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

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

OVERVIEW

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

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

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

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

to 409 distributors covering 30 provinces and centrally administered municipalities in China as of June 30, 2010. We also have expanded our presence in supermarkets and convenience stores, in particular large chains such as Wal-Mart and Watsons. Our on-the-ground sales teams, consisting of approximately 1,260 full-time employees in our 81 sales offices across China as of June 30, 2010, interact closely with and monitor our distributors and retail outlets to ensure consistency and quality in our sales and brand-building while still tailoring our marketing efforts to local preferences.

Our turnover has increased rapidly during the Track Record Period, growing from RMB163.1 million in 2007 to RMB358.2 million in 2008 and RMB646.5 million in 2009, representing a CAGR of 99.1%, and from RMB223.7 million in the six months ended June 30, 2009 to RMB368.7 million in the six months ended June 30, 2010 representing a year to year growth of 64.8%. Our gross profit increased from RMB115.4 million in 2007 to RMB298.1 million in 2008 and RMB578.1 million in 2009, representing a CAGR of 123.9%, and from RMB201.7 million in the six months ended June 30, 2009 to RMB330.7 million in the six months ended June 30, 2010, while our total comprehensive income increased from RMB47.6 million in 2007 to RMB122.0 million in 2008 and RMB141.7 million in 2009, representing a CAGR of 72.6%. Our total comprehensive income in 2009 was decreased from RMB68.9 million in the first six months of 2009 to RMB21.1 million in the first six months of 2010, primarily due to a RMB56.7 million non-cash charge related to a 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. In the second half of 2010, we expect to incur an additional RMB34.2 million non-cash charge relating to change in fair value of the Series A Preferred Shares from June 30, 2010 to the time of their conversion into our Shares upon the completion of the Global Offering, assuming an Offer Price of HK$2.75 per Share, being the mid-point of the Offer Price range stated in this prospectus, and a one-time non-cash charge of approximately RMB9.7 million for share-based compensation expenses as a result of the Share Option Cancellation.

BASIS OF PRESENTATION

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

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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

Sales Volume and Pricing

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

	Year Ended December 31,			Six Months Ended June 30,	
	2007	2008	2009	2009	2010
	(in thousands of tea bags)				
Besunyen Detox Tea[(1)]	69,822	146,680	235,187	77,645	116,628
Besunyen Slimming Tea[(2)]	40,369	134,168	216,848	81,149	179,050
Other products[(3)]	36,195	15,800	14,443	9,561	4,690
Total	146,386	296,648	466,478	168,355	300,368

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

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

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

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

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

Market demand for our products

Our historical sales volume growth has been driven in part by the growth in the size of the markets for our therapeutic tea products. China's therapeutic tea market and overall health food product market are growing rapidly, with sales of health food products in the six categories of health benefits covered by our two currently marketed products and four SFDA-approved pipeline products growing from RMB20.7 billion in 2005 to RMB34.3 billion in 2009, representing a CAGR of 13.4%, according to the Euromonitor Study, while China's overall therapeutic tea market in China grew from RMB3.1 billion in 2005 to RMB4.1 billion in 2009 and China's overall health food product market grew from RMB40.0 billion in 2005 to RMB63.7 billion in 2009, representing a CAGR of 12.4%. As a leading therapeutic tea brand in China, we are well positioned to take advantage of the expected rapid growth of China's therapeutic tea market and overall health food product market. As we expand to offer additional therapeutic tea products, we expect our future sales volume growth to continue to benefit from the growth of China's therapeutic tea and overall health food product markets. The rate of growth of these markets is affected by a number of factors, including the growth of China's GDP and disposable income levels in China as well as consumer preferences, in particular the popularity of Chinese medicinal herb-based products and therapeutic tea products.

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

Coverage of our distribution and sales network

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

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

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

Our product portfolio

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

Advertising Activities

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

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

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

Raw Material and Packaging Material Costs

Our raw material costs and packaging material costs totaled in aggregate RMB39.1 million, RMB49.3 million, RMB54.6 million, RMB17.6 million and RMB27.1 million, equal to 24.0%, 13.8%, 8.4%, 7.9% and 7.4% of our total turnover, in 2007, 2008, 2009 and the six months ended June 30, 2009 and 2010, respectively. As a result, any significant fluctuations in our cost of raw materials and packaging materials may materially impact our cost of sales and gross margin. Fluctuations in these costs may arise from changes in the types or

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

prices of materials we use. In addition, our raw material costs and packaging material costs as a percentage of turnover are affected by promotional activities whereby we provide free product giveaways with sales of our products. Changes to these promotional activities may impact our gross margin.

