碧生源控股有限公司

Besunyen Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 0926

Annual Report 2010

Corporate Profile

The Group is a leading provider of therapeutic tea in China, engaging in the development, production, sales and promotion of therapeutic tea and the business of other health food products. According to a survey conducted by Euromonitor, based on the turnover in 2009, the Group accounted for the largest market share among all therapeutic tea suppliers in China, having 18.8%. Products of the Group use exclusive formulae and are manufactured with high quality Chinese herbal-based medicine and tea leaves, providing effective, safe, affordable and convenient to use health food products for those with chronic or recurring health problems, as well as those seeking to maintain a healthy body and lifestyle.

In 2010, the majority of the Group's turnover comes from the Group's two best-selling products, namely Besunyen Detox Tea and Besunyen Slimming Tea. According to a survey conducted by China Southern Medicine Economy Research Institute (南方醫藥經濟研究所) ("SMERI"), these two products were the leading therapeutic tea products sold through retail pharmacies in China in the laxative and slimming products market in terms of retail sales value in 2010, with a market share of 25.8% and 25.5% respectively,

As of 31 December 2010, products of the Group are sold in over 119,000 retail outlets all over China, in which over 95% are retail pharmacies. The distribution network of the Group has expanded to cover 462 distributors in 31 provinces, autonomous regions and centrally administered municipalities in China.

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Zhao Yihong
(Chairman and Chief Executive Officer)
Ms. Gao Yan *(Vice Chairman)*

Non-executive Directors

Mr. Zhuo Fumin
Mr. Wang Bing

Independent non-executive Directors

Mr. Huang Jingsheng
Mr. Wong Lap Tat Arthur
Ms. Xin Katherine Rong

AUDIT COMMITTEE

Mr. Wong Lap Tat Arthur *(Chairman)*
Mr. Huang Jingsheng
Ms. Xin Katherine Rong

REMUNERATION COMMITTEE

Mr. Huang Jingsheng *(Chairman)*
Mr. Zhao Yihong
Mr. Wong Lap Tat Arthur
Ms. Xin Katherine Rong

NOMINATION COMMITTEE

Ms. Xin Katherine Rong *(Chairman)*
Mr. Zhao Yihong
Mr. Wong Lap Tat Arthur
Mr. Huang Jingsheng

COMPANY SECRETARY

Mr. Au Lap Ming, CPA, ACIS, ACS

INVESTOR RELATIONS

Mr. Allen Chien Kun *(Chief Financial Officer)*
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E-mail: allenchien@besunyen.com

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Cayman Islands

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Hong Kong

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Cayman Islands

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183 Queen's Road East, Wanchai
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
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88 Queensway
Hong Kong

LEGAL ADVISORS

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Hong Kong

As to PRC Law:
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81 Jianguo Road, Chaoyang District
Beijing 100025
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Shenyin Wanguo Capital (H.K.) Limited
28/F, Citibank Tower
Citibank Plaza, 3 Garden Road
Central, Hong Kong

Financial Highlights

Financial Results

	Year ended 31 December		
	2010	2009	Growth
	RMB'000	RMB'000	
Turnover	**874,216**	646,535	35.2%
Gross profit	**783,081**	578,134	35.4%
Operating profit	**230,867**	219,864	5.0%
Change in fair value on redeemable convertible preferred shares	**(121,361)**	(33,497)	262.3%
Profit before taxation	**101,146**	177,713	(43.1%)
Profit and total comprehensive income for the year[1]	**59,655**	141,707	(57.9%)
EBITDA	**250,659**	225,752	11.0%
Earnings per share (RMB)			
Basic	**0.05**	0.13	(61.5%)
Diluted	**0.05**	0.13	(61.5%)

