
REGULATORY OVERVIEW

REGULATORY SYSTEM RELATING TO THE HEALTH FOOD INDUSTRY

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Hygiene Permits (食品衛生許可證管理辦法), promulgated by the MOH on December 25, 2005 and effective on June 1, 2006, which was repealed in May 1, 2010.

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

- The Administrative Measures on Health Food Products (保健食品管理辦法) promulgated by MOH on March 15, 1996 and effective as of June 1, 1996; and
- The Administrative Measures on the Registration of Health Food Products (for Trial Implementation) (保健食品註冊管理辦法(試行)) promulgated by the SFDA on April 30, 2005 and effective as of July 1, 2005.

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

Regulations on Manufacture and Sale of Health Food Products

Health food products approval and registration

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

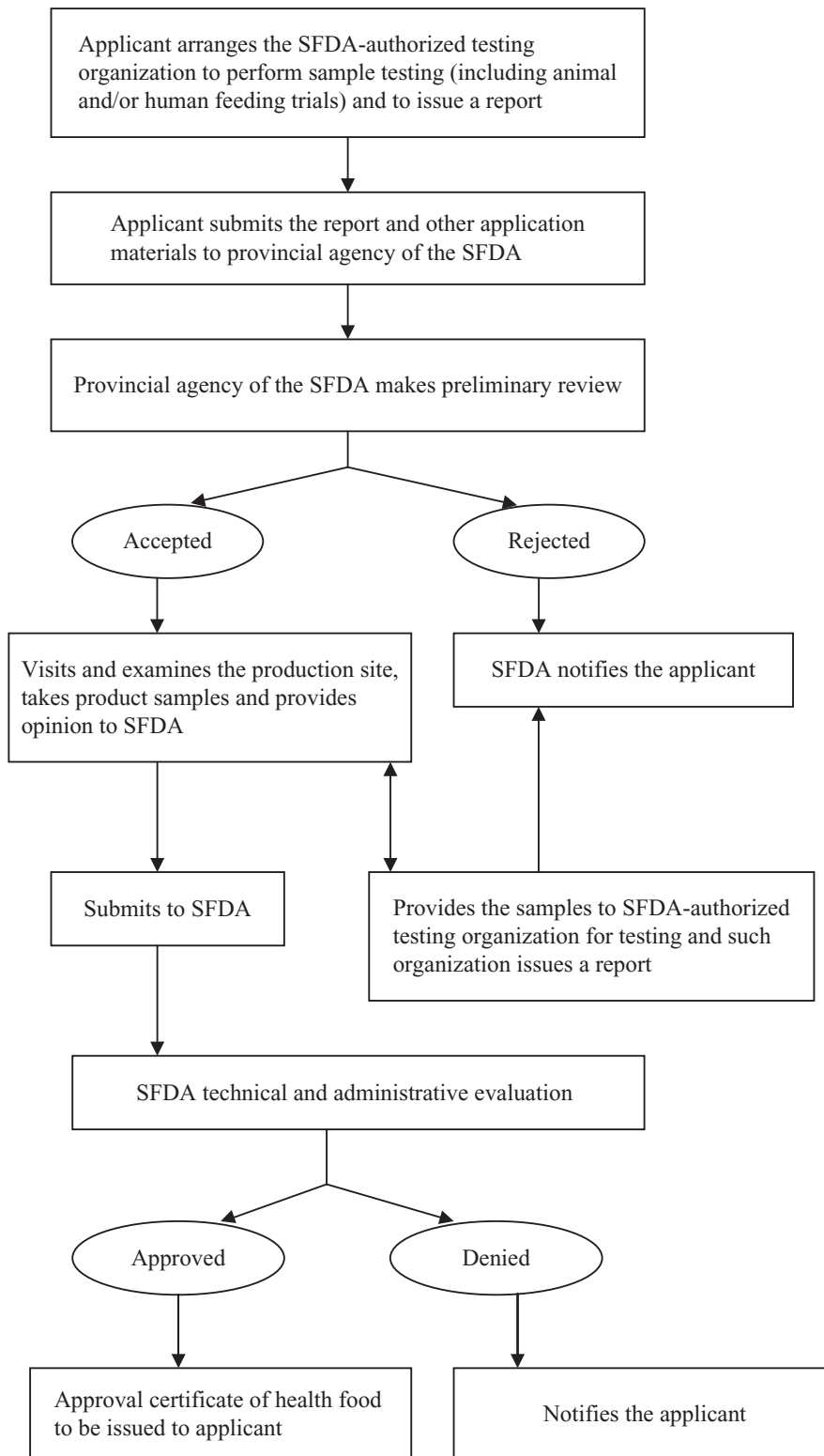
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Pursuant to the Supplementary Regulations on Submission and Examination of Health Food Products (for Trial Implementation) (保健食品申報與審評補充規定 (試行)) promulgated by the SFDA on May 20, 2005, the SFDA can approve the health food products falling into the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

