd., a company controlled by Mr. Zhao Yihong, provided a rent-free office to the Group.

During the year ended December 31, 2009 and six months ended June 30, 2010, the Group provided a short-term loan of RMB60,700,000 and RMB6,500,000, respectively, to Besunyen Investment Co., Ltd., a company controlled by Mr. Zhao Yihong. The loan was unsecured, interest bearing at 5.8% per annum and 5.94% per annum, and fully settled during the year ended December 31, 2009. As advised by the Company’s PRC legal advisor, these interest bearing loan transactions were not in compliance with the relevant laws and regulations in the PRC; however, such non-compliance does not have a significant risk on the Group because these loans were fully settled and there was no administrative penalty from the relevant government authorities. As such, the Company’s directors do not consider these transactions will have a significant impact on the Group’s results or financial position.

During the six months ended June 30, 2010, Mr. Zhao Yihong advanced RMB1,000,000 to an employee of the Group for setting up a domestic company in the PRC.

The amounts due from/to related parties are unsecured, interest free and have no fixed terms of repayment.

The details of remuneration of key management personnel, representing emoluments of directors of the Company paid during the Relevant Periods, are set out in note 11.

43. BUSINESS COMBINATIONS

(a) Acquisition of Zhuhai Qi Jia

On January 19, 2010, the Group entered into an equity acquisition agreement to acquire a 100% beneficial interest in Zhuhai Qi Jia, a PRC company which is engaged in the manufacture and sale of therapeutic tea products in the PRC, for a consideration of RMB2,000,000. The acquisition was valued by Marsh (Beijing) Risk Consulting Co., Ltd., an independent firm of professional valuers as of January 31, 2010 and was accounted for using the purchase method. The consideration for the acquisition was independently and mutually negotiated between two parties with reference to the financial position and future earnings capacity. The amount of goodwill arising as a result of the acquisition was RMB5,305,000.

The net assets acquired in the transactions, and the goodwill arising, are as follows:

	Acquiree’s carrying amount before combination	Fair value adjustments	Fair value
	RMB’000	RMB’000	RMB’000
Net assets acquired			
Bank balances and cash	18	—	18
Other receivables	12	—	12
Inventories	314	—	314
Intangible assets			
— Patent	—	4,620	4,620
Property, plant and equipment	7,132	(163)	6,969
Prepaid lease payments	642	4,028	4,670
Payable to former shareholders	(17,050)	—	(17,050)
Other payables	(237)	—	(237)
Amount due to a related party	(500)	—	(500)
Deferred tax liabilities	—	(2,121)	(2,121)
	(9,669)	6,364	(3,305)
Goodwill arising on acquisition			5,305
Total consideration, included in other payables and accrued expenses as of June 30, 2010			2,000
Cashflow arising on acquisition:			
Bank balances and cash acquired			18

Note: A deposit of RMB2,000,000 was made as of December 31, 2009 (see note 17(c)). During the six months ended June 30, 2010, such deposit was refunded to the Group.

Pursuant to the equity acquisition agreement, the Group is committed to pay by 3 installments a total amount of RMB19,050,000, of which RMB17,050,000 is a capital injection to Zhuhai Qi Jia and RMB2,000,000 is a purchase consideration.

In January 2010, the Group made the first payment of RMB10,000,000 as a capital injection to Zhuhai Qi Jia to increase its registered capital from RMB2,000,000 to RMB12,000,000.

The Group is required to make a second payment of RMB6,550,000 as a further capital injection to Zhuhai Qi Jia after obtaining the building ownership certificate of Zhuhai Qi Jia's factory and satisfying other customary closing conditions. The second payment had not been made at June 30, 2010.

The Group is required to make a third payment of RMB2,500,000, of which RMB500,000 is a capital injection to Zhuhai Qi Jia and RMB2,000,000 is a purchase consideration, six months after the second payment. The third payment had not been made at June 30, 2010.

The goodwill mainly represents synergies and economic benefits that Zhuhai Qi Jia will bring to the Group in the future by enriching product portfolio, increasing market penetration of existing products and broadening the Group's presence in the therapeutic tea market. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Zhuhai Qi Jia contributed a loss of RMB814,000 to the Group's profit for the period between the date of acquisition and June 30, 2010.

If the acquisition had been completed on January 1, 2010, total group revenue for the six months ended June 30, 2010 would have been RMB368,695,000, and profit for the six months ended June 30, 2010 would have been RMB20,902,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2010, nor is it intended to be a projection of future results.

The Group recognized the acquisition related cost of RMB175,000 for the six months ended June 30, 2010 in relation to the acquisition of Zhuhai Qi Jia and included in other expenses.

(b) Acquisition of Ever Assure

Pursuant to a share exchange agreement dated May 21, 2010, the Group acquired 100% of the issued share capital of Ever Assure for an aggregate of 217,313 ordinary shares of the Company with a fair value of RMB30,850,000. Ever Assure owns a 100% equity interest in Jian Shi Xing, a company established in the PRC which is engaged in the research and development of tea and Chinese medicinal herbal products. The primary purpose of the acquisition was to enhance the in-house research and product development capability of the Group. The acquisition was valued by Marsh (Beijing) Risk Consulting Co., Ltd., an independent firm of professional valuers as of May 31, 2010 and was accounted for using the purchase method. The consideration for the acquisition was independently and mutually negotiated between two parties with reference to the financial position and future earnings capacity. The amount of goodwill arising as a result of the acquisition was RMB15,480,000.

The net assets acquired in the transactions, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	RMB'000	RMB'000	RMB'000
Net assets acquired			
Cash and cash equivalents	1,104	—	1,104
Other receivables	2,714	—	2,714
Property, plant and equipment	2,090	—	2,090
Other payables	(1,263)	—	(1,263)
Intangible assets			
— Patent	—	9,410	9,410
— Contract backlog	—	200	200
— Customers base	—	2,430	2,430
— Non compete agreement	—	2,260	2,260
Deferred tax liabilities	—	(3,575)	(3,575)
	4,645	10,725	15,370
Goodwill arising on acquisition			15,480
Total consideration, satisfied by:			
Shares issued (Note)			30,850
Cash inflow arising on acquisition:			
Bank balances and cash acquired			1,104

Note: 217,313 ordinary shares of the Company with par value of US$0.001 each were issued as consideration. The fair value of the ordinary shares of the Company, estimated by the directors with reference to valuations carried out by an independent firm of professional valuers, amounted to RMB30,850,000.

Goodwill mainly represents synergies and economic benefits that Ever Assure and Jian Shi Xing will bring to the Group in the future by providing access to potential improvement of existing products and accelerating research of new products. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Ever Assure and Jian Shi Xing contributed RMB325,000 to the Group's profit for the period between the date of acquisition and June 30, 2010.

If the acquisition had been completed on January 1, 2010, total group revenue for the six months ended June 30, 2010 would have been RMB370,908,000, and profit for the six months ended June 30, 2010 would have been RMB20,868,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2010, nor is it intended to be a projection of future results.

The Group recognized the acquisition related cost of RMB767,000 for the six months ended June 30, 2010 in relation to the acquisition of Ever Assure and Jian Shi Xing in other expenses.

B. SUBSEQUENT EVENTS

a. In September 8, 2010, the Company authorized a 120-for-one share sub-division which became effective on September 10, 2010.

b. The Company's board of directors approved in August 2010 a cancellation of one-sixth of all the pre-IPO share options granted in May and June of 2010 to the Group's employees, directors and consultant on a pro-rata basis, totaling 23,986,000 share options (after a 120-for-one share sub-division). This resulted in an acceleration of vesting, and therefore the Company recognized immediately a share-based compensation expense of approximately RMB9.7 million.

c. The shareholders of the Company conditionally approved and adopted another share option scheme at a board of directors meeting held on September 8, 2010. No share option has been granted under this share option scheme.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group have been prepared in respect of any period subsequent to June 30, 2010.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The forecast of the consolidated profit of the Group for the year ending December 31, 2010 attributable to equity holders of the Company is set out in the paragraph headed “Profit Forecast for the Year Ending December 31, 2010” under the section headed “Financial Information” in this document.

BASES AND ASSUMPTIONS

The forecast of the consolidated profit of the Group for the year ending December 31, 2010 attributable to equity holders of the Company prepared by the Directors is based on the audited consolidated results of the Group for the six months ended June 30, 2010, the unaudited consolidated results of the Group for the month ended July 31, 2010 and a forecast of the consolidated results of the Group for the remaining five months ending December 31, 2010. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarized in the accountants' report of historical financial information of the Group, the text of which is set out in Appendix I to this prospectus and is based on the following principal assumptions:

- There will be no material changes in the existing political, legal, fiscal, market or economic conditions in the PRC, in which the Group currently operates or which are otherwise material to the Group's business;
- there will be no changes in legislation, regulations or rules in the PRC in which the Group operates or with which the Group has arrangements or agreements, which may materially adversely affect the Group's business or operations;
- there will be no material changes in inflation rates, interest rates or foreign exchange rates from those currently prevailing in the context of the Group's operations;
- there will be no material changes in the bases or applicable rates of taxation, surcharges or other government levies in the PRC in which the Group operates; there will be no wars, military incidents, pandemic diseases or natural disasters that would have a material impact on the Group's business and operating activities; and
- the Group's operations and financial performance will not be materially and adversely impacted by any of the risk factors set out in the section headed “Risk Factors” in this prospectus.

The following is the text of a letter, summary of values and valuation certificate prepared for the purpose of incorporation in this document received from Savills Valuation and Professional Services Limited, an independent property valuer, in connection with their valuations as of July 31, 2010 of the properties of the Group.

The Directors
Besunyen Holdings Company Limited
No. 1 Qiushi Industry Park,
Doudian Town,
Fangshan District,
Beijing 102433,
PRC

Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

T: (852) 2801 6100
F: (852) 2530 0756

EA LICENCE: C-023750
savills.com

Dear Sirs,

In accordance with your instructions for us to value the properties situated in the People's Republic of China (the "PRC") in which Besunyen Holdings Company Limited (the "Company") and its subsidiaries (hereinafter referred to as the "Group") have interests, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such properties as of July 31, 2010.

Our valuation of each of the properties is our opinion of its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In the course of our valuation of the properties in the PRC, unless otherwise stated, we have assumed that transferable land use rights in respect of the properties for their respective specific terms at nominal annual land use fees have been granted and that any land grant premium payable has already been fully paid. We have also assumed that, unless otherwise stated, the owners of the properties have proper legal titles and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

In valuing Property Nos. 1 and 2 in Group I, which are held for owner-occupation by the Group in the PRC, due to the nature of the buildings and structures that were constructed, there are no readily identifiable market comparables, and the buildings and structures cannot be valued on the basis of direct comparison. They have therefore been valued on the basis of their depreciated replacement costs. We would define "depreciated replacement cost" to be our opinion of the land value in its existing use and an estimate of the new replacement costs of the buildings and structures, including professional fees and finance charges, from which deductions are then made to allow for age, condition and functional obsolescence. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on market sales. For Property Nos. 3 and 4, we have adopted the direct comparison approach by making reference to the comparable market transactions assuming sale with the benefit of vacant possession.

In valuing the property in Group II, which is held under development by the Group, we have valued it on the basis that it will be developed and completed in accordance with the Group's latest development proposal provided to us and by depreciated replacement cost approach with regard to its prevailing cost level and status of construction as of the date of valuation. We have assumed that all consents, approvals and licenses from the relevant government authorities for the development have been granted without any onerous conditions or undue delay.

In valuing the property in Group III, which is held for future development by the Group in the PRC, we have attributed no commercial value to this property due to its existing title defects.