Profitability and Operation Efficiency

	Year ended 31 December		
	2010	2009	Change
Gross profit margin	**89.6%**	89.4%	0.2%
Operating profit margin	**26.4%**	34.0%	(7.6%)
Pretax profit margin	**11.6%**	27.5%	(15.9%)
Net profit margin	**6.8%**	21.9%	(15.1%)
Selling and marketing expenses ratio[2]	**(48.4%)**	(53.2%)	4.8%
– Advertising expenses ratio[2]	**(28.6%)**	(30.4%)	1.8%
Administrative expenses ratio[2]	**(11.1%)**	(4.3%)	(6.8%)
– Research and development expenditure ratio[2] [3]	**(0.9%)**	(0.3%)	(0.6%)
Change in fair value on redeemable convertible preferred shares ratio[2]	**(13.9%)**	(5.2%)	(8.7%)
Finance cost ratio[2]	**(1.0%)**	(1.3%)	0.3%

Working Capital Efficiency and Investment Return

	Year ended 31 December		
	2010	2009	Change
Inventory turnover days	**25**	35	(10)
Trade and notes receivables days	**52**	29	23
Trade receivable days	**37**	13	24
Trade payable days	**36**	41	(5)
Return on assets[4]	**4.9%**	33.6%	(28.7%)
Return on equity[5]	**5.9%**	61.7%	(55.8%)

Financial Strength

	At 31 December		
	2010	2009	Change
Current ratio	**11.4x**	3.0x	8.4x
Debt/total asset ratio[6]	**net cash**	1.7%	N/A

(1) The profit and total comprehensive income for 2010 was affected by: (1) Non-cash expense of RMB121.4 million due to fair value adjustment of convertible redeemable preferred shares; (2) IPO expenses of RMB33.5 million; and (3) Non-cash share-based compensation of RMB36.6 million.

(2) as percentage of turnover

(3) Included the research and development expenditure on production quality management

(4) Return on assets = Net profit for the year ÷ ((beginning of the year total assets + end of the year total assets) / 2)

(5) Return on equity = Net profit for the year ÷ ((beginning of the year shareholders' equity + end of the year shareholders' equity) / 2)

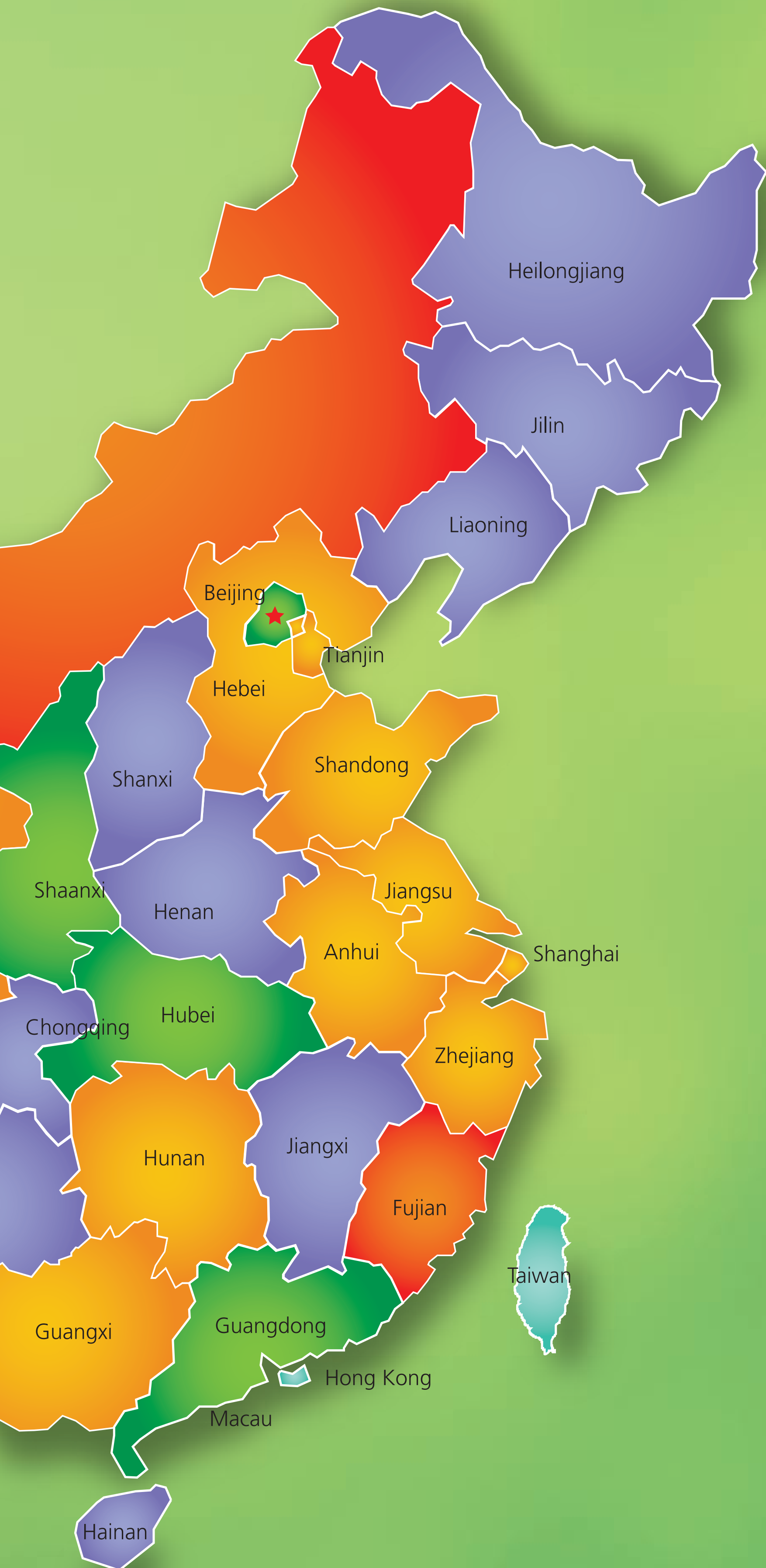
(6) Debt = Bank loans + redeemable convertible preferred shares – Bank balances and cash

