In addition to other information in this prospectus, you should carefully consider the following risk factors, which may not be typically associated with investing in equity securities of companies from other jurisdictions, before making any investment decision in relation to the Offer Shares. The following risk factors describe events, uncertainties or circumstances that may create or enhance risks to our business or otherwise to the value of your investment in the Offer Shares.

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 prospectus.

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 prospectus. 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 expenses related to the Global Offering and non-cash share-based compensation 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. We also expect our profitability for future fiscal years to be negatively affected by share-based compensation charges arising from grants of options to our employees. 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 the Latest Practicable Date, 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. These noncompliance instances were primarily due to our lack of experience in the applicable advertising laws and regulations and a comprehensive system to review, monitor and manage our advertisement activities under such laws and regulations. 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 prospectus.

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 prospectus. 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 prospectus. 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 believe that our current cash and cash equivalents, cash flow from operations and the proceeds from the Global Offering should be sufficient to meet our anticipated capital needs for the foreseeable future. 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.

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

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.

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.

We have granted, and may continue to grant, share options and or other share-based compensation, which have resulted, and may continue to result, in significant share-based compensation expenses and, therefore, reduce our net income.

We adopted the Pre-IPO Share Option Scheme on April 30, 2010 under which we had granted options to subscribe for 118,830,000 Shares as of the Latest Practicable Date. Assuming all options granted under our Pre-IPO Share Option Scheme are fully exercised, such options represent approximately 9.42% and 6.6% of our issued and outstanding Shares as of the Latest Practicable Date and immediately upon the completion of the Global Offering, respectively. Assuming that all options granted by us under the Pre-IPO Share Option Scheme were exercised in full on the Listing Date (but assuming the Over-allotment Option is not exercised), the shareholding interest of the public in our issued and outstanding share capital as of the Listing Date would decrease from 25.0% to 23.3%. Assuming that all the options granted under the Pre-IPO Share Option Scheme had been exercised in full during the year ending December 31, 2010 and that 1,799,921,320 Shares, comprising 1,681,091,320 Shares to be in issue immediately after the Global Offering and 118,830,000 Shares to be issued upon the exercise of all the options granted under the Pre-IPO Share Option Scheme, were deemed to have been in issue throughout the year ending December 31, 2010, but not taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme, this will have a dilutive effect of approximately 6.6% on earnings per Share before loss on increase in fair value of the Series A Preferred Shares from approximately HK$0.12 to approximately HK$0.11 for the year ending December 31, 2010. As at the Latest Practicable Date, none of the options granted under the Pre-IPO Share Option Scheme have been exercised by the grantees. As of the Latest Practicable Date, none of the options granted under the Pre-IPO Share Option Scheme have been exercised by the grantees. We have also adopted the Share Option Scheme pursuant to which options to subscribe for up to 168,109,132 Shares may be granted after the Listing Date, subject to the provisions of the Share Option Scheme and the Listing Rules.

Also, pursuant to IFRS, the costs of the options granted under the Pre-IPO Share Option Scheme and the options to be granted under the Share Option Scheme will be charged to our statements of comprehensive income as share-based compensation expense. As the options are or will be exercisable by each grantee over the exercise period, such expense will be amortized on a straight-line basis over a period from the date of grant to the end of the exercise period by reference to the fair value at the date when the options are granted. As a result of the options granted under our Pre-IPO Share Option Scheme, we have recorded RMB7.7 million as share-based compensation expenses in the six months ended June 30, 2010. In the second half of 2010, we expect to incur a one-time non-cash charge of approximately RMB9.7 million for share-based compensation expenses as a result of the Share Option Cancellation. If we grant more share options to attract and retain key personnel, the expenses associated with share-based compensation will further increase and our profitability over the exercise period of options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme may be adversely affected.

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

As of Latest Practicable Date, 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.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

In utilizing the proceeds from the Global Offering or any future offerings, as an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations and approvals. For example, loans by us to our wholly owned PRC subsidiaries in China to finance their activities cannot exceed statutory limits and must be registered with the SAFE or its local counterpart. Any capital contributions to our PRC subsidiaries must be approved by the Ministry of Commerce in China or its local counterpart.