The prices for our raw materials and packaging materials are determined principally by market forces and our bargaining power vis-a-vis our suppliers. During the Track Record Period, market prices of certain of our raw materials and packaging materials experienced short-term fluctuations due to weather conditions or other factors beyond our control. However, unit prices we paid for raw materials and packaging materials during the Track Record Period decreased significantly as the volume of our orders increased and we enjoyed long-term relationships with many suppliers, which increased our bargaining power. This decrease in unit prices for our raw materials and packaging materials was a significant factor contributing to the increase in our gross margins during the Track Record Period. Although fluctuations in market prices of raw materials did not significantly affect our results of operations during the Track Record Period, future large fluctuations in market prices of raw materials or packaging materials could materially adversely impact us.

Seasonality

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

Tax Treatment

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

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

DESCRIPTION OF PRINCIPAL INCOME STATEMENT ITEMS

Turnover

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

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

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

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

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

Cost of Sales and Gross Profit

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

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

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

Other Income (Expenses)

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

Selling and Marketing Expenses

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

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

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

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

Administrative Expenses

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

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

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

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

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

Finance Costs

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

Change in Fair Value on Convertible Redeemable Preferred Shares

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

Taxation

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

CRITICAL ACCOUNTING POLICIES

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

Property, Plant and Equipment

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

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

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

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

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

Intangible Assets

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

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

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

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

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

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

Impairment of Non-financial Assets

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

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

Impairment of Financial Assets

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

Tax and Deferred Income Tax

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

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

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

Redeemable Convertible Preferred Shares

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

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

Share-based Compensation

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

RESULTS OF OPERATIONS

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

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

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

Turnover

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

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

Cost of sales and gross profit

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

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

Other income (expenses)

We had other expenses of RMB10.8 million in the six months ended June 30, 2010, compared to other income of RMB5.4 million in the six months ended June 30, 2009. The change was principally due to RMB14.7 million of expenses related to the Global Offering. The amount of other income (expenses) was also affected by our disposal of all investments held for trading in 2009, which contributed a gain of RMB2.6 million in fair market value of investments held for trading in the six months ended June 30, 2009 versus nil in the six months ended June 30, 2010. These were partially offset by an increase of RMB2.6 million of government subsidies received from the PRC government for supporting our business operations in Fangshan District, Beijing.

Selling and marketing expenses

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

Administrative expenses

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

Finance costs

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

Change in fair value on redeemable convertible preferred shares

We incurred a charge on change in fair value on Series A Preferred Shares of RMB56.7 million in the six months ended June 30, 2010 compared to nil in the six months ended June 30, 2009, which related to the increase in the fair value of the Series A Preferred Shares we issued in October 2009. The increase in fair value was primarily due to (i) the issuance of 125,010 additional Series A Preferred Shares in May 2010 pursuant to the earnings adjustment under the Share Purchase Agreement, and (ii) our increased business enterprise value as of June 30, 2010, which was primarily due to increased visibility and thus less perceived risk in our future performance and increased liquidity of the shares as we moved closer to our initial public offering. The Series A Preferred Shares are required to be converted into our Shares as parts of our Shareholders' equity before Listing. Upon the conversion, the Series A Preferred Shares will no longer exist as parts of our liabilities.

Taxation

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

Profit and total comprehensive income for the period

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

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

Turnover

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

Cost of sales and gross profit

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

Other income (expenses)

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

Selling and marketing expenses

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

Administrative expenses

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

Finance costs

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

Change in fair value on redeemable convertible preferred shares

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

Taxation

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

Profit and total comprehensive income for the year

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

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

Turnover

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

Cost of sales

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

Other income (expenses)

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

Selling and marketing expenses

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

Administrative expenses

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

Finance costs

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

Taxation

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

Profit and total comprehensive income for the year

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Net Cash from (Used in) Operating Activities

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

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

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

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

Net Cash Used in Investing Activities

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

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

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

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

Net Cash (Used in) from Financing Activities

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

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

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

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

NET CURRENT ASSETS

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

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

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

CAPITAL EXPENDITURES

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

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

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

WORKING CAPITAL

Taking into account our existing cash balances, our expected cash generated from operations and the estimated net proceeds from the Global Offering, our Directors confirm that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

INVENTORIES

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

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

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

TRADE AND NOTES RECEIVABLES

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

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

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

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

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

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

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

TRADE PAYABLES

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

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

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

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

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

DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

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

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

The increase in our prepaid advertising during the Track Record Period was primarily due to (i) a significant increase in our advertising activities, (ii) an increase in media channels, in particular television channels, requiring prepayment of advertising fees, and (iii) our decision to prepay for more advertising in order to secure favorable television advertising rates to mitigate the impact of the increase in advertising rates. We usually enter into prepaid advertising agreements with TV networks and other media platforms or through their advertising agencies, which are all independent third parties. Of our RMB111.8 million of prepaid advertising as of June 30, 2010, RMB53.5 million was subsequently utilized by the Latest Practicable Date.