In valuing the properties in Groups IV, which are leased by the Group in the PRC, we have assigned no commercial value to these properties, due either to the short-term nature of the leases or the prohibition against assignments or sub-lettings or otherwise due to the lack of substantial profit rents.

We have been provided with extracts of documents in relation to the titles to the properties. However, we have not searched the original documents to ascertain the existence of any amendments which may not appear on the copies handed to us. In the course of our valuation, we have relied to a very considerable extent on the information given by the Group and its PRC legal advisor, Global Law Office, on PRC laws, regarding the titles to the properties. We have also accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, development proposal, construction costs, site and floor areas and all relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on the information provided to us and are therefore only approximations. No on-site measurements have been taken. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view.

We have inspected the exterior and, where possible the interior of the properties. During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other defects. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Unless otherwise stated, all money amounts are stated in Renminbi ("RMB").

We enclose herewith our summary of values and valuation certificate.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Charles C K Chan
MSc FRICS FHKIS MCIArb RPS(GP)
Managing Director

Note: *Charles C K Chan is a qualified valuer and has about 25 years' experience in the valuation of properties in Hong Kong and has about 20 years' experience in the valuation of properties in the PRC.*

SUMMARY OF VALUES

No.	Property	Capital value in existing state as of July 31, 2010	Interest attributable to the Group	Capital value attributable to the Group as of July 31, 2010
Group I — Properties held for owner-occupation by the Group in the PRC				
1.	An industrial complex located at Jinhaian Biological Medicine Park, Sanzao Town, Jinwan District, Zhuhai, Guangdong Province, PRC	RMB9,600,000	83.33%	RMB7,999,680
2.	An industrial complex located at Xiapodian Village, Doudian Town, Fangshan District, Beijing, PRC	RMB168,300,000	100%	RMB168,300,000
3.	Various residential units of Block C4, Tenglong Jiayuan (騰龍家園), Xiapodian Village, Doudian Town, Fangshan District, Beijing, PRC	RMB33,100,000	100%	RMB33,100,000
4.	Various residential units of Block 87, Tiziano Villa (提香草堂), Doudian Town, Fangshan District, Beijing, PRC	RMB13,600,000	100%	RMB13,600,000
	Sub-total:	*RMB224,600,000*		*RMB222,999,680*

No.	Property	Capital value in existing state as of July 31, 2010	Interest attributable to the Group	Capital value attributable to the Group as of July 31, 2010
Group II — Property held under development by the Group in the PRC				
5.	Two buildings located at Xiapodian Village, Doudian Town, Fangshan District, Beijing, PRC	RMB7,900,000	100%	RMB7,900,000
	Sub-total:	*RMB7,900,000*		*RMB7,900,000*
Group III — Property held for future development by the Group in the PRC				
6.	A parcel of land located at Zone A, Fangshan Industrial Zone, Chengguan Road, Fangshan District, Beijing, PRC	No commercial value		No commercial value
	Sub-total:	*Nil*		*Nil*
Group IV — Properties leased by the Group in the PRC				
7.	Various properties leased by the Group in the PRC	No commercial value		No commercial value
	Sub-total:	*Nil*		*Nil*
	Grand total	***RMB232,500,000***		***RMB230,899,680***

VALUATION CERTIFICATE

Group I — Properties held for owner-occupation by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as of July 31, 2010
1.	An industrial complex located at Jinhaian Biological Medicine Park, Sanzao Town, Jinwan District, Zhuhai, Guangdong Province, PRC	The property comprises a parcel of land with a site area of approximately 10,000.20 sq.m. (107,642 sq.ft.) on which two buildings and various structures completed in 2004 are erected. The buildings comprise a 2-storey workshop and a single-storey warehouse with a total gross floor area of approximately 2,696.54 sq.m. (29,026 sq.ft.). The land use rights of the property have been granted for a term expiring on May 14, 2053 for industrial use.	The property is vacant.	RMB9,600,000 (83.33% interest attributable to the Group: RMB7,999,680)

(1) Pursuant to the Realty Title Certificate — Yue Fang Di Zheng Zi Di No. C0840480, the land use rights of the property with a site area of approximately 10,000.20 sq.m. have been granted to Zhuhai Qi Jia Medicine Industry Co., Ltd. ("Zhuhai Qi Jia"), a 83.33% owned subsidiary of the Company, for a term expiring on May 14, 2053 for industrial use.

(2) Pursuant to the Building Ownership Certificate — Yue Fang Di Quan Zheng Zhu Zi Di No. 0200008964, the building ownership rights of the property with a gross floor area of approximately 2,696.54 sq.m. are vested in Zhuhai Qi Jia.

(3) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, *inter alia*, the following information:

(i) Zhuhai Qi Jia has legally obtained the land use rights and building ownership rights of the property and is entitled to occupy, use, transfer, lease, mortgage or dispose of the land use rights and building ownership rights by other legal means within the terms stated in the aforesaid Realty Title Certificate; and

(ii) the land use rights and building ownership rights are free from any mortgages, seizures or third party's rights.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as of July 31, 2010
2.	An industrial complex located at Xiapodian Village, Doudian Town, Fangshan District, Beijing, PRC	The property comprises three parcels of land with a total site area of approximately 101,976.63 sq.m. (1,097,676 sq.ft.) on which eight buildings and various structures completed in between 2001 and 2010 are erected. The buildings comprise a 7-storey office building, two 1 to 2-storey workshops, two single-storey warehouses and three single-storey ancillary buildings with a total gross floor area of approximately 19,464.81 sq.m. (209,519 sq.ft.). The land use rights of the property have been granted for three concurrent terms expiring on February 2, 2054 and January 27, 2058 for industrial use.	The property is occupied by the Group for industrial, office, storage and ancillary uses.	RMB168,300,000 (100% interest attributable to the Group: RMB168,300,000) (Please refer to Note 5 for details)

(1) Pursuant to the two State-owned Land Use Rights Grant Contracts — Jing Fang Fang Di Chu Rang Quan [He] Zi (2003) Di No. 047 and Jing Fang Di Chu Rang Quan [He] Zi (2008) Di No. 001 dated April 15, 2003 and January 28, 2008 respectively, the land use rights of two land parcels with a total site area of approximately 101,975.995 sq.m. have been agreed to be granted to Beijing Outsell Health Product Development Co., Ltd. ("Beijing Outsell"), a wholly-owned subsidiary of the Company, for terms of 50 years for industrial use at a total consideration of RMB59,152,330.

(2) Pursuant to the three State-owned Land Use Certificates — Jing Fang Guo Yong (2004) Zi Di No. 032 and Jing Fang Guo Yong (2008 Chu) Zi Di Nos. 00048 and 00049, the land use rights of the property with a total site area of approximately 101,976.63 sq.m. have been granted to Beijing Outsell for three concurrent terms expiring on February 2, 2054 and January 27, 2058 for industrial use.

(3) Pursuant to the two Building Ownership Certificates — Jing Fang Quan Zheng Fang Wai Zi Di No. 0500002 and Jing Fang Quan Zheng Fang Zi Di No. 034431, the building ownership rights of the property with a total gross floor area of approximately 17,240.91 sq.m. are vested in Beijing Outsell.

(4) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, *inter alia*, the following information:

(i) Beijing Outsell has legally obtained the land use rights and building ownership rights as mentioned in Notes 2 and 3. Except for the limitations set out in the mortgage contracts, Beijing Outsell is entitled to occupy, use, transfer, lease, mortgage or dispose of the land use rights and building ownership rights by other legal means within the terms stated in the aforesaid State-owned Land Use Certificates;

(ii) the State-owned Land Use Certificates — Jing Fang Guo Yong (2004) Zi Di No. 32 and Jing Fang Guo Yong (2008 Chu) Zi Di Nos. 00048 and 00049 and the Building Ownership Certificate — Jing Fang Quan Zheng Fang Wai Zi Di No. 0500002 are subject to various mortgages. Beijing Outsell is not allowed to shift, transfer, lease, sell, grant, remortgage or dispose of the mortgaged land use rights and building ownership rights by other means unless written consents from the mortgagees have been obtained. Beijing Outsell is also not allowed to do anything to depreciate the value of such mortgaged portion;

(iii) except for the aforesaid mortgages, the land use rights and building ownership rights are free from any other mortgages, seizures or third party's rights;

(iv) Beijing Outsell is entitled to use the warehouse located at the west side of the property having no Building Ownership Certificate as such warehouse has already existed before obtaining the State-owned Land Use Certificates. According to Beijing Outsell's confirmation, since Beijing Outsell has already compensated the original owner when purchasing the land use rights and has already obtained the relevant State-owned Land Use Certificate, the use of such warehouse has not been doubted by any third parties. However, there exist risks for such warehouse of being disputed on title or demolished. According to Beijing Outsell's confirmation, the use of such warehouse will not have any substantial impacts on their production and operation; and

(v) in respect of the buildings with a total gross floor area of approximately 783.00 sq.m. having no Building Ownership Certificate, Beijing Outsell has also not obtained the relevant construction approvals for such buildings. The relevant administrative authority can order Beijing Outsell to stop the constructions, demolish the buildings or pay the imposed fine. According to Beijing Outsell's confirmation, the production and operation of Beijing Outsell will not be substantially influenced by such buildings and Beijing Outsell is applying the relevant construction approvals for such buildings.

(5) In the course of our valuation, we have assigned no commercial value to the buildings with a total gross floor area of approximately 2,223.90 sq.m. as the Group has not obtained any valid Building Ownership Certificates for such part of the property. For reference purpose, the total depreciated replacement cost of the buildings as of July 31, 2010 was approximately RMB2,800,000.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as of July 31, 2010
3.	Various residential units of Block C4, Tenglong Jiayuan (騰龍家園), Xiapodian Village, Doudian Town, Fangshan District, Beijing, PRC	The property comprises 42 residential units on Levels 1 to 11 of a 11-storey residential building completed in 2009. The total gross floor area of the property is approximately 3,305.48 sq.m. (35,580 sq.ft.).	The property is occupied by the Group for residential use.	RMB33,100,000 (100% interest attributable to the Group: RMB33,100,000)

(1) Pursuant to the 42 Real Estate Pre-sale Contracts entered into between Beijing Huafeng Tenglong Real Estate Development Co., Ltd. (北京華風騰龍房地產開發有限公司) (the "seller") and Beijing Outsell Health Product Development Co., Ltd. ("Beijing Outsell"), a wholly-owned subsidiary of the Company, dated December 25, 2009 and December 26, 2009, the property with a total gross floor area of approximately 3,305.48 sq.m. have been sold to Beijing Outsell at a total consideration of RMB23,679,895.

(2) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, *inter alia*, the following information:

(i) the aforesaid Real Estate Pre-sale Contracts are effective;

(ii) the relevant land use rights of the property have been mortgaged by the seller. If the mortgagees exercise their rights on such land use rights, the property will also be affected. According to the aforesaid Real Estate Pre-sale Contracts, Beijing Outsell has the rights to request the seller to bear the responsibility for breaching the contracts; and

(iii) according to Beijing Outsell's confirmation, the property is currently used for dormitory purpose and the production and operation of Beijing Outsell will not be subject to any substantial influence.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as of July 31, 2010
4.	Various residential units of Block 87, Tiziano Villa (提香草堂), Doudian Town, Fangshan District, Beijing, PRC	The property comprises 9 residential units on Levels 2 to 4 of a 4-storey residential building completed in 2009. The total gross floor area of the property is approximately 969.61 sq.m. (10,437 sq.ft.).	The property is vacant.	RMB13,600,000 (100% interest attributable to the Group: RMB13,600,000)

(1) Pursuant to the 9 Real Estate Sale Contracts entered into between Beijing Jinxiu Garden Investment Development Co., Ltd. (北京錦綉花園投資發展有限公司) and Beijing Outsell Health Product Development Co., Ltd. ("Beijing Outsell"), a wholly-owned subsidiary of the Company, dated December 22, 2009, the property with a total gross floor area of approximately 969.61 sq.m. have been sold to Beijing Outsell at a total consideration of RMB8,669,510.