In addition, on August 29, 2008, SAFE promulgated Circular 142 which requires that Renminbi obtained from the settlement of capital of a foreign-invested enterprise shall be used for purposes within the business scope approved by the applicable government authority. Unless otherwise specified, the Renminbi obtained from the settlement of capital shall not be used for domestic equity investment. Furthermore, SAFE strengthened its oversight of the flow and use of Renminbi funds converted from the foreign currency-denominated capital of a foreign-invested enterprise. The use of such Renminbi may not be changed without approval from SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used for purposes within the foreign-invested enterprise's approved business scope.

We cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries or with respect to future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we receive from the Global Offering and to capitalize or otherwise fund our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

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 the net proceeds from the Global Offering and 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 in Renminbi terms of the proceeds from the Global Offering. 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 prospectus.

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.

RISK FACTORS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and their liquidity and market price may be volatile.

Prior to the Global Offering, there has been no public market for our Shares. The initial Offer Price for our Shares to the public will be the result of negotiations between us and the Joint Global Coordinators (on behalf of Underwriters), and the Offer Price may differ significantly from the market price of the Shares following the Global Offering. We have applied to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares. A listing on the Hong Kong Stock Exchange, however, does not guarantee that an active and liquid trading market for the Shares will develop, or if it does develop, that it will be sustained following the Global Offering, or that the market price of the Shares will not decline following the Global Offering. In addition, the trading price and trading volume of the Shares may be subject to significant volatility in responses to various factors, including but not limited to:

- variations in our operating results;
- changes in financial estimates by securities analysts;
- announcements made by us or our competitors;

- regulatory developments in China affecting us, our customers or our competitors;
- investors' perception of us and of the investment environment in Asia, including Hong Kong and the PRC;
- developments in the health food product and therapeutic tea markets;
- changes in pricing made by us or our competitors;
- acquisitions by us or our competitors;
- the depth and liquidity of the market for our Shares;
- addition or departure of our executive officers and key research personnel;
- release or expiry of lock-up or other transfer restrictions on our Shares;
- sales or perceived sales of additional Shares; and
- the general economy and other factors.

Moreover, shares of other companies listed on the Hong Kong Stock Exchange with significant operations and assets in the PRC have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

Current volatility in the global financial markets could cause significant fluctuations in the price of our Shares.

Financial markets around the world have been experiencing heightened volatility and turmoil since late 2007. Upon listing, the price and trading volume of our Shares will likely be subject to similar market fluctuations which may be unrelated to our operating performance or prospects. Factors that may significantly impact the volatility of our Share price include, among other things:

- developments in our business sector or in the financial sector generally, including the effect of direct governmental action in the financial markets;
- the operating and securities price performance of companies that investors consider to be comparable to us; and
- changes in global financial and credit markets and global economies and general market conditions, such as interest or foreign exchange rates as well as stock and commodity valuations and volatility.

As a result of these market fluctuations, the price of our Shares may decline significantly, and you may lose a significant value on your investments.

Mr. Zhao Yihong, our founder, Chairman and Chief Executive Officer, beneficially owns a substantial majority of our outstanding Shares and, as a result, he has significantly greater influence over us and our corporate actions relative to our public Shareholders and his interests may not be aligned with the interests of other Shareholders.

As of the date of this prospectus, Mr. Zhao, our founder, Chairman and Chief Executive Officer, beneficially owns 84.15% of the outstanding shares of Foreshore, which in turn owns 1,094,220,600 Shares, or

86.79% of our outstanding Shares. Assuming that the Over-allotment Option is not exercised and not taking into account any Shares to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme, Foreshore will own 65.09% of our outstanding Shares immediately upon the completion of the Global Offering. Mr. Zhao has, and may continue to have, significant influence in determining the outcome of any corporate transactions or other matters submitted to our Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. He may not act in the best interests of our minority Shareholders. In addition, without the consent of Mr. Zhao, we could be prevented from entering into transactions that could be beneficial to us. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares as part of a sale of our company and might reduce the price of our Shares. These actions may be taken even if they are opposed by our other Shareholders.

Sale, or perceived sale, of substantial amounts of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares.