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

OTHER PAYABLES AND ACCRUED EXPENSES

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

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

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

INTANGIBLE ASSETS

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

INDEBTEDNESS

Bank Borrowings

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

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

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

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

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

Gearing Ratio

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

Contingent Liabilities and Guarantees

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

Off-Balance Sheet Commitments and Arrangements

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

Subsequent Changes

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

KEY FINANCIAL RATIOS

Current Ratio and Quick Ratio

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

Return on Equity

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

Return on Assets

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

MARKET RISKS

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

Foreign Exchange Rate Risk

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

Interest Rate Risk

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

PROPERTY VALUATION

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

DISTRIBUTABLE RESERVES

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

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there have been no circumstances that would give rise to the disclosure requirement under Rules 13.13 to Rule 13.19 of the Listing Rules had the Shares been listed on the Hong Kong Stock Exchange.

PROFIT FORECAST

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

Forecast consolidated net profit attributable to the equity holders of the Company for the year ending December 31, 2010[1]	not less than RMB80.3 million (approximately HK$91.8 million)
Adjustment[2]:	
Loss on increase in fair value of the Series A Preferred Shares[3]	RMB90.9 million (approximately HK$104.0 million)
Forecast consolidated net profit attributable to equity holders of the Company before loss on increase in fair value of the Series A Preferred Shares[2]	not less than RMB171.2 million (approximately HK$195.8 million)
Unaudited pro forma forecast profit per Share[4][5]	RMB0.05 (approximately HK$0.06)

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

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

(3) Assumptions with respect to valuation of the Series A Preferred Shares — Changes in the fair value of the Series A Preferred Shares are dependent on market conditions and other factors that are beyond our control at the relevant time. The forecast profit of RMB80.3 million (approximately HK$91.8 million) for the year ending December 31, 2010 is after the fair value adjustment on Series A Preferred Shares and includes a charge in respect of the fair value adjustment estimated at RMB90.9 million (approximately HK$104.0 million) based on an assumed market price of HK$2.75 per Share, representing approximately the mid-point of the estimated range of the Offer Price and on the assumption that all of the Series A Preferred Shares are converted before the Listing Date. The fair value of the Series A Preferred Shares and/or any revaluation increase or decrease on the Series A Preferred Shares at the date of conversion may differ materially from our estimate.

(4) The calculation of the unaudited pro forma forecast profit per share is based on the forecast consolidated profit of the Company for the year ending December 31, 2010 attributable to equity holders of the Company and a weighted average of 1,560,441,305 shares assumed to be issued and outstanding during the year ending December 31, 2010. The weighted average of 1,560,441,305 shares is calculated based on the 1,114,560,000 shares issued and outstanding at January 1, 2010, the 25,601,305 shares issued in aggregate in May 2010 and 420,280,000 shares to be issued pursuant to the Global Offering on the assumption that the Global Offering and the Share Subdivision had been completed on January 1, 2010. The number of shares does not take into account the number of share to be issued upon conversion of the Series A Preferred Shares before the Listing. No account has been taken of any additional income we may have earned from the estimated net proceeds from the Global Offering, any shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme.

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

(6) The forecast consolidated net profit attributable to the equity holders of the Company for the year ending December 31, 2010 would not be less than RMB49.9 million (approximately HK$57.1 million) and RMB110.7 million (approximately HK$126.6 million) based on a maximum Offer Price of HK$3.12 and a minimum Offer Price of HK$2.38, respectively.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted consolidated net tangible assets of the Company is prepared based on the consolidated net tangible assets of our Company as set out in Appendix II to this prospectus, and adjusted as described below:

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as of June 30, 2010[(1)]	Estimated net proceeds from the Global Offering[(2)]	Adjusted consolidated net tangible assets	Adjusted consolidated net tangible assets per Share[(3)(4)]	
	RMB'000	RMB'000	RMB'000	RMB[(3)]	HK$[(4)]
Based on the Officer Price of HK$2.38 per Share . . .	286,918	819,107	1,106,025	0.70	0.80
Based on the Officer Price of HK$3.12 per Share . . .	286,918	1,080,824	1,367,742	0.87	0.99

(1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as of June 30, 2010 are based on audited consolidated net assets of the Group attributable to the owners of the Company as of June 30, 2010 of approximately RMB332,169,000 as set out in Appendix I to this prospectus after deducting goodwill of approximately RMB20,785,000 and intangible assets of approximately RMB24,466,000.