(2) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, *inter alia*, the following information:

(i) the aforesaid Real Estate Sale Contracts are effective; and

(ii) Beijing Outsell has the rights to apply the Building Ownership Certificates for the property according to the aforesaid Real Estate Sale Contracts and the relevant PRC's laws and regulations.

Group II — Property held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as of July 31, 2010
5.	Two buildings located at Xiapodian Village, Doudian Town, Fangshan District, Beijing, PRC	The property comprises two parcels of land with a total site area of approximately 95,309.64 sq.m. (1,025,913 sq.ft.) on which two buildings are being constructed. The proposed buildings comprise a single-storey warehouse and a 2-storey canteen. Upon completion, the total gross floor area will be approximately 4,359.00 sq.m. (46,920 sq.ft.). The land use rights of the property have been granted for two concurrent terms expiring on January 27, 2058 for industrial use.	The property is under construction.	RMB7,900,000 (100% interest attributable to the Group: RMB7,900,000) (Please refer to Note 9 for details)

(1) Pursuant to the State-owned Land Use Rights Grant Contract — Jing Fang Di Chu Rang Quan [He] Zi (2008) Di No. 001 dated January 28, 2008, the land use rights of a land parcel with a site area of approximately 95,308.995 sq.m. have been agreed to be granted to Beijing Outsell Health Product Development Co., Ltd. ("Beijing Outsell"), a wholly-owned subsidiary of the Company, for a term of 50 years for industrial use at a consideration of RMB58,885,650.

(2) Pursuant to the two State-owned Land Use Certificates — Jing Fang Guo Yong (2008 Chu) Zi Di Nos. 00048 and 00049, the land use rights of the property with a total site area of approximately 95,309.64 sq.m. have been granted to Beijing Outsell for two concurrent terms expiring on January 27, 2058 for industrial use.

(3) Pursuant to the Construction Land Planning Permit — 2007 Gui (Fang) Di Zi No. 0006, Beijing Outsell is permitted to develop a parcel of land with a site area of 95,308.995 sq.m.

(4) Pursuant to the Construction Works Planning Permit — 2010 Gui (Fang) Jian Zi No. 0028, the planned construction works of the property with a gross floor area of approximately 4,359.00 sq.m. have been approved for construction.

(5) Pursuant to the Construction Works Commencement Permit — [2010] Shi Jian Zi No. 0845, the planned construction works of the property with a gross floor area of approximately 4,359.00 sq.m. have been permitted to commence.

(6) As advised by the Group, the estimated construction cost for the completion of the proposed development was approximately RMB11,100,000 in which approximately RMB8,090,000 had been spent as of July 31, 2010.

(7) In our opinion, the capital value of the proposed development as if completed as of July 31, 2010 was approximately RMB11,000,000.

(8) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, *inter alia*, the following information:

(i) Beijing Outsell has obtained the land use rights as mentioned in Note 2. Except for the limitations set out in the mortgage contracts, Beijing Outsell is entitled to occupy, use, transfer, lease, mortgage or dispose of the land use rights by other legal means within the term stated in the aforesaid State-owned Land Use Certificates;

(ii) the aforesaid State-owned Land Use Certificates are subject to various mortgages. Beijing Outsell is not allowed to shift, transfer, lease, sell, grant, remortgage or dispose of the mortgaged land use rights by other means unless written consents from the mortgagees have been obtained. Beijing Outsell is also not allowed to do anything to depreciate the value of such mortgaged portion;

(iii) except for the aforesaid mortgages, the land use rights are free from any other mortgages, seizures or third party's rights; and

(iv) Beijing Outsell has legally obtained all the requisite approvals and permits for the current status of the construction works of the property.

(9) In the course of our valuation, we have only assigned the depreciated replacement cost to the proposed buildings and the capital value of the land use rights is included in Property No. 2.

Group III — Property held for future development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as of July 31, 2010
6.	A parcel of land located at Zone A, Fangshan Industrial Zone, Chengguan Road, Fangshan District, Beijing, PRC	The property comprises two parcels of land with a total site area of approximately 69,981.66 sq.m. (753,283 sq.ft.). The land use rights of the property have been granted for two concurrent terms expiring on March 23, 2060 for industrial use.	The property is vacant for future development.	No commercial value

(1) Pursuant to the State-owned Land Use Rights Grant Contract — Jing Fang Di Chu Rang Quan (He) Zi [2010] Di No. 001 and its supplementary agreement dated March 24, 2010, the land use rights of a land parcel with a site area of approximately 69,981.656 sq.m. have been agreed to be granted to Beijing Besunyen Food and Beverage Co., Ltd. (" Besunyen Food and Beverage"), a wholly-owned subsidiary of the Company, for a term of 50 years for industrial use at a consideration of RMB55,877,500.

(2) Pursuant to the two State-owned Land Use Certificates — Jing Fang Guo Yong (2010 Chu) Di Nos. 00047 and 00053, the land use rights of the property with a total site area of approximately 69,981.66 sq.m. have been granted to Besunyen Food and Beverage for two concurrent terms expiring on March 23, 2060 for industrial use.

(3) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, *inter alia*, the following information:

(i) according to Besunyen Food and Beverage's confirmation, Besunyen Food and Beverage has already paid off the government land profit of RMB5,668,514. However, there is an outstanding land premium of RMB13,210,074. Besunyen Food and Beverage should pay such outstanding land premium according to the aforesaid State-owned Land Use Rights Grant Contract and its supplementary agreement;

(ii) Besunyen Food and Beverage has obtained the State-owned Land Use Certificates for the property. Besunyen Food and Beverage will be entitled to occupy, use, transfer, lease, mortgage or dispose of the land use rights by other legal means within the terms stated in the aforesaid State-owned Land Use Certificates after the land premium has been fully settled; and

(iii) the land use rights are free from any mortgages, seizures or third party's rights.

(4) We have attributed no commercial value to the property as the land use rights of the property cannot be freely transferred in the market. Should the property can be freely transferred in the market, the capital value of the property as of July 31, 2010 was RMB56,100,000.

Group IV — Properties leased by the Group in the PRC

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as of July 31, 2010
7.	Various properties leased by the Group in the PRC	The properties comprises 85 leased properties completed in between 1980 and 2010. Details of the usages and floor areas of the properties are listed as below:	The properties are occupied by the Group for office, residential and storage uses.	No commercial value

	Approximate area sq.m.	Approximate area sq.ft.
Residential & Office	3,073.75	33,086
Residential	422.22	4,545
Office	8,028.95	86,424
Warehouse	3,128.00	33,670
Total	**14,652.92**	**157,725**

The properties are leased to the Group under various tenancies with the latest one expiring on December 31, 2012 at a total monthly rental of approximately RMB522,000.

(1) We have been provided with a legal opinion on the title to the properties issued by the Group's PRC legal adviser, which contains, *inter alia*, the following information:

(i) some of the tenancy agreements of the leased properties are legal, valid and enforceable and the lessees are entitled to legally use those leased properties according to the regulations set out in the tenancy agreements;

(ii) as the lessors of some of the leased properties cannot provide the relevant Building Ownership Certificates or other approval documents, it cannot be ascertained whether those lessors have the rights to lease out the properties. If the owners or other obligees exercise their rights to withdraw the leased properties, the Group may require to find another premises to substitute for the leased properties;

(iii) as the lessors of some of the leased properties cannot provide the relevant approval documents, it cannot be ascertained whether the tenancy agreements have been registered. Since it has not been found from the tenancy agreements that both parties had agreed to use the tenancy registration procedure as the requisite condition of validating the tenancy agreements, the non-registration of tenancy agreements will not affect the validity of the tenancy agreements; and

(iv) one of the tenancy agreements of the leased properties with a gross floor area of approximately 432.00 sq.m. has been registered.

A. SUMMARY OF THE CONSTITUTION OF THE COMPANY

1. Memorandum Of Association

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 5, 2009 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

The Memorandum of Association of the Company was conditionally adopted on September 8, 2010 effective on the date on which the shares of the Company are listed on the Hong Kong Stock Exchange and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

2. Articles Of Association

The Articles of Association of the Company were conditionally adopted on September 8, 2010 effective on the date on which the shares of the Company are listed on the Hong Kong Stock Exchange and include provisions to the following effect:

A. Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of effectiveness of the Articles of Association is US$49,999.98 divided into 6,000,000,000 ordinary Shares of par value of US$0.00000833333.

B. Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Hong Kong Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which he or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

(i) the giving to such Director or his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal concerning any other company in which the Director or his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or any of his associates is/are beneficially interested in shares of that company, provided that, the Director and any of his associates are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights;

(v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:

(aa) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or his associates may benefit;

(bb) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director, or his associates, any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(vi) any contract or arrangement in which the Director or his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a managing director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the dispatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the

Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

(i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;

(ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

(iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;

(iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;

(vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

(vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) Proceedings of the Board

The Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

C. Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

D. Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall mutatis mutandis apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

E. Alteration of Capital

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

(i) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(ii) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and

(iii) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub divided may determine that, as between the holders of the shares resulting from such sub division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or, any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Companies Law.

F. Special resolution — majority required

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

G. Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member of the Company is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll.

If a recognized clearing house (or its nominee) is a member of the Company it may, by resolution of its directors or other governing body or by power of attorney, authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee) which he represents as that recognized clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorization.

H. Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Hong Kong Stock Exchange may authorize) shall elapse between the date of one annual general meeting of the Company and that of the next.

I. Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorized by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as of the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as of the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

J. Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

(b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(a) the declaration and sanctioning of dividends;

(b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;

(c) the election of Directors in place of those retiring;

(d) the appointment of auditors;

(e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;

(f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and

(g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

K. Transfer of Shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange and approved by the Directors.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

(a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of share;

(c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

(d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;

(e) the shares concerned are free of any lien in favor of the Company; and

(f) a fee of such maximum as the Hong Kong Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement on the Stock Exchange's website or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, or by advertisement published in the newspapers be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

L. Power of the Company to purchase its own Shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Hong Kong Stock Exchange and the Securities and Futures Commission of Hong Kong.

M. Power of any subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

N. Dividends and other methods of distributions

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

O. Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favor of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

P. Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by installments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or installment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or installment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which such call was made or installment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or installments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15 per cent. per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

Q. Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement published on the Hong Kong Stock Exchange's website, or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

R. Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph D. above.

S. Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

T. Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

U. Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Hong Kong Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

B. SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1. Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2. Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 5, 2009 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

3. Share capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

(a) paying distributions or dividends to members;

(b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(c) (in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);

(d) writing-off the preliminary expenses of the company;

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4. Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see C above for further details).

5. Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in Foss v. Harbottle (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6. Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7. Disposal of assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8. Accounting and auditing requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9. Register of members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10. Inspection of books and records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11. Special resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

12. Subsidiary owning shares in parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13. Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

14. Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

15. Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

16. Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (i) by a special resolution of its members if the company is solvent or (ii) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

17. Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

18. Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Council:

(a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking is for a period of twenty years from August 25, 2009.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

19. Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

20. General

Maples and Calder, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarizing aspects of Cayman Islands company law. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 5, 2009 under the Cayman Islands Companies Law. Our registered address is at Portcullis TrustNet (Cayman) Ltd., The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands. We have registered a place of business in Hong Kong at August 19, 2010 and have been registered as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance. Mr. Au Lap Ming has been appointed as our agent for the acceptance of service of process and notices in Hong Kong. The address for service of process on the Company in Hong Kong is the same as its registered place of business in Hong Kong set out above.