Sales Network

Market Presence:[1]

- >=5 years
- >=2 and <5 years
- >=1 and <2 years
- <1 year
- None

[1] Defined as number of years for which our sales teams have covered relevant market, as of December 31, 2010.


Heilongjiang
Jilin
Liaoning
Beijing
Tianjin
Hebei
Shandong
Shanxi
Shaanxi
Henan
Jiangsu
Anhui
Shanghai
Chongqing
Hubei
Zhejiang
Hunan
Jiangxi
Fujian
Taiwan
Guangxi
Guangdong
Hong Kong
Macau
Hainan

Chairman and CEO's Report

ZHAO Yihong
Chairman and CEO

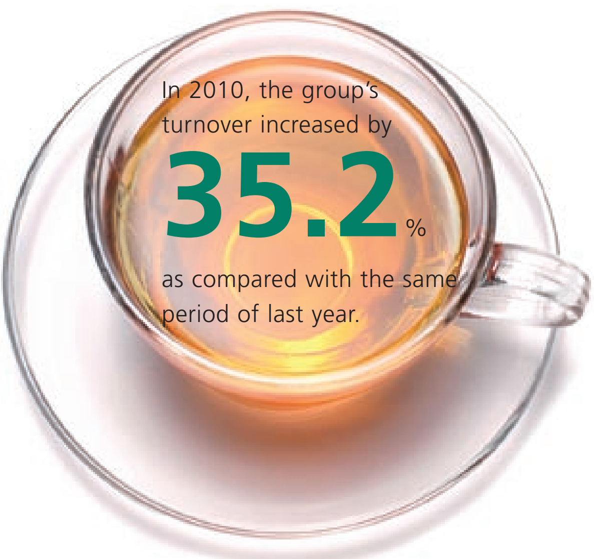
The Group is a leading provider of therapeutic tea in China. The Group's two core products, namely Besunyen Detox Tea and Besunyen Slimming Tea, rank first among laxative and slimming products sold through retail pharmacies in 2010, in terms of retail sales value, enjoying a market share of 25.8% and 25.5% respectively.