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| facilitating excretion of lead (促進排鉛) | assisting in protection against radiation damage (對輻射危害有輔助保護功能) |
| sleep improvement (改善睡眠) | improving growth and development in children (改善生長發育) |
| facilitating milk secretion (促進泌乳) | increasing bone mineral density (增強骨密度) |
| weight loss and slimming (減肥) | assisting in liver protection against toxicity (對化學性肝損傷有輔助保護功能) |
| alleviating nutritional anemia (改善營養性貧血) | reducing acne (祛痤瘡) |
| enhance immune system (增強免疫力) | reducing skin age spots (祛黃褐斑) |
| assisting in lowering blood lipid level (輔助降血脂) | skin moisturizer (改善皮膚水份) |
| assisting in lowering blood sugar level (輔助降血糖) | improving skin oil content (改善皮膚油份) |
| anti-oxidant (抗氧化) | regulating gastrointestinal flora (調節腸道菌群) |
| assisting in improving memory (輔助改善記憶) | promoting digestion (促進消化) |
| ameliorating eyestrain (緩解視覺疲勞) | laxative (通便) |
| alleviating sore throat (清咽) | assisting in protection of gastric mucosa (對胃粘膜有輔助保護功能) |
| assisting in lowering blood pressure (輔助降血壓) | |
| alleviating physical fatigue (緩解體力疲勞) | |
| improving anoxia tolerance (提高缺氧耐受力) | |

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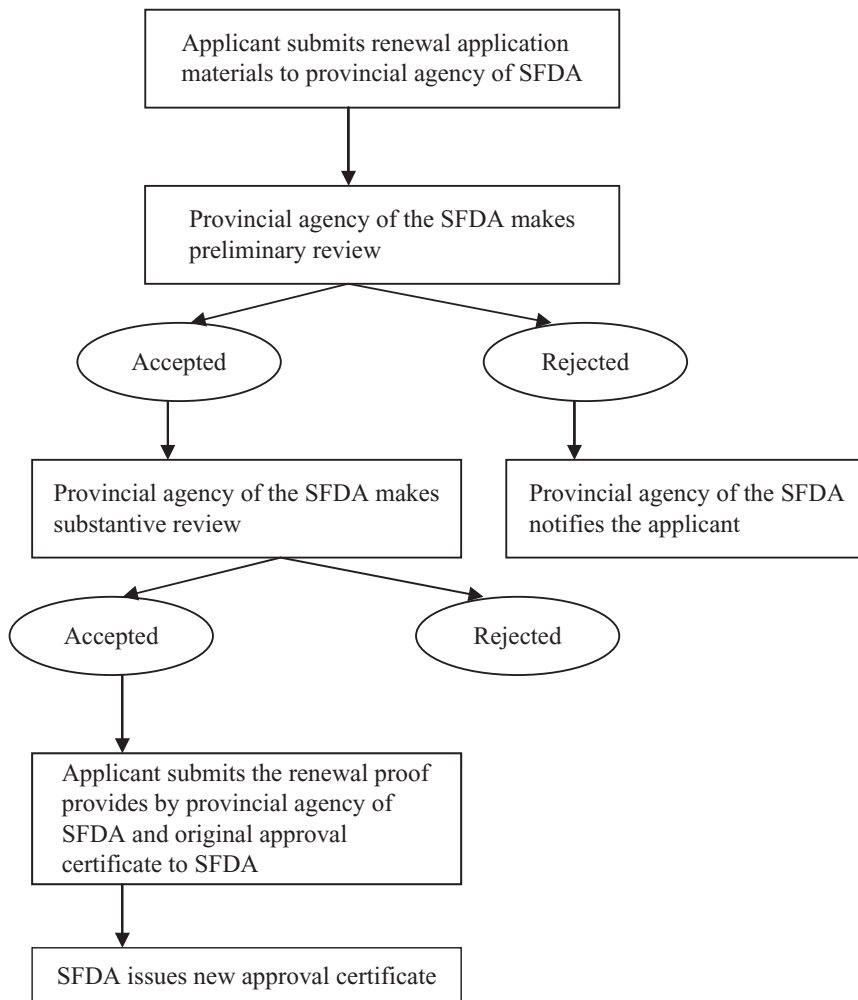
The following chart sets forth the application procedure for approval and registration of a health food product based on applicable PRC laws and regulations:



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

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



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Health food hygiene permit

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

Health food GMP standards

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

REGULATION SYSTEM RELATING TO THE PHARMACEUTICAL INDUSTRY

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

Regulations on Pharmaceutical Manufacturers

Pharmaceutical products registration

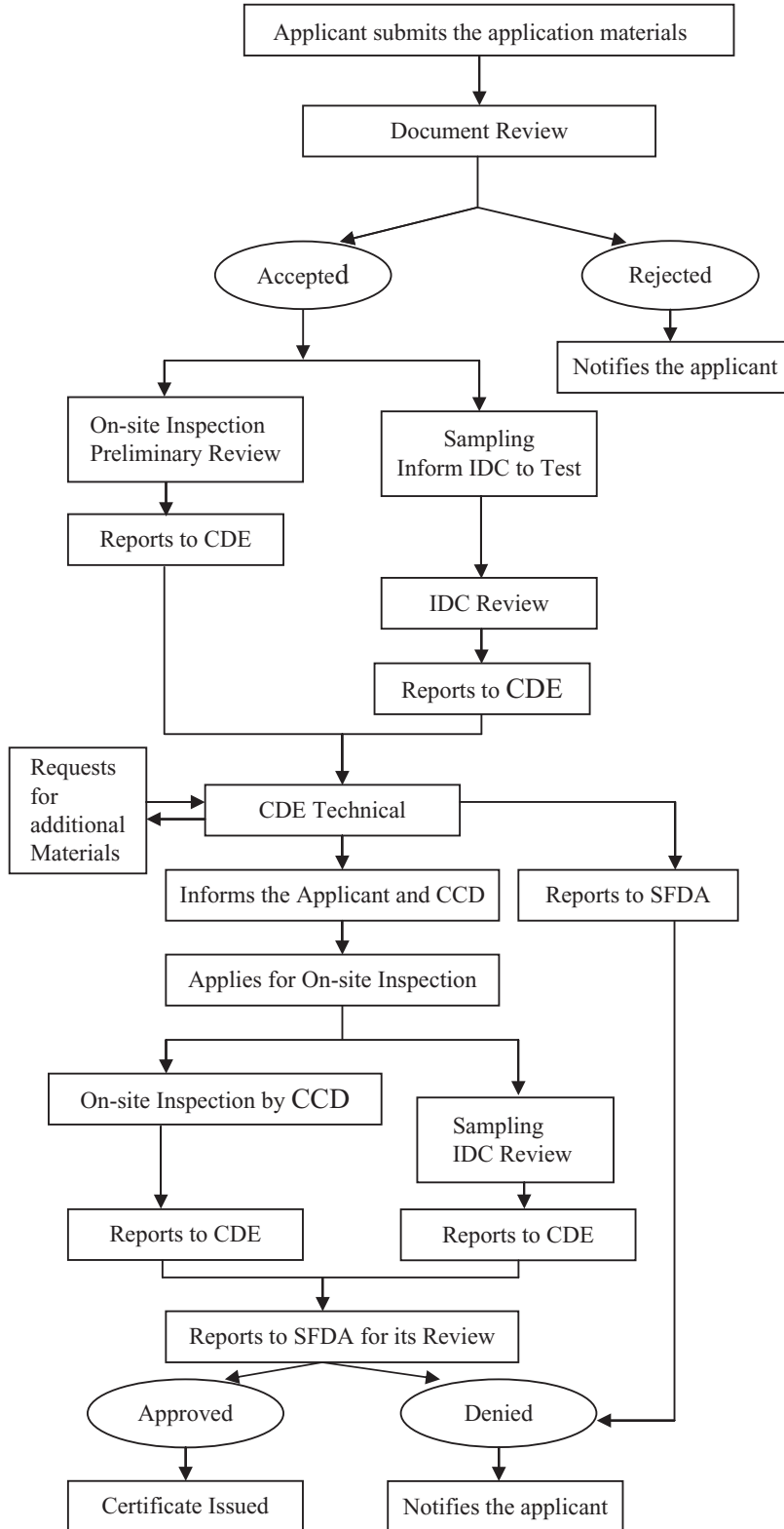
According to the Administrative Measures on the Pharmaceuticals Registration (藥品註冊管理辦法) promulgated by the SFDA on July 10, 2007 and effective on October 1, 2007, and the pharmaceutical manufacturers are required to register each of their products with the SFDA before commencement of the manufacture.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