The Shares held by our existing Shareholders are subject to certain lock-up periods expiring six and 12 months after the date on which trading in our Shares commences on the Hong Kong Stock Exchange, details of which are set out in the section headed “Underwriting” in this prospectus. Our existing Shareholders may dispose of Shares that they may own now or in the future. Sales of substantial amounts of our Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of our Shares.

Your interest in us may be diluted in the future.

We may need to raise additional funds in the future to finance business expansion, whether related to existing operations or new acquisitions. If additional funds are raised through the issuance of our new equity or equity-linked securities other than on a pro rata basis to existing Shareholders, then (i) the percentage ownership of our existing Shareholders, including you, may be reduced, and/or (ii) such newly issued securities may have rights, preferences or privileges superior to those of the Shares of the existing Shareholders, including you.

As the Offer Price is higher than the net tangible asset value per Share, the asset value of any Shares you buy will be diluted immediately.

The Offer Price is higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in the net tangible asset value of HK$0.89 per Share (assuming an Offer Price of HK$2.75, which is the mid-point of our indicative offer price range), and our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per Share of their Shares. In addition, holders of our Shares may experience a further dilution of their interest if we obtain additional capital in the future through equity offerings.

You may face difficulties in protecting your interests because we are incorporated under Cayman Islands law, which may provide less protection to minority shareholders than the laws of Hong Kong and other jurisdictions.

Our corporate affairs are governed by our Forth Amended and Restated Articles of Association and by the Cayman Companies Law. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions. Such differences may mean that our minority Shareholders, including you, may have less protection than they and you would otherwise have under the laws of other jurisdictions. See "Summary of the Constitution of the Company and Cayman Companies Law" in Appendix V to this prospectus.

Facts and statistics in this prospectus relating to the PRC economy and the health food product and therapeutic tea product sector in the PRC may not be fully reliable.

Facts and statistics in this prospectus relating to China and the industry in which we operate, including those relating to the PRC economy and the health food product and therapeutic tea markets in China, are derived from various publications of governmental agencies or independent third parties and obtained in communications with various governmental agencies or independent third parties which we believe are reliable. We cannot guarantee, however, the quality or reliability of these materials. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any material fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Sponsors, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy and completeness. Investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics and should not place undue reliance on them.

You should not rely on any information contained in press articles or other media regarding the Group and the Global Offering.

Prior to the publication of this prospectus, there has been press and media coverage regarding the Group and the Global Offering, including those in (i) the Hong Kong Economic Times and Ming Pao Daily News, both dated September 7, 2010, (ii) the HK Economic Times, The Sun and HK Daily News, all dated September 11, 2010, and (iii) the Sun, the Standard, the Oriental Daily News, the Wen Wei Po, the Ming Pao Daily News, the HK Commercial Daily, the Ta Kung Pao, the HK Daily News, the Sing Tao Daily, the Apply Daily, the HK Economics Times, the HK Economic Journal, the Sing Pao Daily News, the Metro, the am730, the Headline Daily and the 21st Century Economic Journal, all dated September 14, 2010, which included certain information about the Group that does not appear in this prospectus. We have not authorized the disclosure of any such information in the press or media and does not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any information appearing in any publication is inconsistent or conflicts with the information in this prospectus, we disclaim it. Prospective investors should not rely on any such information and should only rely on information included in this prospectus in making any decision as to whether to purchase the Shares.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains certain statements that are "forward-looking" and uses forward-looking terminology such as "anticipate," "believe," "expect," "estimate," "plan," "consider," "would," "may," "ought to," "should" or "will." Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Purchasers of our Shares are cautioned that reliance on any forward-looking statement involves risk and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The risks and uncertainties in this regard include, but are not limited to those identified in this "Risk Factors" section, many of which are not within our control. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us that our plans and objectives will be achieved and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise.

Due to a gap of up to five Business Days between pricing and trading of the Offer Shares and that our Offer Shares will not commence trading on the Hong Kong Stock Exchange until the Listing Date, the initial trading price of the Offer Shares could be lower than the Offer Price.

The Offer Price will be determined on the Price Determination Date. However, our Offer Shares will not commence trading on the Hong Kong Stock Exchange until the Listing Date, which is expected to be up to five Business Days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Offer Shares during such period, and thus are subject to the risk that the market price of our Offer Shares could fall before trading begins as a result of adverse market conditions or other adverse developments occurring during this period.