Dear shareholders,

On behalf of the Board of Directors, I am pleased to present to you our Group's audited annual results for the year ended 31 December 2010.

In 2010, even though the economic recoveries of major developed countries in the world were full of uncertainty, China's economy maintained steady but rapid growth. China's gross domestic product ("GDP") for the year reached RMB39,798 billions, showing a year-over-year growth rate of 10.3% and 1.1% higher than the growth rate for 2009. Meanwhile, the Chinese government is reforming the Chinese economy structure by encouraging economic growth through way of increasing domestic consumptions.

Chairman and CEO's Report



In 2010, benefited by various factors including the strong growth of China's economy, continuous increase of the general consumers' disposable income, strong consumption growth resulted from a change of consumption patterns, ever growing health problems resulted from work, daily life stresses and living habit changes, rising health consciousness, as well as the general public's reinforced habit of drinking Chinese tea and other Chinese herbal-based health food for maintaining or improving health condition and for preventing from worsening of personal health, the entire therapeutic tea market maintained continuous steady growth.

As the leading provider of therapeutic tea products in China, the Group promptly grasped the business development opportunities and achieved continuous rapid growth in 2010 through planning and implementing development strategy measures including the following:

- the Group completed the expansion and positions of its nation-wide sales network and distribution channels. It expanded the supermarket and hypermarket distribution channel business as well;

Besunyen Slimming Tea

Besunyen Detox Tea

- the Group strengthened "Besunyen" brand's recognition and reputation as the leading therapeutic tea brand by deploying multimedia advertisement coverage, naming right activities as well as versatile marketing and promotion activities all over China;

- through introducing advanced Italy-made production equipment, the Group substantially improved the product quality, thus enhanced the market image and competitiveness of Besunyen products.

In 2010, the Group achieved a turnover of RMB874.2 millions, representing an increase of 35.2% as compared to the turnover of RMB646.5 millions in 2009. Gross profit increased from RMB578.1 millions to RMB783.1 millions, showing an increase of 35.4%. Meanwhile, the gross profit margin slightly increased from 89.4% in 2009 to 89.6% in 2010. In 2010, the profit for the year and the comprehensive income of the Group was RMB59.7 millions. Compared to RMB141.7 millions in 2009, decreased by 57.9%, primarily due to a RMB121.4 million non-cash charge related to change in fair value of the Series A Preferred Shares of the Group in 2010, RMB33.5 millions of expenses related to the IPO and RMB36.6 million non-cash share-based compensation expenses.

On 29 September 2010, the shares of the Company were successfully listed on The Stock Exchange of Hong Kong Limited. The IPO received extensive interest and support from and was oversubscribed by many individual investors in Hong Kong as well as institutional investors all over the world. Public listing has strengthened recognition of the "Besunyen" brand among consumers, and has also attracted people joining us as management personnel and general staff.

Industry, Market and Competition

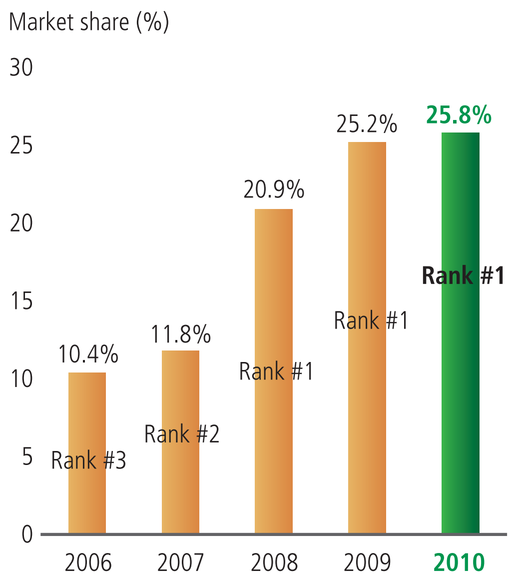
The markets for health food products with laxative or slimming functions have grown recently along with the increased population who suffer constipation or weight problems. According to a study conducted by Euromonitor International Plc. ("Euromonitor") and commissioned by the Group, sales of health food products with laxative function are expected to increase to RMB8.5 billions in 2014, representing a

