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OVERVIEW

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

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

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

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

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

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

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

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

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

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OUR STRENGTHS

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

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

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

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

Strong nationwide brand recognition and effective brand marketing strategy

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

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demographic trends and consumer preferences. We also regularly conduct product promotion campaigns to increase our brand and product awareness.

Extensive nationwide distribution network

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

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

Strong pipeline of SFDA-approved products and product development capabilities

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

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

Proven vertically integrated operating model

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

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

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

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

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

OUR STRATEGIES

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

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

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

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

Enhance our brand recognition through effective and targeted marketing

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

Further develop and expand our extensive distribution network

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

Expand our product portfolio and strengthen our research and development capabilities

We plan to grow our product portfolio as market recognition of and demand for therapeutic tea products continue to grow. We currently offer products in two of the 27 SFDA-regulated categories of health foods and are expanding our product line to cover additional categories. Our strong product pipeline, including four product

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candidates that have been approved by the SFDA and three product candidates that we are in the process of preparing to apply for SFDA approval, enables us to continue to diversify our product portfolio by introducing new or improved products under optimal market timing and conditions. We also plan to expand into the OTC tea market with the launch of our recently acquired blood pressure reduction tea, Besunyen MaiShuPing Tea, some time after June 2011 taking into account market and business considerations⁽⁴⁾. At the same time, we will explore strategic acquisition opportunities to acquire new products where appropriate.

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

Attract, retain and motivate talented personnel

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

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OUR PRODUCTS

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

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

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

Besunyen Detox Tea (碧生源常潤茶)



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

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

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

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

Besunyen Slimming Tea (碧生源減肥茶)



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

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

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

Other Products

Other 碧生源 (Besunyen) Products

We started selling Besunyen QingYin Tea (碧生源清音茶) and Besunyen MingShi Tea (碧生源明視茶) in January 2010 primarily in supermarkets and large chain stores. These two products are comprised of green tea and traditional Chinese medicinal herbs and are designed to relieve sore throat and ameliorate eyestrain, respectively. As these products are not health food products, we do not need product-specific SFDA approval for the production and sales of these products. As of the Latest Practicable Date, the turnover from these two

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products was insignificant, amounting to less than 0.5% of our total turnover in the six months ended June 30, 2010.

VS Series (唯尚系列) Teas

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

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

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

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

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

Discontinued Products

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

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OUR PRODUCT PIPELINE

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

Besunyen MaiShuPing Tea (碧生源脈舒平袋泡茶)