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

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



CDE: Center for Drug Evaluation under SFDA (國家食品藥品監督管理局藥品評審中心)

IDC: Institute for Drug Control (藥品檢驗所), institutions established or certified by SFDA or its local counterparts

CCD: Certification Committee for Drugs under SFDA (國家食品藥品監督管理局藥品認證管理中心)

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Pharmaceutical manufacture permit

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

GMP certificate

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

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

Regulations on Pharmaceutical Distributors

Pharmaceutical distribution permit

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

GSP certificate

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

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

Food hygiene permit

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

Food manufacture permit

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

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

Food circulation permit

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

Regulations on Food Safety

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

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

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POLICIES RELATING TO THE FOREIGN-INVESTED FOOD INDUSTRY

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

ADVERTISING LAWS AND REGULATIONS

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

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

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

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

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

The Administrative Measures on Credibility of Enterprises Publishing Advertisements of Pharmaceutical Products, Medical Apparatus and Health Food (藥品、醫療器械、保健食品廣告發佈企業信用管理辦法)

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promulgated by the SFDA on October 16, 2007 and effective as of January 1, 2008, provides that the enterprises which engage in publishing advertisements of pharmaceutical products, medical apparatus and health food products will be regarded as trustworthy, untrustworthy and serious untrustworthy upon yearly review. An enterprise is regarded as trustworthy if none of its advertisements in a given year violated any laws or regulations governing advertisement by the supervision of the SFDA. An enterprise is regarded as untrustworthy if its advertisement in a given year violated such laws and regulation, although such violations are not serious. An enterprise is regarded as very trustworthy if its advertisement in a given year seriously violated such laws and regulations, such as provision of false suitability in the advertisement, assertions or assurances of any health benefit. SFDA and its local agencies shall order the enterprises which are regarded as untrustworthy or serious untrustworthy to correct the illegal acts within a prescribed period, publish their credit rates, and put emphasis on inspection of their advertisement and relevant sales.