Chairman and CEO's Report

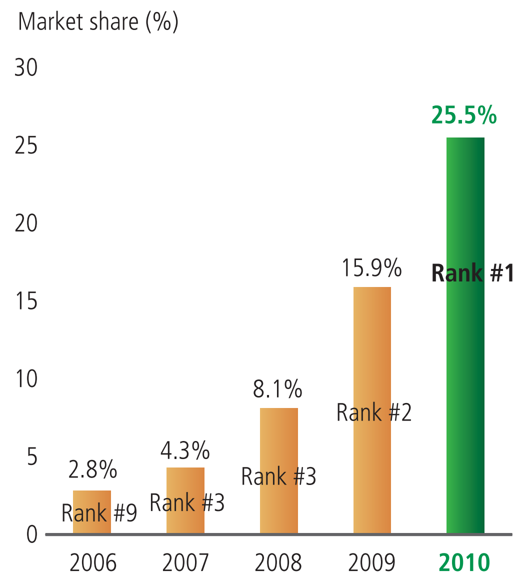
compound annual growth rate of 10.8% from 2009 to 2014. Sales of health food products with slimming function are expected to increase to RMB9.5 billions in 2014, representing a compound annual growth rate of 10.6% from 2009 to 2014.

The Group's Besunyen Detox Tea and Besunyen Slimming Tea compete with other laxative and slimming products, including health food products, over-the-counter ("OTC") drugs and other products, in particular those products sold in retail pharmacies. According to the SMERI Study which was commissioned by us ("SMERI Study"), the Group was the No. 1 leading provider of laxative products sold through retail pharmacies in 2010 in terms of retail sales value, enjoying a market share of 25.8%. In the market for slimming products sold through retail pharmacies, the Group was also the No. 1 leading provider of slimming products sold through retail pharmacies in 2010 in terms of retail sales value, having a market share of 25.5%.

Market share and ranking of Besunyen Detox Tea among laxative products sold through retail pharmacies in the China market(Note) (calculated based on retail sales value)



Market share and ranking of Besunyen Slimming Tea among slimming products sold through retail pharmacies in the China market(Note) (calculated based on retail sales value)

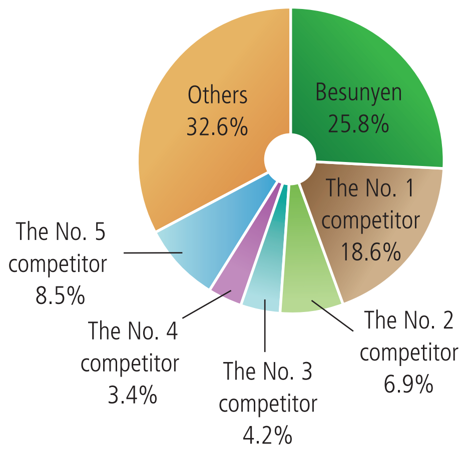


Note: China market refers to the Chinese market excluding Hong Kong, Macau and Taiwan

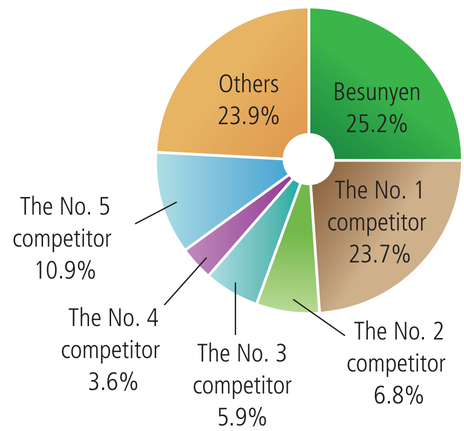
Source: SMERI Study, February 2011

Market share and ranking of Besunyen
Detox Tea among laxative products sold
through retail pharmacies in the China market(Note)
(calculated based on retail sales value)