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

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

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

SFDA-Approved Health Food Product Candidates

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

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

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

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

Product Candidates Pending SFDA Approval

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

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APPROVALS AND PERMITS

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

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

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

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

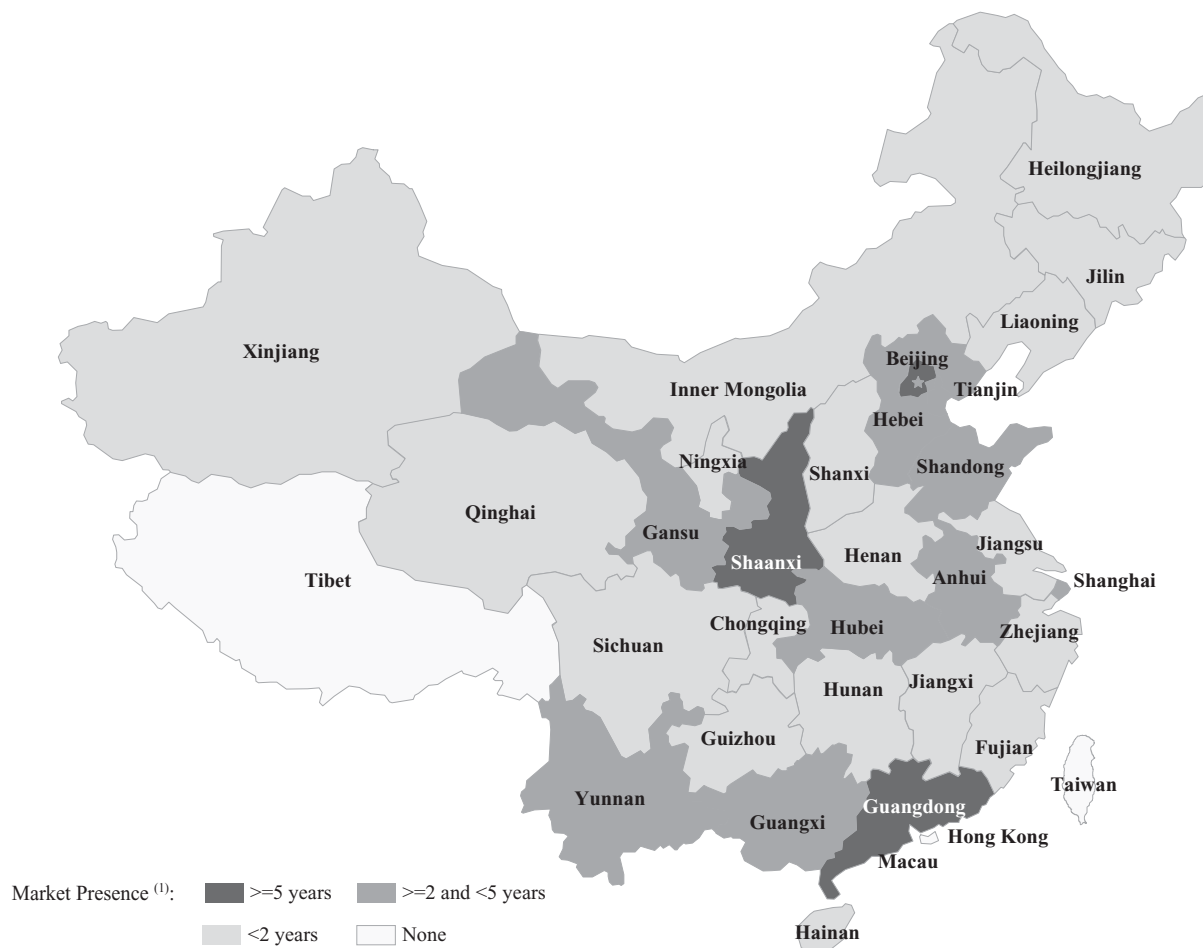
⁽³⁾ SFDA approval certificates granted prior to July 1, 2005 bear no expiry date. The SFDA will commence the replacement work of all certificates granted prior to July 1, 2005 after the promulgation of The Regulations for the Supervision and Administration of Health Food (保健食品監督管理條例), the promulgation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

⁽⁴⁾ SFDA registration for pharmaceutical products has a renewable five-year term. The registration remains valid during the process once the re-registration application is accepted by the SFDA. The re-registration application of MaiShuPing Tea has been accepted by Guangdong SFDA on July 18, 2008 and remains pending.

DISTRIBUTION AND SALES

Nationwide Distribution Network

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



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

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

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

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

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

Agreements with Distributors and Sub-Distributors

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

Our distribution agreements typically set minimum annual sales targets which are determined case-by-case based on the distributor’s or sub-distributor’s geographic territory, scale of distribution network, sales volume achieved by such distributor or sub-distributor in previous years and sales of comparable competing products within its territory. In addition, we selectively provide incentive sales targets under the distribution agreements with distributors covering relatively new regions which allow for improved discounts and/or rebates

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

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

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

Retail Outlets

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

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

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Management of Distribution Network and Retail Outlets

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

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

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

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

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

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- ⁽²⁾ *Of which, 70, 221, 131 and 63 distributors were new distributors added to our network of distributors in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively.*
- ⁽³⁾ *Of which, one sub-distributor ceased to be actively engaged in the distribution of our products due to unsatisfactory performance in the six months ended June 30, 2010. We are not aware of any material inventory accumulation at this sub-distributor.*
- ⁽⁴⁾ *Of which, five and 93 sub-distributors were new sub-distributors added to our network of sub-distributors in 2009 and the six months ended June 30, 2010, respectively. For more information, please see the discussion under "Nationwide Distribution Network" in this section.*

Credit Control

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

Pricing Policy

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

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

Logistics

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

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

MARKETING

We believe that strong brand recognition and reputation are essential to our success. As a result, we place great emphasis on marketing and promotion of our brand and products. Our marketing department is responsible for formulating overall marketing and branding strategies, integrating marketing strategies with the operation of our distribution and sales system, making and controlling annual budget for marketing activities, selecting

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product candidates for development and conducting market research and promotional activities. Our marketing department comprised 44 full-time staff (including media buying team) as of June 30, 2010.