As we are incorporated in the Cayman Islands, our corporate structure, our Memorandum of Association and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of the relevant provisions of our Memorandum of Association and Articles of Association and certain relevant aspects of Cayman Islands company law are set out in Appendix V of this document.

2. Changes in share capital of our Group

The Company

As of October 21, 2009, the authorized share capital of the Company was US$50,000 divided into 47,000,000 ordinary Shares of par value of US$0.001 each and 3,000,000 Series A Preferred Shares of par value of US$0.001 each. The following sets out the changes in the Company's issued share capital since the date of its incorporation:

(a) on August 5, 2009, one ordinary Share of par value of US$1.00 each was allotted and issued to Stockton Nominees Limited as the subscriber, which was transferred to Mr. Zhao Yihong;

(b) on September 25, 2009, one ordinary Share of par value of US$1.00 each was transferred from Mr. Zhao Yihong to Foreshore and was subsequently cancelled;

(c) on October 21, 2009, 9,288,000 ordinary Shares of par value of US$0.001 each were allotted and issued to Foreshore;

(d) on October 21, 2009, 700,608 Series A Preferred Shares of par value of US$0.001 each were allotted and issued to GGV;

(e) on October 21, 2009, 11,392 Series A Preferred Shares of par value of US$0.001 each were issued to GGV;

(f) on May 31, 2010, 169,495 ordinary Shares of par value of US$0.001 each were transferred from Foreshore to Ding Tian;

(g) on May 31, 2010, 48,292 ordinary Shares of par value of US$0.001 each were allotted and issued to Dr. Cai Ya;

(h) on May 31, 2010, 52,457 ordinary Shares of par value of US$0.001 each were allotted and issued to Qiming Venture Partners, L.P.;

(i) on May 31, 2010, 784 ordinary Shares of par value of US$0.001 each were allotted and issued to Qiming Managing Directors Fund L.P.;

(j) on May 31, 2010, 5,748 ordinary Shares of par value of US$0.001 each were allotted and issued to Ignition Venture Partners III, L.P.;

(k) on May 31, 2010, 168 ordinary Shares of par value of US$0.001 each were allotted and issued to Ignition Managing Directors Fund III, LLC;

(l) on May 31, 2010, 94,652 ordinary Shares of par value of US$0.001 each were allotted and issued to Newmargin Growth Fund, L.P.;

(m) on May 31, 2010, 124,816 ordinary Shares of par value of US$0.001 each were allotted and issued to Newmargin Growth Fund, L.P.;

(n) on May 31, 2010, 15,212 ordinary Shares of par value of US$0.001 each were allotted and issued to International FMCG Investments Ltd.;

(o) on May 31, 2010, 20,060 ordinary Shares of par value of US$0.001 each were allotted and issued to International FMCG Investments Ltd.;

(p) on May 31, 2010, 142,259 Series A Preferred Shares of par value of US$0.001 each were allotted and issued to GGV;

(q) on May 31, 2010, 2,313 Series A Preferred Shares of par value of US$0.001 each were allotted and issued to GGV; and

(r) on September 10, 2010, the Share Subdivision became effective.

The Share Subdivision includes the following sequence of events:

(a) the increase of the authorized share capital of the Company from US$50,000 divided into 47,000,000 ordinary shares with a par value of US$0.001 each and 3,000,000 series A preferred shares with a par value of US$0.001 each to US$99,999.98 divided into (i) 47,000,000 ordinary shares with a par value of US$0.001 each and 3,000,000 series A preferred shares with a par value of US$0.001 each and (ii) 5,640,000,000 ordinary shares with a par value of US$0.00000833333 each and 360,000,000 series A preferred shares with a par value of US$0.00000833333 each;

(b) the issue of 1,158,022,680 ordinary shares with a par value of US$0.00000833333 each and 102,788,640 series A preferred shares with a par value of US$0.00000833333 each (in the proportions specified in the directors resolutions dated September 8, 2010) to the existing shareholders of the Company as of September 10, 2010;

(c) the repurchase of 9,650,189 issued ordinary shares with a par value of US$0.001 each and 856,572 issued series A preferred shares with a par value of US$0.001 each (in the proportions specified in the directors resolutions dated September 8, 2010) (the "**Repurchase Shares**");

(d) the cancellation of the Repurchase Shares;

(e) the cancellation of all of the 47,000,000 authorized but unissued ordinary shares having a par value of US$0.001 each and all of the 3,000,000 authorized but unissued series A preferred shares having a par value of US$0.001 each; and

(f) leaving the authorized share capital of the Company at US$49,999.98 divided into 5,640,000,000 ordinary shares with a par value of US$0.00000833333 each and 360,000,000 series A preferred shares with a par value of US$0.00000833333 each.

Our subsidiaries

The list of our subsidiaries is set out in Appendix I of this document.

Besunyen Investment:

(a) on August 11, 2009, one ordinary share of US$1.00 each was allotted and issued to Mr. Zhao Yihong; and

(b) on September 25, 2009, one ordinary share of US$1.00 each was transferred from Mr. Zhao Yihong to the Company.

Besunyen HK:

(a) on June 10, 2009, one ordinary share of HK$1.00 each was allotted and issued to Mr. Cui Shan; and

(b) on October 5, 2009, one ordinary share of HK$1.00 each was transferred from Mr. Cui Shan to Besunyen Investment.

Ever Assure:

(a) on April 23, 2010, one ordinary share of HK$1.00 each was allotted and issued to GNL 10 Limited;

(b) on May 17, 2010, one ordinary share of HK$1.00 each was transferred from GNL 10 Limited to High Star Limited; and

(c) on May 31, 2010, one ordinary share of HK$1.00 each was transferred from High Star Limited to the Company.

Bejing Outsell:

(a) on December 27, 2008, the registered share capital of Beijing Outsell was increased to US$8,000,000 from US$4,000,000;

(b) on July 23, 2009, the registered share capital of Beijing Outsell was increased to US$33,000,000 from US$8,000,000; and

(c) on December 11, 2009, the registered share capital of Beijing Outsell was increased to US$46,500,000 from US$ 33,000,000.

Zhuhai Qi Jia:

- on January 25, 2010, the registered share capital of Zuhai Qi Jia was increased to RMB12,000,000 from RMB2,000,000.

Save as the aforesaid, there has been no other alteration in the share capital of the subsidiaries of the Company in the two years preceding the date of the document.

3. Written Resolutions of our shareholders

Pursuant to the written resolutions passed by our shareholders on September 8, 2010:

(a) the Share Subdivision became effective on September 18, 2010;

(b) our Company conditionally approved and adopted its new Memorandum of Association and Articles of Association with effect on the date on which shares of the Company are listed on the Hong Kong Stock Exchange, the terms of which are summarized in Appendix V of this document; and

(c) certain other conditions.

4. The Reorganization

The companies comprising the Group underwent a reorganization to rationalize the business and the structure of our Company. Following the Reorganization our Company became the holding Company. For information with regard to our Reorganization, see the section headed "History, Reorganization and Group Structure" in this document.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this document that are or may be material:

1. the equity interest transfer agreement dated November 6, 2008, entered into between Zhang Hongli (張紅麗) and Besunyen Investment Co., Ltd., pursuant to which Zhang Hongli transferred 100% equity interest in Beijing Besunyen Food and Beverage Co., Ltd. to Besunyen Investment Co., Ltd. for a consideration of US$300,000;

2. the equity interest transfer agreement dated September 1, 2009, entered into between Cui Shan (崔山) and Outsel Herbal Tea Limited (now known as Besunyen (Hong Kong) Co., Limited, pursuant to which Cui Shan transferred 100% equity interest in Beijing Outsell Health Product Development Co., Ltd. to Outsel Herbal Tea Limited;

3. the series A preferred shares purchase agreement dated September 9, 2009, entered into between Tea-Care Group Limited (now known as Besunyen Holdings Company Limited), Foreshore Holding Group Limited, Zhao Yihong, Granite Global Ventures III L.P. and GGV III Entrepreneurs Fund L.P., pursuant to which Granite Global Ventures III L.P. and GGV III Entrepreneurs Fund L.P. subscribed for 712,000 Series A Preferred Shares for a total consideration of US$15,000,000;

4. the equity interest transfer agreement dated October 9, 2009, entered into between Besunyen Investment Co., Ltd. and Beijing Outsell Health Product Development Co., Ltd., pursuant to which Besunyen Investment Co., Ltd. transferred 100% equity interest in Beijing Besunyen Food and Beverage Co., Ltd. to Beijing Outsell Health Product Development Co., Ltd. for a consideration of RMB2,200,000;

5. the shareholders' agreement dated October 21, 2009, entered into between Tea-Care Group Limited (now known as Besunyen Holdings Company Limited), Foreshore Holding Group Limited, Zhao Yihong, Granite Global Ventures III L.P. and GGV III Entrepreneurs Fund L.P.;

6. the equity acquisition agreement dated January 13, 2010, entered into between Beijing Outsell Health Product Development Co., Ltd., Zhuhai Qi Jia Medicine Industry Co., Ltd., Zhang Guiying (張桂英) and Wang Hongshan (王宏山), pursuant to which Beijing Outsell agreed to acquire 100% equity interest in Zhuhai Qi Jia Medicine Industry Co., Ltd. from Zhang Guiying and Wang Hongshan for a consideration of up to RMB19,050,000;

7. the share transfer agreement dated March 4, 2010, entered into between Ding Tian Greater China Strategy Fund and Foreshore Holding Group Limited, pursuant to which Foreshore transferred US$3,000,000 worth of Shares to Ding Tian Greater China Strategy Fund for a consideration of US$3,000,000 pursuant to the adjustment mechanism under the share transfer agreement; and

8. the share exchange agreement dated May 21, 2010, entered into between Tea-Care Group Ltd. (now known as Besunyen Holdings Company Limited), Tea-Care Holding Co. Universal Limited (now known as Besunyen Investment (BVI) Co., Ltd.), High Star Limited, Cai Ya (蔡亞), Zhao Xiaoluo (趙霄洛), Qiming Venture Partners, L.P., Qiming Managing Directors Fund, L.P., Ignition Venture Partners III, L.P., Ignition Managing Directors Fund III, LLC, Newmargin Growth Fund, L.P., International FMCG Investments Ltd., Granite Global Ventures III L.P., GGV III Entrepreneurs Fund L.P., pursuant to which Besunyen Investment (BVI) Co., Ltd. acquired all of the issued and outstanding shares of Ever Assure Limited from High Star Limited in consideration of the allotment and issuance of 52,457, 784, 5,748, 168, 94,652, 15,212 and 48,292 Shares to Qiming Venture Partners, L.P., Qiming Managing Directors Fund L.P., Ignition Venture Partners III, L.P., Ignition Managing Directors Fund III, LLC, Newmargin Growth Fund, L.P., International FMCG Investments Ltd. and Cai Ya, respectively, each a shareholder of High Star Limited. In addition, concurrently with the closing of the acquisition of Jian Shi Xing Biotech Research and Development (Shanghai) Co., Ltd. and Ever Assure Limited contemplated under the share exchange agreement, Newmargin Growth Fund, L.P. and International FMCG Investments Ltd. purchased an aggregate of 144,876 Shares at an aggregate purchase price of US$3,000,000.

2. Intellectual property rights

As of September 9, 2010, our Group has registered or has applied for the registration of the following intellectual property rights.