2010

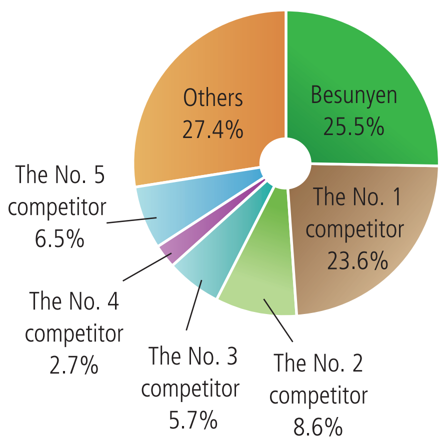


2009

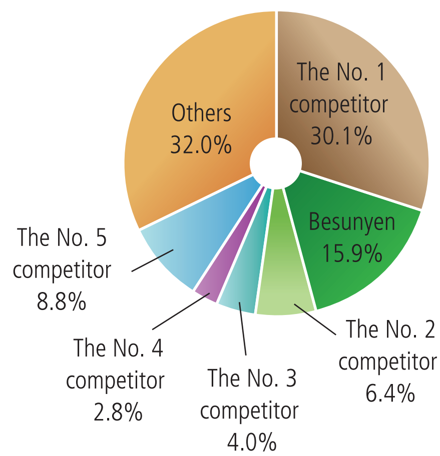


Market share and ranking of Besunyen
Slimming Tea among slimming products sold through retail
pharmacies in the China market(Note)
(calculated based on retail sales value)

2010



2009



Note: China market refers to the Chinese market excluding Hong Kong, Macau and Taiwan

Source: SMERI Study, February 2011

Chairman and CEO's Report

In October 2010, the State Food and Drug Administration of China ("SFDA") was of the view that using Sibutramine may increase the risk of serious cardiovascular problems, thus decided to terminate in China the production, sales and usage of 15 pharmaceutical preparations and active ingredients which contain Sibutramine. Drugs being sold in the market had to be recalled and destroyed by the manufacturing enterprises. Such decision would bring promising business opportunities to the Group which promote healthy, safe and effective slimming philosophy.

According to the SMERI Study, retail sales of therapeutic tea products with laxative function grew from 27.3% of all laxative products sold in retail pharmacies in 2006 to 44.9% in 2010. The retail sales of slimming tea grew from 8.2% of all slimming products sold in retail pharmacies in 2006 to 31.1% in 2010. This growth trend is expected to continue, with the percentage of those markets attributable to therapeutic teas increasing to 63.6% of the laxative product market and 42.1% of the slimming product market, respectively, in 2015.

Business Review

Expanding Nationwide Distribution Network and Channels

The geographical expansion of the Group's operation in 2010 would have a profound and positive impact to its business development. Apart from Hong Kong, Macau and Taiwan, the Group has completed its OTC market distribution network establishment in all the provinces, autonomous regions and centrally administered municipalities in Mainland China. Through many years of hard work in developing the channels, the Group has established a nationwide distribution network and direct and good working relationships with 462 reputable distributors and 161 sub-distributors. Through this powerful distribution network and channels, the Group is able to supply its products to reach around 119,000 retail outlets (among which over 95% were retail pharmacies).

Meanwhile, to take full benefit of the Group's "Besunyen" as the No. 1 leading brand name in the Chinese therapeutic tea market and to further expand its market share, the Group broadened the sales channels in supermarkets and hypermarkets. Apart from the original coverage of Watson's and Walmart, the Group has also set up sales channels to reach Carrefour, Tesco, RT-Mart, Auchan, Century Lianhua, Hualian Mall, Nong Gong Shang Supermarkets, and E-Mart, so as to foster further growth of the Group's business. Furthermore, the Group has also been actively exploring business model for e-commerce.