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

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

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

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

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

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Marketing and Promotional Activities

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

Years	Events	Description
2007 - present	Television advertisements	We produced a series of television commercials for our Besunyen Detox Tea and Besunyen Slimming Tea with certain slogans, such as “快給你的腸子洗洗澡吧” or “不要太瘦哦,” which were broadcast on various television channels in China
2006 - present	Multiple media platforms	We advertised our brand and products in various newspapers, public transportation, flat-panel displays and other media platforms, such as: <ul style="list-style-type: none"> • Beijing Evening News (北京晚報) • Guangzhou Daily (廣州日報) • Chutian Metropolis Daily (楚天都市報) • On buses and closed circuit video screens in buses in Beijing and Guangdong
2007 - present	Sponsorship of “New Silk Road Model Contest” in Guangdong Province	This is an annual televised model contest with a nationwide audience. We are the only company holding the naming right for this event with the hosting television channel, Southern Television (南方電視臺).
2010	Sponsorship of Shanghai Expo Miss Etiquette Contest	We cooperated with Shanghai Expo and obtained the exclusive naming right for the Shanghai Expo Miss Etiquette Contest.
April 2010 - present	Sponsorship of Dancing Carnival (舞動嘉年華)	This is an entertainment program broadcast on Chengdu Television (成都電視臺). We are the sole sponsor and hold the exclusive naming right for this program.
May 2010 - present	Naming right for Tian Sheng Wang Pai (天聲王牌), a TV reality singing show	This is an entertainment program broadcast on Anhui Satellite Television (安徽衛視). We hold the exclusive naming right for this program.
May 2010 - present	Sponsorship for China Traditional Songs (中國紅歌會), a singing competition show	This is an entertainment program broadcast on Jiangxi Satellite Television (江西衛視). We are the sole sponsor and hold the exclusive naming right for this program.

PRC advertising laws and regulations require us to obtain approvals from the provincial agency of the SFDA before the publication or broadcasting of our advertisement. These laws and regulations also require our advertising content to be fair and accurate and not misleading. Although we have taken all commercially reasonable measures to comply with these laws and regulations, in the past, some of our product advertisements or related advertising practices have been declared not being in full compliance with applicable regulations and we were fined by the related government authorities for such non-compliance instances. These instances include: (i) in 2007, Beijing Administration for Industry and Commerce found one advertisement with respect to each of

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our Besunyen Detox Tea, Besunyen Slimming Tea and Kang Li Yuan Slimming Tea violating the applicable laws by using the image of consumers and ordered us to pay a fine of RMB10,000; and (ii) in 2007, Beijing Administration for Industry and Commerce found one advertisement with respect to our Besunyen Detox Tea misleading and overstating the effect of our products, and ordered us to pay a fine of RMB73,000. We timely paid these fines. In response to these non-compliance instances, we ceased the dissemination of these advertisements or rectified the content of the related advertisements and adjusted our advertising practices accordingly. Some advertisements of our products have been declared not in full compliance with applicable regulations by provincial SFDA in public warnings for which we have not received any notice or penalty from SFDA or other government authorities. As far as we are aware, based on our review of the websites of the provincial SFDA, 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

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sales-cessation order expired on September 29, 2009); and (iv) on June 28, 2010, Guangdong SFDA revoked the approvals for three advertisements with respect to MaiShuPing Tea created in 2009 on the basis that advertisements for MaiShuPing Tea, the production of which we were not involved in, were misleading and improperly claimed the effect of MaiShuPing Tea. Pursuant to applicable PRC laws and regulations, such revocation of approvals will cause us unable to obtain SFDA approvals for new advertisements for MaiShuPing Tea until June 28, 2011. We have asked Zhuhai Qi Jia to stop producing MaiShuPing Tea and producing or publishing any advertisement with respect to Maishuping Tea and we plan to apply to obtain SFDA approvals for new advertisements for MaiShuPing Tea after June 28, 2011.