A. Trademarks

(i) As of September 9, 2010, Beijing Outsell is the registered owner of the following trademarks in the PRC:

No.	Trademark	Register No.	Class	Date of registration	Expiry date
1.	瑞德梦	1072218	30	August 7, 2007	August 6, 2017
2.	碧生源	1659483	30	October 28, 2001	October 27, 2011
3.	常润	1748650	30	April 14, 2002	April 13, 2012

No.	Trademark	Register No.	Class	Date of registration	Expiry date
4.		3048353	30	March 21, 2003	March 20, 2013
5.	长润	3162345	30	January 21, 2004	January 20, 2014
6.	碧生员	3162347	30	June 14, 2003	June 13, 2013
7.	碧生圆	3162348	30	June 14, 2003	June 13, 2013
8.	碧升缘	3162349	30	June 14, 2003	June 13, 2013
9.	毕生源	3162350	30	June 14, 2003	June 13, 2013
10.	毕生缘	3162351	30	June 14, 2003	June 13, 2013
11.	碧生泉	3162352	30	June 14, 2003	June 13, 2013
12.	碧生缘	3163978	30	June 14, 2003	June 13, 2013
13.	毕生泉	3163979	30	June 14, 2003	June 13, 2013

No.	Trademark	Register No.	Class	Date of registration	Expiry date
14.	碧升源	3238587	30	September 7, 2003	September 6, 2013
15.	舒	3238589	30	February 21, 2004	February 20, 2014
16.	爽通	3238590	30	February 21, 2004	February 20, 2014
17.	润通	3238591	30	February 21, 2004	February 20, 2014
18.	通润	3238592	30	February 21, 2004	February 20, 2014
19.	舒通	3238593	30	February 21, 2004	February 20, 2014
20.	润泽	3238594	30	February 21, 2004	February 20, 2014
21.	通舒	3238605	30	September 7, 2003	September 6, 2013
22.	舒尔通	3238606	30	December 21, 2003	December 20, 2013

No.	Trademark	Register No.	Class	Date of registration	Expiry date
23.	通爽	3238706	30	February 21, 2004	February 20, 2014
24.	碧	3238707	30	September 7, 2003	September 6, 2013
25.	通尔舒	3238708	30	September 14, 2003	September 13, 2013
26.	通	3238709	30	February 21, 2004	February 20, 2014
27.	Vz唯姿	3929472	30	January 21, 2006	January 20, 2016
28.	丽姿 LIZI	3929474	30	March 28, 2006	March 27, 2016
29.	维韵 WeiYun	3929476	30	January 21, 2006	January 20, 2016
30.	平安府 PINGANFU	3929479	30	March 28, 2006	March 27, 2016
31.	国医太祖 GUOYITAIZU	3929480	30	September 21, 2006	September 20, 2016

No.	Trademark	Register No.	Class	Date of registration	Expiry date
32.	百保箱	3929483	30	January 21, 2006	January 20, 2016
33.	皇朝太醫 HUANGCHAOTAIYI	3929485	30	April 14, 2006	April 13, 2016
34.	太医堂 TAIYITANG	3929486	30	March 28, 2006	March 27, 2016
35.	VS唯尚	3929487	30	January 21, 2006	January 20, 2016
36.	滴爽	3929488	30	February 21, 2006	February 20, 2016
37.	滴净	3929489	30	March 28, 2006	March 27, 2016
38.	滴清	3929490	30	January 21, 2006	January 20, 2016
39.	阿申牌	3958577	30	January 28, 2006	January 27, 2016
40.	碧生源	3995875	5	November 14, 2006	November 13, 2016

No.	Trademark	Register No.	Class	Date of registration	Expiry date
41.	康丽源	4002996	30	March 14, 2006	March 13, 2016
42.	再清椿	4022948	30	January 14, 2007	January 13, 2017
43.	碧生源	4042869	3	March 14, 2007	March 13, 2017
44.	碧生源	4042870	5	May 21, 2007	May 20, 2017
45.	碧生源	4042871	10	May 28, 2007	May 27, 2017
46.	9快9	4136686	30	November 28, 2006	November 27, 2016
47.	暖太郎	4162260	25	March 14, 2008	March 13, 2018
48.	悟	4162261	30	October 21, 2006	October 20, 2016
49.	波斯猫	4171211	44	February 7, 2008	February 6, 2018

No.	Trademark	Register No.	Class	Date of registration	Expiry date
50.	波斯猫	4171212	43	October 7, 2007	October 6, 2017
51.	波斯猫	4171213	41	October 7, 2007	October 6, 2017
52.	波斯猫	4171214	34	October 21, 2006	October 20, 2016
53.	波斯猫	4171215	33	October 21, 2006	October 20, 2016
54.	波斯猫	4171216	32	October 21, 2006	October 20, 2016
55.	波斯猫	4171217	30	October 21, 2006	October 20, 2016
56.	波斯猫	4171218	20	May 21, 2007	May 20, 2017
57.	波斯猫	4171220	14	May 21, 2007	May 20, 2017
58.	波斯猫	4171221	9	November 14, 2006	November 13, 2016
59.	Benefit	4650061	30	February 28, 2008	February 27, 2018
60.	Benefit	4650062	30	February 28, 2008	February 27, 2018
61.	BENEFIT	4650063	30	February 28, 2008	February 27, 2018

No.	Trademark	Register No.	Class	Date of registration	Expiry date
62.	SOSO	4712168	30	April 7, 2008	April 6, 2018
63.	"ЖУЙДЭМЭН"	4733994	30	March 7, 2008	March 6, 2018
64.	碧生源	4774021	6	June 7, 2008	June 6, 2018
65.	碧生源	4774023	4	April 21, 2009	April 20, 2019
66.	碧生源	4774024	3	October 28, 2009	October 27, 2019
67.	碧生源	4774025	2	January 21, 2010	January 20, 2020
68.	碧生源	4774026	1	April 21, 2009	April 20, 2019
69.	碧生源	4774082	38	February 28, 2009	February 27, 2019
70.	碧生源	4774083	37	February 28, 2009	February 27, 2019

No.	Trademark	Register No.	Class	Date of registration	Expiry date
71.	碧生源	4774085	45	February 28, 2009	February 27, 2019
72.	碧生源	4774086	44	February 28, 2009	February 27, 2019
73.	碧生源	4774087	43	February 28, 2009	February 27, 2019
74.	碧生源	4774088	42	February 28, 2009	February 27, 2019
75.	碧生源	4774089	41	February 28, 2009	February 27, 2019
76.	碧生源	4774090	40	February 28, 2009	February 27, 2019
77.	碧生源	4774091	39	January 28, 2009	January 27, 2019
78.	碧生源	4774092	36	January 28, 2009	January 27, 2019

No.	Trademark	Register No.	Class	Date of registration	Expiry date
79.	碧生源	4774093	35	January 28, 2009	January 27, 2019
80.	碧生源	4774094	34	April 7, 2008	April 6, 2018
81.	碧生源	4774095	33	April 7, 2008	April 6, 2018
82.	碧生源	4774097	31	April 7, 2008	April 6, 2018
83.	碧生源	4774098	30	April 7, 2008	April 6, 2018
84.	碧生源	4774099	29	June 14, 2008	June 13, 2018
85.	碧生源	4774100	28	February 14, 2009	February 13, 2019
86.	碧生源	4774101	27	February 14, 2009	February 13, 2019

No.	Trademark	Register No.	Class	Date of registration	Expiry date
87.	碧生源	4774102	26	February 14, 2009	February 13, 2019
88.	碧生源	4774104	24	February 14, 2009	February 13, 2019
89.	碧生源	4774105	23	February 14, 2009	February 13, 2019
90.	碧生源	4774106	22	February 21, 2009	February 20, 2019
91.	碧生源	4774107	21	February 28, 2009	February 27, 2019
92.	碧生源	4774108	20	March 14, 2009	March 13, 2019
93.	碧生源	4774110	18	March 7, 2009	March 6, 2019
94.	碧生源	4774111	17	February 28, 2009	February 27, 2019
95.	碧生源	4774112	16	January 28, 2010	January 27, 2020

No.	Trademark	Register No.	Class	Date of registration	Expiry date
96.	碧生源	4774113	15	February 28, 2009	February 27, 2009
97.	碧生源	4774114	14	February 28, 2009	February 27, 2019
98.	碧生源	4774115	13	June 7, 2008	June 6, 2018
99.	碧生源	4774116	12	June 7, 2008	June 6, 2018
100.	碧生源	4774117	11	June 7, 2008	June 6, 2018
101.	碧生源	4774119	9	June 7, 2008	June 6, 2018
102.	碧生源	4774120	8	June 7, 2008	June 6, 2018
103.	碧生源	4774121	7	June 7, 2008	June 6, 2018
104.	简一点	5121816	30	November 28, 2008	November 27, 2018

No.	Trademark	Register No.	Class	Date of registration	Expiry date
105.	千千睡	5194120	5	June 21, 2009	June 20, 2019
106.	千千睡	5194121	30	March 21, 2009	March 20, 2019
107.	先牌	5194123	5	January 7, 2010	January 6, 2020
108.	先牌	5194124	30	April 7, 2009	April 6, 2019
109.	太腄	5211798	5	July 14, 2009	July 13, 2019
110.	太腄	5211799	10	April 7, 2009	April 6, 2019
111.	太腄	5211800	30	May 7, 2009	May 6, 2019
112.	好好岁岁	5211804	5	July 14, 2009	July 13, 2019
113.	好好岁岁	5211805	10	April 7, 2009	April 6, 2019
114.	好好岁岁	5211806	30	May 7, 2009	May 6, 2019
115.	澳特舒尔	5211808	10	April 7, 2009	April 6, 2019
116.	澳特舒尔	5211809	9	April 14, 2009	April 13, 2019

No.	Trademark	Register No.	Class	Date of registration	Expiry date
117.	澳特舒尔	5211810	8	April 7, 2009	April 6, 2019
118.	澳特舒尔	5211811	7	April 7, 2009	April 6, 2019
119.	澳特舒尔	5211812	6	July 21, 2009	July 20, 2019
120.	澳特舒尔	5211813	5	June 28, 2009	June 27, 2019
121.	澳特舒尔	5211814	4	June 21, 2009	June 20, 2019
122.	澳特舒尔	5211815	3	July 7, 2009	July 6, 2019
123.	澳特舒尔	5211816	2	June 21, 2009	June 20, 2019
124.	澳特舒尔	5211817	1	July 14, 2009	July 13, 2019
125.	澳特舒尔	5211818	20	June 7, 2009	June 6, 2019
126.	澳特舒尔	5211819	19	November 28, 2009	November 27, 2019
127.	澳特舒尔	5211820	18	July 28, 2009	July 27, 2019
128.	澳特舒尔	5211821	17	July 7, 2009	July 6, 2019
129.	澳特舒尔	5211822	16	June 14, 2009	June 13, 2019
130.	澳特舒尔	5211823	15	June 7, 2009	June 6, 2019
131.	澳特舒尔	5211824	14	June 7, 2009	June 6, 2019