Establishing Satellite TV-Centered Multimedia Marketing Programs

In 2010, in order to support the build-up of its brand name, the expansion of its distribution network and channels towards the whole nation and further into tier-2 and tier-3 cities all over China, the Group increased its advertisement coverage and expenditure with satellite TV stations in China while it gradually reduced its advertisement expenditure with provincial and city levels local TV stations. The Group had cooperation with over 14 satellite TV stations during the year. Meanwhile, as part of its media advertisement strategy, the Group combined activity-based naming rights with TVC (television advertisements), and achieved its targeted effectiveness. The Group actively participated in sponsorships and obtained naming rights with some top-tier media programs including exclusive naming rights with Zhejiang Satellite TV's Shanghai Expo Miss Etiquette Contest (世博美麗滙) regarding Shanghai Expo, Do You Remember (我愛記歌詞), and I am the One (非同凡響), exclusive naming rights with Southern Television Station's (南方電視台) New Silk Road Model Contest (新絲路模特大賽) (for four consecutive years), as well as exclusive naming rights with Chengdu TV Station's Dancing Carnival (舞動嘉年華活動) (for two consecutive years). These marketing activities not only helped to improve the recognition of the "Besunyen" brand, but also enhanced the credibility of the Group products, which had a positive impact of the increase of its product sales.

Improving Marketing and Brand

To align with the business scale and development needs of the Group, the Group decided to appoint brand spokespersons so as to further enhance the impact of the "Besunyen" brand. After a rigorous selection process, in November 2010, the Group appointed Mr. Guo Donglin and Ms. Niu Li, a pair of famous comedians in China with strong family influence, to be the spokespersons of Besunyen Detox Tea. The new commercial has been broadcast widely since January 2011. In addition in February 2011, the Group further appointed Ms. Xu Jinglei, a famous Chinese movie director and actress, to be the brand spokesperson for Besunyen Slimming Tea. Ms. Xu is a well-recognized and highly popular, healthy-look, fashionable and personable celebrity with a positive image. She is very suitable to represent the image of the "Besunyen" brand. The Besunyen Slimming Tea commercial with Ms. Xu Jinglei as spokesperson had obtained the approval from SFDA and commenced broadcast in major TV stations in China since 5 March 2011.

Strengthening the Research and Development Capabilities

To ensure its sustainable new product development capability, in May 2010, the Group successfully acquired Jianshixing Biotech Research & Development (Shanghai) Co., Ltd., a company with strong research and development capabilities in herbal-based therapeutic tea, and subsequently use it as the Group's Research and Development Center (the "Research and Development Center"). As a result, the Group's research and development capability has been substantially strengthened. At present, the Group's new product development focus is mainly on the fine market of herbal-based health food drinks. The Group focuses on developing products with significant market potential and consumer demand, proven health efficacy as well as relatively high technical entry barrier. Meanwhile, in July 2010, the Group's submitted a product candidate designated to alleviate physical fatigue and assist in improving memory to Shanghai Disease Prevention and Control Center (上海疾病控制中心), a SFDA-authorized testing institution, to conduct testing on this product's efficacy and safety. Furthermore, the Research and Development Center has also coordinated to set up a Product Safety and Quality Assurance Center at our production base, therefore, to fundamentally ensure that the Group has its own, convenient and timely quality and safety detection function on the raw materials acquired and the products manufactured by the Group.

Launching New Packaging of Detox Tea and Slimming Tea

As the production equipment had been upgraded from the domestically made Nanfeng tea bag packaging machines to the Italy-imported IMA fully automated packaging equipment, the Group has subsequently raised the product entry barrier and product quality. The inside packing of the new package has changed from having an ordinary single-compartment filter to a double-compartment filter design so as to allow quicker release of tea essence and to have a better drinking effectiveness. The new packaging also has a a nicer design and more convenient to carry around by consumers. Moreover, with the upgraded product quality brought with the new packaging, the Group has effectively further enhanced the "Besunyen" brand image.