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

Media Buying

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

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

RESEARCH AND PRODUCT DEVELOPMENT

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

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

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

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

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

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

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

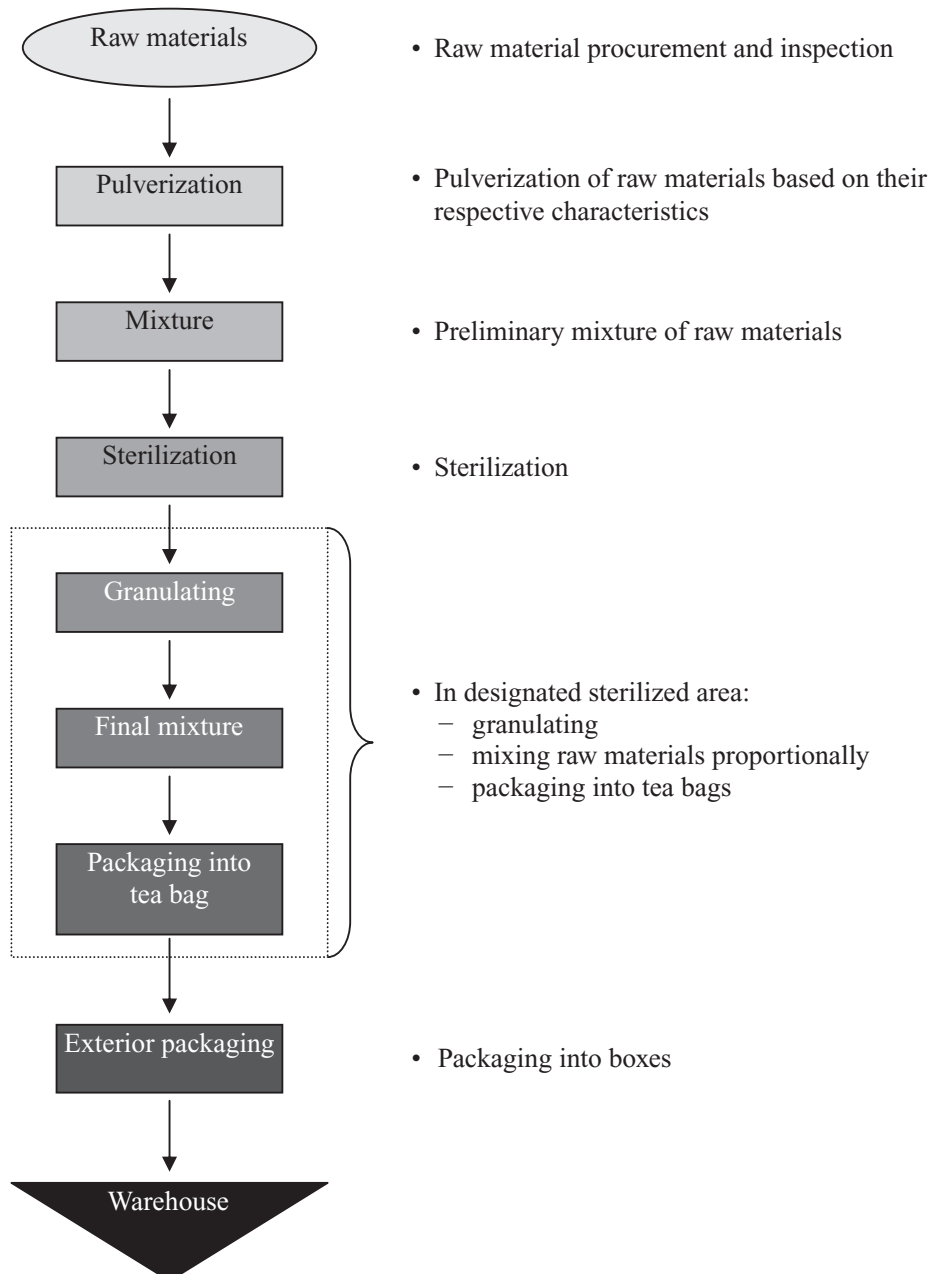
We incurred research and product development costs of nil, RMB0.9 million, RMB1.9 million and RMB1.3 million in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively.

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PRODUCTION, QUALITY CONTROL AND SUPPLIES

Production

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



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

Prior to mid-2007, we engaged two third-party manufacturers to handle the processing of raw materials into semi-finished products for a portion of our products. A relative of Mr. Zhao Yihong, our founder, Chairman

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

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

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

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

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

The utilization rate of our manufacturing facilities (calculated by dividing production volume, including free products given away for promotional services, by the weighted average effective production capacity during the relevant period based on two eight-hour shifts per day and 250 working days per year) was approximately 51%, 72%, 62% and 52% in 2007, 2008, 2009 and the six months ended June 30, 2010, respectively. The increase of our utilization rate from 2007 to 2008 was primarily due to our increased sales volume, partly offset by our increased production capacity of ten additional Nanfeng packaging machines installed in 2008. Our utilization rate decreased from 2008 to 2009 mainly because we installed four IMA C24 automatic tea bag packaging machines, and eight more Nanfeng packaging machines which greatly increased our production capacity. We intend to use approximately RMB427.9 million of the net proceeds from the Global Offering to purchase an additional 25 IMA C24 automatic tea bag packaging machines to replace our Nanfeng packaging machines to produce all of our therapeutic tea products and to meet increased demand. Our Nanfeng packaging machines currently contribute more than half of our current effective annual production capacity.