No.	Trademark	Register No.	Class	Date of registration	Expiry date
132.	澳特舒尔	5211825	13	March 21, 2009	March 20, 2019
133.	澳特舒尔	5211826	12	April 7, 2009	April 6, 2019
134.	澳特舒尔	5211827	11	April 14, 2009	April 13, 2019
135.	澳特舒尔	5211828	30	March 28, 2009	March 27, 2019
136.	澳特舒尔	5211829	29	March 28, 2009	March 27, 2019
137.	澳特舒尔	5211830	28	July 14, 2009	July 13, 2019
138.	澳特舒尔	5211831	27	June 14, 2009	June 13, 2019
139.	澳特舒尔	5211832	26	July 14, 2009	July 13, 2019
140.	澳特舒尔	5211833	25	July 14, 2009	July 13, 2019
141.	澳特舒尔	5211834	24	June 21, 2009	June 20, 2019
142.	澳特舒尔	5211835	23	June 14, 2009	June 13, 2019
143.	澳特舒尔	5211836	22	July 28, 2009	July 27, 2019
144.	澳特舒尔	5211837	21	June 14, 2009	June 13, 2019
145.	澳特舒尔	5211838	40	September 14, 2009	September 13, 2019
146.	澳特舒尔	5211839	39	June 14, 2009	June 13, 2019

No.	Trademark	Register No.	Class	Date of registration	Expiry date
147.	澳特舒尔	5211840	38	September 14, 2009	September 13, 2009
148.	澳特舒尔	5211841	37	September 14, 2009	September 13, 2019
149.	澳特舒尔	5211842	36	September 14, 2009	September 13, 2019
150.	澳特舒尔	5211843	35	June 7, 2009	June 6, 2019
151.	澳特舒尔	5211844	34	March 28, 2009	March 27, 2019
152.	澳特舒尔	5211845	33	March 28, 2009	March 27, 2019
153.	澳特舒尔	5211846	32	March 28, 2009	March 27, 2019
154.	澳特舒尔	5211847	31	March 28, 2009	March 27, 2019
155.	澳特舒尔	5211853	45	September 14, 2009	September 13, 2019
156.	澳特舒尔	5211854	44	September 14, 2009	September 13, 2019
157.	澳特舒尔	5211855	43	September 14, 2009	September 13, 2019
158.	澳特舒尔	5211856	42	July 7, 2009	July 6, 2019
159.	澳特舒尔	5211857	41	July 7, 2009	July 6, 2019
160.	瑞 梦	5310771	5	January 14, 2010	January 13, 2020

No.	Trademark	Register No.	Class	Date of registration	Expiry date
161.	瑞 梦	5310772	10	April 28, 2009	April 27, 2019
162.		5357108	5	December 21, 2009	December 20, 2019
163.		5357109	10	May 7, 2009	May 6, 2019
164.		5357110	30	April 28, 2009	April 27, 2019
165.	瑞德梦	5667388	5	December 14, 2009	December 13, 2019
166.	碧生源常润	5669323	30	August 7, 2009	August 6, 2019
167.	碧生源常润	5919889	30	November 28, 2009	November 27, 2019
168.	BESELL	6211992	5	March 7, 2010	March 6, 2020
169.	BESELL	6211994	10	January 7, 2010	January 6, 2020
170.	BESELL	6211997	16	February 21, 2010	February 20, 2020
171.	BESELL	6212001	30	January 21, 2010	January 20, 2020
172.	BESELL	6212005	32	January 21, 2010	January 20, 2020
173.	提香草堂	6262947	30	February 7, 2010	February 6, 2020

No.	Trademark	Register No.	Class	Date of registration	Expiry date
174.	提香草堂	6262948	3	February 28, 2010	February 27, 2020
175.	提香草堂	6262951	5	March 21, 2010	March 20, 2020
176.	波斯猫	4171219	16	July 14, 2007	July 13, 2017
177.	常润	6918162	5	July 14, 2010	July 13, 2020
178.	长润	6918164	5	July 14, 2010	July 13, 2020
179.	常润长润	6918165	30	July 14, 2010	July 13, 2020
180.	长润常润	6918166	30	July 14, 2010	July 13, 2020
181.	碧生源	7207739	30	July 28, 2010	July 27, 2020
182.	T-care	7207760	30	July 28, 2010	July 27, 2020

(iii) As of September 9, 2010, Beijing Outsell is the registered owner of the following trademarks in other jurisdictions:

No.	Trademark	Place of Registration	Register No.	Class	Date of Registration	Expiry Date
1.	碧生源	**Hong Kong**	300892945	30	June 15, 2007	June 14, 2017
2.	碧生源	**Hong Kong**	301080260	3, 5, 10, 32	March 27, 2008	March 26, 2018
3.	碧生源	**Japan**	5102686	30	April 24, 2007	April 23, 2017
4.	碧生源	**Korea**	40-0744053	30	April 27, 2007	April 26, 2017
5.	碧生源	**Korea**	40-0783651	3, 5, 10, 32	March 24, 2009	March 24, 2019
6.		**Laos**	17184	3	April 25, 2008	April 25, 2018
7.		**Laos**	17185	5	April 25, 2008	April 25, 2018
8.		**Laos**	17186	10	April 25, 2008	April 25, 2018
9.		**Laos**	17187	30	April 25, 2008	April 25, 2018
10.		**Laos**	17188	32	April 25, 2008	April 25, 2018
11.	碧生源	**Taiwan**	01344633	30	January 1, 2009	December 31, 2018
12.	碧生源	**Taiwan**	013446627	3	November 16, 2008	November 15, 2018
13.	碧生源	**Taiwan**	01337188	10	November 16, 2008	November 15, 2018
14.	碧生源	**Taiwan**	01343457	5	January 1, 2009	December 31, 2018
15.	碧生源	**Taiwan**	01344725	32	January 1, 2009	December 31, 2018
16.	碧生源	**Singapore**	T0804219Z	3, 5, 10, 32	April 2, 2008	April 2, 2018
17.	碧生源	**Singapore**	T0709655E	30	May 4, 2007	May 3, 2017
18.	碧生源	**European Union**	NO.005878913	30	May 7, 2007	May 7, 2017
19.	碧生源	**Thailand**	Kor292967	10	April 22, 2008	April 21, 2018

No.	Trademark	Place of Registration	Register No.	Class	Date of Registration	Expiry Date
20.		**Thailand**	Kor300468	5	April 22, 2008	April 16, 2018
21.		**Thailand**	Kor301702	3	April 22, 2008	April 21, 2018
22.		**Thailand**	Kor301703	30	April 22, 2008	April 21, 2018
23.		**Thailand**	Kor301704	32	April 22, 2008	April 21, 2018
24.		**Cambodia**	KH/30189/09	5	April 29, 2008	April 29, 2018
25.		**Cambodia**	KH/30190/09	10	April 29, 2008	April 29, 2018
26.		**Cambodia**	KH/30191/09	30	April 29, 2008	April 29, 2018
27.		**Cambodia**	KH/30188/09	3	April 29, 2008	April 29, 2018
28.		**Cambodia**	KH/30192/09	32	April 29, 2008	April 29, 2018
29.		**Macau**	N/035320	5	September 30, 2008	September 30, 2015
30.		**Macau**	N/035319	3	September 30, 2008	September 30, 2015
31.		**Macau**	N/035322	32	September 30, 2008	September 30, 2015
32.		**Macau**	N/035321	10	September 30, 2008	September 30, 2015
33.		**Macau**	N/028964	30	December 19, 2007	October 29, 2014
34.		**Burma**	996/2009	3, 5, 10, 30, 32	February 6, 2009	February 5, 2012
35.		**United States**	3583929	30	March 3, 2009	March 3, 2019
36.		**Philippine**	4-2008-003774	3, 5, 10, 30, 32	September 15, 2008	September 15, 2018
37.		**Malaysia**	7011126	30	June 12, 2007	June 12, 2017
38.		**Vietnam**	135183	3, 5, 10, 30, 32	April 1, 2008	April 1, 2018
39.		**Malaysia**	08007296	32	April 15, 2008	April 15, 2018

No.	Trademark	Place of Registration	Register No.	Class	Date of Registration	Expiry Date
40.	碧生源	**Malaysia**	08007293	3	April 15, 2008	April 15, 2018
41.	碧生源	**Malaysia**	08007295	10	April 15, 2008	April 15, 2018
42.	碧生源	**India**	1669581	32	March 27, 2008	March 27, 2018
43.	碧生源	**Indonesia**	IDM000223957	3	March 28, 2008	March 27, 2018
44.	碧生源	**Indonesia**	IDM000223958	5	March 28, 2008	March 27, 2018
45.	碧生源	**Indonesia**	IDM000223717	10	March 27, 2008	March 28, 2018
46.	碧生源	**Indonesia**	IDM000223725	30	March 28, 2008	March 27, 2018
47.	碧生源	**Indonesia**	IDM000223726	32	March 28, 2008	March 27, 2018

(iv) As of September 9, 2010, Beijing Outsell has applied for the registration of the following trademarks in the PRC:

No.	Trademark	Application no.	Class	Application date
1.	碧生源	4774118	10	July 12, 2005
2.	BESELL	6211990	3	August 9, 2007
3.	BESELL	6212000	29	August 9, 2007
4.	BESELL	6212004	31	August 9, 2007
5.	碧生源常润	6262952	5	September 6, 2007
6.	VS唯尚	7540105	3	July 13, 2009
7.		7540116	3	July 13, 2009
8.	VS唯尚	7540135	5	July 13, 2009
9.		7540309	5	July 13, 2009
10.	VS唯尚	7540313	30	July 13, 2009
11.		7540316	30	July 13, 2009
12.	VS唯尚	7540320	32	July 13, 2009

No.	Trademark	Application no.	Class	Application date
13.		7540325	32	July 13, 2009
14.	VS 唯尚	7540329	35	July 13, 2009
15.		7540333	35	July 13, 2009
16.	OUTSEL	7543346	1	July 14, 2009
17.	OUTSEL	7543358	2	July 14, 2009
18.	OUTSEL	7543372	3	July 14, 2009
19.	OUTSEL	7543380	4	July 14, 2009
20.	OUTSEL	7543389	5	July 14, 2009
21.	OUTSEL	7543411	6	July 14, 2009
22.	OUTSEL	7543434	7	July 14, 2009
23.	OUTSEL	7543440	8	July 14, 2009
24.	OUTSEL	7543458	9	July 14, 2009
25.	OUTSEL	7543473	10	July 14, 2009

No.	Trademark	Application no.	Class	Application date
26.	OUTSEL	7545720	11	July 15, 2009
27.	OUTSEL	7545733	12	July 15, 2009
28.	OUTSEL	7545742	13	July 15, 2009
29.	OUTSEL	7545759	14	July 15, 2009
30.	OUTSEL	7545767	15	July 15, 2009
31.	OUTSEL	7545788	16	July 15, 2009
32.	OUTSEL	7545811	17	July 15, 2009
33.	OUTSEL	7545818	18	July 15, 2009
34.	OUTSEL	7545827	19	July 15, 2009
35.	OUTSEL	7545841	20	July 15, 2009
36.	OUTSEL	7548770	21	July 16, 2009
37.	OUTSEL	7548774	22	July 16, 2009
38.	OUTSEL	7548778	23	July 16, 2009
39.	OUTSEL	7548781	24	July 16, 2009

No.	Trademark	Application no.	Class	Application date
40.	OUTSEL	7548784	25	July 16, 2009
41.	OUTSEL	7548786	26	July 16, 2009
42.	OUTSEL	7548790	27	July 16, 2009
43.	OUTSEL	7548798	28	July 16, 2009
44.	OUTSEL	7548808	29	July 16, 2009
45.	OUTSEL	7548833	30	July 16, 2009
46.	OUTSEL	7551946	31	July 17, 2009
47.	OUTSEL	7551953	32	July 17, 2009
48.	OUTSEL	7551960	33	July 17, 2009
49.	OUTSEL	7551969	34	July 17, 2009
50.	OUTSEL	7551973	35	July 17, 2009
51.	OUTSEL	7551982	36	July 17, 2009
52.	OUTSEL	7551991	37	July 17, 2009
53.	OUTSEL	7551997	38	July 17, 2009