PRODUCT QUALITY AND CONSUMER PROTECTION LAWS AND REGULATIONS

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

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

TORT LIABILITY LAW

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

ONLINE COMMODITY TRANSACTIONS

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

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INTELLECTUAL PROPERTY LAWS AND REGULATIONS

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

Regulations on Patents

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

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

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

Regulations on Trademarks

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

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

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

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

TAX

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

PRC EIT Tax

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

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

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

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

PRC VAT tax

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

PRC Business Tax

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

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

REGULATION OF FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

Foreign Currency Exchange

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

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Dividend Distribution

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

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

SAFE REGULATIONS ON OVERSEAS INVESTMENT OF PRC RESIDENTS AND EMPLOYEE STOCK OPTIONS

Notice 75

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

Under the relevant rules, failure to comply with the registration procedures set forth in Notice 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. As advised by our PRC legal advisor, Global Law Office, all of our Shareholders who are PRC Citizens or residents have completed their registrations with SAFE as required.

Notice 78

On December 25, 2006, the People's Bank of China issued the Administrative Measures on Individual Foreign Exchange (個人外匯管理辦法), and their Implementation Rules (個人外匯管理辦法實施細則) were issued by SAFE on January 5, 2007, both of which became effective on February 1, 2007. On March 28, 2007, the SAFE issued the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plans or Stock Option Plans of Overseas Listed Companies (境內個人參與境外上市員工持股計劃和認股期權計劃等外匯管理操作規程) (“Notice 78”). Under these regulations, PRC citizens who participate in an employee stock holding plan or a stock option plan of an overseas listed

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company are required, through a PRC domestic agent or a PRC subsidiary of the overseas listed company, to register with the SAFE and complete certain other procedures.

NEW M&A REGULATIONS AND OVERSEAS LISTINGS

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission (國有資產監督管理委員會), the SAT, the SAIC, China Securities Regulatory Commission (“CSRC”) (中國證券監督管理委員會) and the SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者並購境內企業的規定) (“M&A Rule”), which became effective on September 8, 2006 and was amended on June 22, 2009.

This New M&A Rule, among other things, includes provisions that purport to require that a SPV formed for purposes of overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC domestic companies or individuals obtain the approval of the CSRC prior to the listing and trading of such SPV’s securities on an overseas stock exchange.

Our PRC legal advisor, Global Law Office, has advised us that, given that Beijing Outsell was established before September 8, 2006, the effective date of the New M&A Rule, as a foreign-invested enterprise and does not undergo any acquisition as defined in the New M&A Rule, we are not required to submit an application to the CSRC for its approval of the listing and trading of our Shares on the Hong Kong Stock Exchange.

Subject to the timing and contents of any new laws, rules and regulations or clear requirements from the CSRC in any form relating to the M&A Rule, the legal advice of Global Law Office summarized above may need to be changed.

RED-CHIP GUIDANCE

On June 20, 1997, the State Council issued the Notice Concerning Further Enhancement of Administration for Issuing Shares and Listing Overseas (國務院關於進一步加強在境外發行股票和上市管理的通知) (“Red-Chip Guidance”), which provides that an overseas Chinese funded unlisted company must hold its domestic PRC assets for more than three years before the company may become publicly listed outside of the PRC through an offshore entity unless otherwise provided. The Red-chip Guidance further requires that companies obtain approval from CSRC prior to transferring asset out of PRC for the purpose of public offering and listing. Our PRC legal advisor, Global Law Office, has advised us that the Red-Chip Guidance does not apply to us and we are not required to apply for approval from the CSRC in connection with this listing because the term Chinese funded unlisted company refers to a foreign company which is controlled by a PRC enterprise. The Red-Chip Guidance does not apply to us as none of our PRC shareholders is an enterprise.

ENVIRONMENTAL LAWS AND REGULATIONS

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

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

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

LABOR LAWS AND REGULATIONS

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

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

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

- we have an internal compliance department. We have designated a vice president as compliance officer to lead such department and monitor the status of compliance of such regulations;
- we have retained outside legal advisers and compliance consultants in relation to the compliance issues and our compliance department regularly consults with the outsider professionals; and

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