(2) The estimated net proceeds from the Global Offering are based on 420,280,000 shares at the offer price of lower limit and upper limit of HK$2.38 and HK$3.12 per Share, respectively, after deduction of estimated related fees and expenses and do not take into account any Share that may be issued pursuant to the exercise of the Over-allotment Option. The proceeds from the Global Offering are converted from Hong Kong Dollars to Renminbi at an exchange rate of RMB0.8743 to HK$1, the rate of The People's Bank of China prevailing on September 9, 2010. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(3) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per share has been arrived on the basis of a total of 1,578,302,680 Shares in issue immediately following completion of the Global Offering, which does not reflect the number of shares resulting from the conversion of the Series A Preferred Shares. It does not take into account any Share which may be issued upon exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme.

Pursuant to the terms and conditions of the Series A Preferred Shares issued in 2009, as disclosed in note 34 to the Accountants' Report set out in Appendix I to this prospectus, the Series A Preferred Shares will automatically be converted into such number of fully paid ordinary shares upon the Listing as determined in accordance with the then effective conversion price. The above unaudited pro forma adjusted net tangible assets information has not been adjusted for the carrying amount of Series A Preferred Shares and the number of shares that will be issued resulting from the conversion.

Had the conversion of Series A Preferred Shares into ordinary shares been assumed to take place as of June 30, 2010, the consolidated net tangible assets of the Group would have been increased by RMB191,589,000, which represents the fair value and the carrying amount of the Series A Preferred Shares as of June 30, 2010. Assuming the conversion of Series A Preferred Shares and with the estimated net proceeds from the Global Offering as assumed in note 2 above, based on the minimum and maximum Offer Price of HK$2.38 and HK$3.12 per Share, the unaudited pro forma adjusted consolidated net tangible assets would be RMB1,297,614,000 and RMB1,559,331,000, respectively, and the unaudited pro forma adjusted consolidated net tangible assets per share would be RMB0.77 (approximately HK$0.88) per Share and RMB0.93 (approximately HK$1.06) per Share, respectively. The computation of such unaudited pro forma adjusted consolidated net tangible assets per share is arrived on the basis of a total of 1,681,091,320 Shares in issue immediately following completion of Global Offering, which include 102,788,640 Shares resulting from the conversion of Series A Preferred Shares.

(4) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company per share are converted into Hong Kong Dollars at an exchange rate of RMB0.8743 to HK$1, the rate of The People's Bank of China prevailing on September 9, 2010. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(5) By comparing the valuation of our property interests as set out in Appendix IV to this prospectus the net valuation surplus is approximately RMB71.1 million as compared to the carrying amounts of the Group's property interests as of June 30, 2010, which has not been included in the above consolidated net tangible assets attributable to owners of the Company. The valuation surplus of our property interests will not be incorporated in our consolidated financial statements in the future. If the valuation surplus were to be included in our consolidated financial statements, an additional depreciation charge of approximately RMB2.1 million per annum would be incurred.

DIVIDENDS AND DIVIDEND POLICY

We declared a dividend of RMB34.3 million to our then shareholders in 2007 with respect to our distributable profits for 2007, RMB8.6 million of which was paid in 2007 and the remainder of which was paid in 2009. We also declared a special cash dividend in an aggregate amount of the US Dollar equivalent of RMB47.5 million (the "Special Dividend") to Foreshore, one of our immediate holding companies, in April 2010. Each of our Shareholders other than Foreshore forfeited and waived in writing any and all of its rights and interest in the Special Dividend. The US Dollar equivalent of RMB45.0 million of the Special Dividend was paid in May 2010 and the remainder of the Special Dividend has not yet been paid. We have not made any other dividends or distributions to our Shareholders during the Track Record Period. Our historical distributions of dividends are not indicative of our future declarations of dividends.

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

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

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

NO SIGNIFICANT INTERRUPTIONS

Our Directors confirm that there have been no interruptions in our business that may have a significant effect on our results of operations and financial position in the last 12 months.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2010.