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Quality Control

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

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

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

Raw Materials, Packaging Materials and Suppliers

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

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

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

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

Our largest supplier for raw materials in 2007 was Beijing Baicaochangqing Science Development Co., Ltd. (北京百草長青科技發展有限公司), a company controlled by Mr. Zhao Yihong and no longer in existence, from which we purchased RMB6.4 million of semi-finished products, accounting for 13.4% of our total cost of sales in 2007. Our largest supplier for raw materials in 2008 and 2009 was Hebei Anguo Shikang Chinese Medicinal Herbs Co., Ltd. (河北安國市世康中藥材有限公司), from which we purchased RMB4.1 million and RMB6.9 million of Chinese medicinal herbs in 2008 and 2009, accounting for 6.7% and 10.1% of our total cost of sales, respectively. Our largest supplier for packaging materials in 2007 and 2008 was Beijing Jiemeisi Industries & Trading Co., Ltd. (北京潔美思工貿有限公司), from which we purchased RMB8.7 million and RMB6.1 million of packaging materials in 2007 and 2008, accounting for 18.3% and 10.1% of our total cost of sales in 2007 and 2008, respectively. Our largest supplier for packaging materials in 2009 was Beijing Xinyuexiangda Color Printing Co., Ltd. (北京新越翔達彩色印刷有限公司), from which we purchased RMB9.1 million of packaging materials in 2009, accounting for 13.3% of our total cost of sales. Our largest suppliers for raw materials and packaging materials, respectively, in the six months ended June 30, 2010 were China National Medicines & Health Products Import & Export Corporation (通用美康醫藥有限公司) and Shanghai Zijiang Color Printing & Packing Co., Ltd. (上海紫江彩印包裝有限公司), from which we purchased RMB2.5 million of Chinese medicinal herbs and RMB5.9 million of packaging materials, accounting for 6.5% and 15.6% of our total cost of sales, respectively, in the relevant period. In 2007, 2008, 2009 and the six months ended June 30, 2010, aggregate purchases from our five largest suppliers amounted to RMB27.4 million, RMB28.5 million, RMB29.5 million and RMB19.1 million, respectively, representing 57.5%, 47.4%, 43.1% and 50.2% of our total cost of sales, respectively. None of our Directors or their associates has any interest in any of our five largest suppliers as of the Latest Practicable Date.

Inventory

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

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

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

INTELLECTUAL PROPERTY

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

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

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

CUSTOMER SERVICE

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

COMPETITION

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

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Hydrochloride), a prescription drug and slimming product, was the largest provider of slimming products. We compete with these competitors largely on efficacy, price, brand recognition and distribution and sales network coverage.

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

EMPLOYEES

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

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

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

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

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

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We participate in various statutory employee benefit plans maintained by municipal and provincial governments, including housing, pension, medical and unemployment benefit plans, in accordance with relevant PRC regulations. We contribute to these plans at specified percentages of the salaries, bonuses and allowances paid to our employees based on applicable local government requirements.

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

PROPERTIES

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

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

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

ENVIRONMENTAL MATTERS

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

We have submitted environmental impact study reports setting forth the impact caused by the construction projects on the environment and the measures to prevent or mitigate the impact for approval by the government authority prior to commencement of construction of the relevant projects. The relevant local environmental authorities have performed inspections on our facilities, approved our environmental impact study

BUSINESS

report and accepted our construction projects. To minimize impact of emissions on the environment, we have implemented a comprehensive set of environmental protection measures. We have installed advanced environmental protection equipment to treat waste materials and dust and, where possible, recycle waste materials. We have procedures in place to treat and dispose of all of our waste in accordance with national and local environmental laws and regulations. We are also constantly seeking to improve our environmental protection measures, for example by installing one boiler dust remover and three pulse dust removers.

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

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

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

INSURANCE

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

LEGAL AND COMPLIANCE

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

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

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