No.	Trademark	Application no.	Class	Application date
54.	OUTSEL	7552005	39	July 17, 2009
55.	OUTSEL	7552013	40	July 17, 2009
56.	OUTSEL	7556478	41	July 20, 2009
57.	OUTSEL	7556482	42	July 20, 2009
58.	OUTSEL	7556483	43	July 20, 2009
59.	OUTSEL	7556485	44	July 20, 2009
60.	OUTSEL	7556493	45	July 20, 2009
61.	9块9	4162259	30	July 9, 2004
62.	碧生源	4774096	32	July 12, 2005
63.	碧生源	8242730	1	April 26, 2010
64.	碧生源	8242736	2	April 26, 2010
65.	碧生源	8242745	3	April 26, 2010
66.	碧生源	8242759	4	April 26, 2010

No.	Trademark	Registration no.	Class	Application date
67.	碧生源	8242906	5	April 26, 2010
68.	碧生源	8242953	6	April 26, 2010
69.	碧生源	8243088	7	April 26, 2010
70.	碧生源	8243115	8	April 26, 2010
71.	碧生源	8243004	9	April 26, 2010
72.	碧生源	8251939	10	April 28, 2010
73.	碧生源	8255064	11	April 29, 2010
74.	碧生源	8255080	12	April 29, 2010
75.	碧生源	8255093	13	April 29, 2010
76.	碧生源	8255110	14	April 29, 2010
77.	碧生源	8255121	15	April 29, 2010
78.	碧生源	8255146	16	April 29, 2010

No.	Trademark	Registration no.	Class	Application date
79.	碧生源	8255164	17	April 29, 2010
80.	碧生源	8255177	18	April 29, 2010
81.	碧生源	8255215	19	April 29, 2010
82.	碧生源	8255243	20	April 29, 2010
83.	碧生源	8260025	21	April 30, 2010
84.	碧生源	8260055	22	April 30, 2010
85.	碧生源	8260098	23	April 30, 2010
86.	碧生源	8260166	24	April 30, 2010
87.	碧生源	8260198	25	April 30, 2010
88.	碧生源	8260212	26	April 30, 2010
89.	碧生源	8260235	27	April 30, 2010
90.	碧生源	8260278	28	April 30, 2010

No.	Trademark	Registration no.	Class	Application date
91.	碧生源	8260313	29	April 30, 2010
92.	碧生源	8260347	30	April 30, 2010
93.	碧生源	8259348	31	April 30, 2010
94.	碧生源	8259347	32	April 30, 2010
95.	碧生源	8259346	33	April 30, 2010
96.	碧生源	8259345	34	April 30, 2010
97.	碧生源	8260621	35	April 30, 2010
98.	碧生源	8260640	36	April 30, 2010
99.	碧生源	8260664	37	April 30, 2010
100.	碧生源	8260689	38	April 30, 2010
101.	碧生源	8260706	39	April 30, 2010
102.	碧生源	8260731	40	April 30, 2010

No.	Trademark	Registration no.	Class	Application date
103.	碧生源	8260748	41	April 30, 2010
104.	碧生源	8260772	42	April 30, 2010
105.	碧生源	8259344	43	April 30, 2010
106.	碧生源	8259343	44	April 30, 2010
107.	碧生源	8259342	45	April 30, 2010
108.	Besunyen	8307720	1	May 18, 2010
109.	Besunyen	8307740	2	May 18, 2010
110.	Besunyen	8307763	3	May 18, 2010
111.	Besunyen	8307773	4	May 18, 2010
112.	Besunyen	8307790	5	May 18, 2010
113.	Besunyen	8312181	6	May 19, 2010
114.	Besunyen	8312201	7	May 19, 2010
115.	Besunyen	8312206	8	May 19, 2010
116.	Besunyen	8312220	9	May 19, 2010

No.	Trademark	Registration no.	Class	Application date
117.	Besunyen	8312223	10	May 19, 2010
118.	Besunyen	8312226	11	May 19, 2010
119.	Besunyen	8312238	12	May 19, 2010
120.	Besunyen	8312242	13	May 19, 2010
121.	Besunyen	8312247	14	May 19, 2010
122.	Besunyen	8312258	15	May 19, 2010
123.	Besunyen	8320473	16	May 19, 2010
124.	Besunyen	8320492	17	May 21, 2010
125.	Besunyen	8320501	18	May 21, 2010
126.	Besunyen	8320521	19	May 21, 2010
127.	Besunyen	8320532	20	May 21, 2010
128.	Besunyen	8326780	21	May 24, 2010
129.	Besunyen	8326785	22	May 24, 2010
130.	Besunyen	8326787	23	May 24, 2010
131.	Besunyen	8326790	24	May 24, 2010
132.	Besunyen	8326798	25	May 24, 2010

No.	Trademark	Registration no.	Class	Application date
133.	Besunyen	8326801	26	May 24, 2010
134.	Besunyen	8326806	27	May 24, 2010
135.	Besunyen	8326809	28	May 24, 2010
136.	Besunyen	8333904	29	May 26, 2010
137.	Besunyen	8333928	30	May 26, 2010
138.	Besunyen	8333943	31	May 26, 2010
139.	Besunyen	8333962	32	May 26, 2010
140.	Besunyen	8333984	33	May 26, 2010
141.	Besunyen	8334005	34	May 26, 2010
142.	Besunyen	8334021	35	May 26, 2010
143.	Besunyen	8334039	36	May 26, 2010
144.	Besunyen	8334141	37	May 26, 2010
145.	Besunyen	8337403	38	May 27, 2010
146.	Besunyen	8337422	39	May 27, 2010
147.	Besunyen	8337445	40	May 27, 2010
148.	Besunyen	8337457	41	May 27, 2010

No.	Trademark	Registration no.	Class	Application date
149.	Besunyen	8337495	42	May 27, 2010
150.	Besunyen	8337521	43	May 27, 2010
151.	Besunyen	8337549	44	May 27, 2010
152.	Besunyen	8337583	45	May 27, 2010
153.	碧生源	8311802	1	May 19, 2010
154.	碧生源	8311825	2	May 19, 2010
155.	碧生源	8315760	3	May 20, 2010
156.	碧生源	8315783	4	May 20, 2010
157.	碧生源	8315804	5	May 20, 2010
158.	碧生源	8315847	6	May 20, 2010

No.	Trademark	Registration no.	Class	Application date
159.	碧生源	8320190	7	May 21, 2010
160.	碧生源	8320219	8	May 21, 2010
161.	碧生源	8320264	9	May 21, 2010
162.	碧生源	8326444	10	May 24, 2010
163.	碧生源	8326478	11	May 24, 2010
164.	碧生源	8329943	12	May 25, 2010
165.	碧生源	8329993	13	May 25, 2010
166.	碧生源	8330030	14	May 25, 2010
167.	碧生源	8333367	15	May 26, 2010
168.	碧生源	8333399	16	May 26, 2010
169.	碧生源	8333421	17	May 26, 2010
170.	碧生源	8333445	18	May 26, 2010
171.	碧生源	8337947	19	May 27, 2010
172.	碧生源	8337980	20	May 27, 2010
173.	碧生源	8338018	21	May 27, 2010

No.	Trademark	Registration no.	Class	Application date
174.	碧生源	8347607	22	May 31, 2010
175.	碧生源	8347659	23	May 31, 2010
176.	碧生源	8341638	24	May 28, 2010
177.	碧生源	8341704	25	May 28, 2010
178.	碧生源	8347734	26	May 31, 2010
179.	碧生源	8347770	27	May 31, 2010
180.	碧生源	8341748	28	May 28, 2010
181.	碧生源	8342049	29	May 28, 2010
182.	碧生源	8347949	30	May 31, 2010
183.	碧生源	8347977	31	May 31, 2010
184.	碧生源	8347999	32	May 31, 2010
185.	碧生源	8351904	33	June 1, 2010
186.	碧生源	8351934	34	June 1, 2010
187.	碧生源	8351973	35	June 1, 2010
188.	碧生源	8351444	36	June 1, 2010

No.	Trademark	Registration no.	Class	Application date
189.	碧生源	8351495	37	June 1, 2010
190.	碧生源	8351532	38	June 1, 2010
191.	碧生源	8354986	39	June 2, 2010
192.	碧生源	8355028	40	June 2, 2010
193.	碧生源	8355057	41	June 2, 2010
194.	碧生源	8355363	42	June 2, 2010
195.	碧生源	8355382	43	June 2, 2010
196.	碧生源	8355408	44	June 2, 2010
197.	碧生源	8355436	45	June 2, 2010
198.		8311815	1	May 19, 2010
199.		8311831	2	May 19, 2010
200.		8315767	3	May 20, 2010
201.		8315796	4	May 20, 2010
202.		8315815	5	May 20, 2010

No.	Trademark	Registration no.	Class	Application date
203.		8320143	6	May 21, 2010
204.		8320200	7	May 21, 2010
205.		8320224	8	May 21, 2010
206.		8326432	9	May 24, 2010
207.		8326450	10	May 24, 2010
208.		8329906	11	May 25, 2010
209.		8329954	12	May 25, 2010
210.		8330010	13	May 25, 2010
211.		8330043	14	May 25, 2010
212.		8333379	15	May 26, 2010
213.		8333411	16	May 26, 2010
214.		8333432	17	May 26, 2010
215.		8337925	18	May 27, 2010

No.	Trademark	Registration no.	Class	Application date
216.		8337962	19	May 27, 2010
217.		8337990	20	May 27, 2010
218.		8341598	21	May 28, 2010
219.		8347618	22	May 31, 2010
220.		8347675	23	May 31, 2010
221.		8341677	24	May 28, 2010
222.		8341722	25	May 28, 2010
223.		8347747	26	May 31, 2010
224.		8347908	27	May 31, 2010
225.		8342021	28	May 28, 2010
226.		8342062	29	May 28, 2010
227.		8347958	30	May 31, 2010
228.		8347987	31	May 31, 2010

No.	Trademark	Registration no.	Class	Application date
229.		8351889	32	June 1, 2010
230.		8351917	33	June 1, 2010
231.		8351952	34	June 1, 2010
232.		8351985	35	June 1, 2010
233.		8351463	36	June 1, 2010
234.		8351507	37	June 1, 2010
235.		8351547	38	June 1, 2010
236.		8354993	39	June 2, 2010
237.		8355039	40	June 2, 2010
238.		8355076	41	June 2, 2010
239.		8355368	42	June 2, 2010
240.		8355395	43	June 2, 2010
241.		8355421	44	June 2, 2010

No.	Trademark	Registration no.	Class	Application date
242.		8358989	45	June 3, 2010
243.		8311805	1	May 19, 2010
244.		8311827	2	May 19, 2010
245.		8315764	3	May 20, 2010
246.		8315787	4	May 20, 2010
247.		8315810	5	May 20, 2010
248.		8320140	6	May 21, 2010
249.		8320194	7	May 21, 2010
250.		8320221	8	May 21, 2010
251.		8320272	9	May 21, 2010
252.		8326447	10	May 24, 2010
253.		8326484	11	May 24, 2010
254.		8329949	12	May 25, 2010

No.	Trademark	Registration no.	Class	Application date
255.		8329999	13	May 25, 2010
256.		8330036	14	May 25, 2010
257.		8333373	15	May 26, 2010
258.		8333403	16	May 26, 2010
259.		8333427	17	May 26, 2010
260.		8337917	18	May 27, 2010
261.		8337955	19	May 27, 2010
262.		8337986	20	May 27, 2010
263.		8338025	21	May 27, 2010
264.		8347614	22	May 31, 2010
265.		8347667	23	May 31, 2010
266.		8341658	24	May 28, 2010
267.		8341715	25	May 28, 2010

No.	Trademark	Registration no.	Class	Application date
268.		8347743	26	May 31, 2010
269.		8347901	27	May 31, 2010
270.		8341755	28	May 28, 2010
271.		8342054	29	May 28, 2010
272.		8347957	30	May 31, 2010
273.		8347981	31	May 31, 2010
274.		8348005	32	May 31, 2010
275.		8351910	33	June 1, 2010
276.		8351945	34	June 1, 2010
277.		8351978	35	June 1, 2010
278.		8351455	36	June 1, 2010
279.		8351501	37	June 1, 2010
280.		8351541	38	June 1, 2010

No.	Trademark	Registration no.	Class	Application date
281.		8354990	39	June 2, 2010
282.		8355035	40	June 2, 2010
283.		8355069	41	June 2, 2010
284.		8355364	42	June 2, 2010
285.		8355385	43	June 2, 2010
286.		8355412	44	June 2, 2010
287.		8358984	45	June 3, 2010

(vi) As of September 9, 2010, Beijing Outsell has applied for the registration of the following trademarks in other jurisdictions:

No.	Trademark	Place of Registration	Class	Application Date
1.		India	3	April 11, 2008
2.		India	5	April 11, 2008
3.		India	10	April 11, 2008
4.		India	30	April 11, 2008
5.		Malaysia	5	May 9, 2008
6.	Besunyen	United States	5	August 10, 2010
7.	Besunyen	United States	30	August 10, 2010
8.	Besunyen	United States	32	August 10, 2010
9.	Besunyen	United States	40	August 10, 2010
10.	Besunyen	United States	43	August 10, 2010
11.	Besunyen	United States	5	August 5, 2010
12.	Besunyen	Germany	30	August 5, 2010
13.	Besunyen	Germany	32	August 5, 2010
14.	Besunyen	Germany	40	August 5, 2010
15.	Besunyen	Germany	43	August 5, 2010
16.	Besunyen	Hong Kong	5	June 30, 2010
17.	Besunyen	Hong Kong	30	June 30, 2010
18.	Besunyen	Hong Kong	32	June 30, 2010
19.	Besunyen	Hong Kong	40	June 30, 2010
20.	Besunyen	Hong Kong	43	June 30, 2010
21.	Besunyen	Taiwan	5	July 19, 2010

No.	Trademark	Place of Registration	Class	Application Date
22.	Besunyen	Taiwan	30	July 19, 2010
23.	Besunyen	Taiwan	32	July 19, 2010
24.	Besunyen	Taiwan	40	July 19, 2010
25.	Besunyen	Taiwan	43	July 19, 2010

B. Domain Names

As of September 9, 2010, we have registered the following domain names:

No.	Domain name	Registered Owner	Expiry Date
1.	澳特舒尔.cn	Beijing Outsell	March 2, 2017
2.	澳特舒尔.com	Beijing Outsell	March 8, 2017
3.	澳特舒尔.net	Beijing Outsell	March 8, 2017
4.	澳特舒尔.公司	Beijing Outsell	March 2, 2017
5.	澳特舒尔.网络	Beijing Outsell	March 2, 2017
6.	澳特舒尔.中国	Beijing Outsell	March 2, 2017
7.	碧生源.cc	Beijing Outsell	November 24, 2018
8.	常润茶.中国	Beijing Outsell	October 17, 2018
9.	常润茶.cn	Beijing Outsell	October 17, 2018
10.	常润茶.cc	Beijing Outsell	October 17, 2018
11.	常润茶.网络	Beijing Outsell	October 17, 2018
12.	常润茶.公司	Beijing Outsell	October 17, 2018
13.	常润茶.net	Beijing Outsell	October 17, 2018
14.	常润茶.com	Beijing Outsell	October 17, 2018
15.	碧生源.中国	Beijing Outsell	November 25, 2018
16.	碧生源.cn	Beijing Outsell	November 25, 2018
17.	碧生源.网络	Beijing Outsell	May 15, 2018
18.	碧生源.公司	Beijing Outsell	May 15, 2018
19.	碧生源.net	Beijing Outsell	November 27, 2018

No.	Domain name	Registered Owner	Expiry Date
20.	碧生源.com	Beijing Outsell	November 27, 2018
21.	outsell.mobi	Beijing Outsell	February 18, 2019
22.	bishengyuan.mobi	Beijing Outsell	February 18, 2019
23.	aoteshuer.mobi	Beijing Outsell	February 18, 2019
24.	vs-weishang.com.cn	Beijing Outsell	June 3, 2014
25.	ilovevs.cn	Beijing Outsell	June 3, 2014
26.	ilovevs.com	Beijing Outsell	June 3, 2014
27.	ilovevs.com.cn	Beijing Outsell	June 3, 2014
28.	lovevs.cn	Beijing Outsell	June 3, 2014
29.	lovevs.com.cn	Beijing Outsell	June 3, 2014
30.	lovevs.net	Beijing Outsell	June 3, 2014
31.	vslife.com.cn	Beijing Outsell	June 3, 2014
32.	vs-tea.cn	Beijing Outsell	June 3, 2014
33.	vstea.com	Beijing Outsell	June 3, 2014
34.	vs-tea.com	Beijing Outsell	June 3, 2014
35.	vstea.com.cn	Beijing Outsell	June 3, 2014
36.	vs-tea.com.cn	Beijing Outsell	June 3, 2014
37.	vstea.net	Beijing Outsell	June 3, 2014
38.	vsweishang.cn	Beijing Outsell	June 3, 2014
39.	vs-weishang.cn	Beijing Outsell	June 3, 2014
40.	vsweishang.com	Beijing Outsell	June 3, 2014
41.	vs-weishang.com	Beijing Outsell	June 3, 2014
42.	vsweishang.com.cn	Beijing Outsell	June 3, 2014
43.	besunyen.cn	Beijing Outsell	May 4, 2015
44.	besunyen.com	Beijing Outsell	May 4, 2015
45.	besunyen.com.cn	Beijing Outsell	May 4, 2015

No.	Domain name	Registered Owner	Expiry Date
46.	besunyen.net	Beijing Outsell	May 4, 2015
47.	besunyen.hk	Beijing Outsell	May 14, 2015
48.	outsell.com.cn	Beijing Outsell	April 22, 2011
49.	VS唯尚.中国	Beijing Outsell	April 30, 2020
50.	raymon.com	Beijing Outsell	November 17, 2010
51.	唯尚.net	Beijing Outsell	April 29, 2020
52.	Vs唯尚.com	Beijing Outsell	April 29, 2020
53.	Vs唯尚.net	Beijing Outsell	April 29, 2020
54.	besunyen.com.hk	Beijing Outsell	June 2, 2015
55.	bishengyuan.com	Beijing Outsell	June 20, 2012

C. Patents

(i) As of September 9, 2010, Beijing Outsell is the registered owner of the following patents:

No.	Patent Name	Patent Number	Expiry Date	Application Date	Type
1.	Therapeutic tea and preparations improving gastrointestinal function	ZL 200610083789.7	June 5, 2026	June 6, 2006	Invention
2.	A Ganoderma lucidum health food product and its preparations	ZL 200610083790.X	June 5, 2026	June 6, 2006	Invention
3.	a slimming tea and its preparations	ZL 200610083791.4	June 5, 2026	June 6, 2006	Invention
4.	Packaging box	ZL 200430076254.9	July 26, 2014	July 27, 2004	Design
5.	Packaging box	ZL 200430076259.1	July 26, 2014	July 27, 2004	Design
6.	Packaging box	ZL 200430076258.7	July 26, 2014	July 27, 2004	Design
7.	Packaging box (Rui De Meng Slimming Tea)	ZL 200630123801.3	July 12, 2016	July 13, 2006	Design
8.	Packaging box (排油元胶囊)	ZL 200630121199.X	July 12, 2016	July 13, 2006	Design
9.	Packaging box (Besunyen Detox Tea)	ZL 200630121198.5	July 12, 2016	July 13, 2006	Design
10.	Detox Tea (Besunyen)	ZL 200830124034.7	May 25, 2018	May 26, 2008	Design
11.	Packaging box (Besunyen Slimming Tea)	ZL 200830124035.1	May 25, 2018	May 26, 2008	Design
12.	A Chinese medicine for lowering blood pressures and its preparations	ZL 200410015120.5	January 9, 2024	January 9, 2004	Invention
13.	Beverage bottle	ZL 200830068005.3	September 26, 2018	September 27, 2008	Design

(ii) As of September 9, 2010, Beijing Outsell has applied for the registration of the following patent:

Patent Name	Application No.	Application Date	Type
Tea extracts and its preparations	ZL 200810202406.2	November 7, 2008	Invention

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Service contracts

None of our Directors has or is proposed to have a service contract with any member of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation other than the statutory compensation).

2. Directors' remuneration

The aggregate amount of remuneration (including fees, salaries, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid to our Directors for the years ended December 31, 2007, 2008 and 2009 and for the period ended June 30, 2010 were approximately RMB265,000, RMB437,000, RMB726,000 and RMB4,040,000, respectively.

It is estimated that remuneration and benefits in kind equivalent to approximately RMB 13,856,000 in aggregate will be paid and granted to our Directors by us in 2010 under arrangements in force at the date of this document.

3. Fees or commissions received

None of the Directors or any of the persons whose names are listed in the paragraph headed "Consents" in this Appendix VI had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of any member of our Group from our Group within the two years preceding the date of this document.

4. Disclaimers

Save as disclosed in this document:

(a) none of the Director nor any of the persons whose names are listed in the paragraph headed "Consents" under the section headed "Other Information" in this Appendix VI is interested in our promotion, or in any assets which have within the two years immediately preceding the issue of this document been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(b) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this document which is unusual in its nature or conditions or which is significant in relation to the business of our Group; and

(c) none of the Directors are interested in any business apart from any Group's business, which competes or is likely to compete, directly or indirectly, with the business of our Group.

E. OTHER INFORMATION

1. Estate Duty and Tax Indemnity

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

As of September 9, 2010, no member of the Group was involved in any material litigation, arbitration or administrative proceedings of material importance. So far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened against us, that would have a material adverse effect on our results of operations or financial condition.

3. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

4. Qualifications of experts

The qualifications of the experts (as defined under the Listing Rules and the Hong Kong Companies Ordinance) who have given their opinions or advice in this document are as follows:

Name	Qualifications
Deloitte Touche Tohmatsu	Certified public accountants
Savills Valuation and Professional Services Limited	Property valuers

5. Consents of Experts

Each of the Deloitte Touche Tohmatsu as our independent auditors, Savills Valuation and Professional Services Limited as our property valuers, has given and has not withdrawn its respective written consents to the issue of this document with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

6. Binding effect

This document shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies Ordinance so far as applicable.

7. Miscellaneous

(a) Save as disclosed in this document, within the two years immediately preceding the date of this document:

(i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or for a consideration other than cash;

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries; and

(iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of its subsidiaries;

(b) Save as disclosed in this document, there are no founder, management or deferred shares nor any debentures in the Company or any of its subsidiaries and no amount or benefit had been paid or given within the two immediately preceding years or is intended to be paid or given to any promoter;

(c) The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since June 30, 2010 (being the date to which the latest audited consolidated financial statements of the Group were made up);

(d) There has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this document;

(e) No company within the Group is presently listed on any stock exchange or traded on any trading system;

(f) The Directors have been advised that, under the Companies Law, the use of a Chinese name pre-approved by the Registrar of Companies in the Cayman Islands by the Company in conjunction with its English name does not contravene the Companies Law; and

(g) The English text of this document shall prevail over the Chinese text.