Trial Launching the Mei An Granules

Since November 2010, the Group has launched on a trial basis the Mei An Granules new product in 9 trial cities including Beijing, Wenzhou, Wuhan, Shenzhen and Guangzhou. As of 31 December 2010, Mei An Granules have been sold on a trial basis in over 1,000 retail pharmacies and several dozens of terminal shops in supermarkets and hypermarkets. The Group expects to expand the sale of Mei An Granules to the whole country in June this year.

Chairman and CEO's Report

Prospects

Looking back at 2010, with the Group's achieving its nation-wide distribution network across China, the Group diversified its distribution channel expansion. It further strengthened the impact of the "Besunyen" brand, and its communications with consumers have become more personal and diversified. The Group achieved expected progress in its launching of new products as well as in research and development. At the same time, the Group's business was growing rapidly.

The Chinese economy in the next decade will see a golden age in consumption. Consumption is expected to exceed investment and export to become the pillar driving force for the nation's economic growth. Together with the strong consumption growth, structural changes within consumption will also take place. The Group expects to see that expenditure on health products and services is to grow and to account for a larger proportion in consumption, and products with a healthcare concept will be fully embraced by consumers.

As the leading brand and provider of therapeutic tea products in China, while the Group strives to maintain its leading position and business growth in the market with Besunyen Detox Tea and Besunyen Slimming Tea, the Group will continue to develop its business in 2011 around the fundamental objectives for satisfying consumers' demand for pursuing health and healthy life-style. It will work hard to further enhance its sales network and distribution channels, to further improve the "Besunyen" brand, to strengthen its new product launch and success, and to improve its overall operation efficiency so as to maximize the enterprise value of the Group. Specifically, for 2011, the Group will focus its efforts on the tasks including the following:

- The Group will further develop its sales network and distribution channels, including expanding the OTC distribution channels towards tier-2 and tier-3 cities, further expansion of distribution channels into supermarkets and hypermarkets, and actively develop business through e-commerce platform.

- The Group will further improve the brand of "Besunyen". With the appointment of famous celebrities as its brand spokespersons and related brand promotion activities, the Group aims to further improve the brand recognition and reputation. With newly launched TV commercials, it intends to promote new concept of health, to reinforce "herbal", "healthy", "safe", and "effective" characteristics of its products, and to enhance consumers' fondness of its brand, and as a result, to further stimulate the Group's sales growth. Moreover, through the launch of "Sunshine Family Scheme" (陽光家庭計劃) and marketing and sales expansion through distribution channels, the Group intends to promote consumers' long-term passion and loyalty towards "Besunyen" brand.

- The Group will strive to ensure successful launch of new products. The Group has trial launched Mei An Granules in selected cities in China and it expects to expand the sales to the whole country in June this year. Its Maishuping OTC blood pressure reduction tea (脉舒平OTC降壓茶) is now completing step-by-step the government approval processes for securing all the permits and certificates for production, quality assurance, sales, etc. and the Group strives to launch the product as soon as possible within this year.

- The Group will speed up the research and development of new products and submit for approvals: the Group's research and development team plans to have one to two product candidate(s) to be submitted for approval applications every year, and will try the best to have one to two new products to be approved by SFDA every year as well. Meanwhile, with its distribution channel expanding into supermarkets and hypermarkets, the Group has also commenced to study the launch of herbal tea products in the general food category, so as to enrich its product lines and offers and to reinforce the "healthy" image of the "Besunyen" brand.

Being a responsible corporate citizen has always been one of the objectives of the Group. The Group will play a more proactive role in participating in community work. In this year, it will adopt measures in energy savings so as to build a corporate image of low carbon, green and being environmentally friendly.

We believe our market-leading position, strong national brand name and nationwide distribution and sales network in China, coupled with our experience and knowledge of the strict PRC regulatory requirements for health food products, create strong barriers to entry in our markets. We believe it is difficult for other market participants to replicate our success within a short period of time due to the significant investment and time required to establish strong brand awareness, a long safety record and a nationwide distribution and sales network. Furthermore, obtaining SFDA approval for health food products can take up to two years and we expect the regulatory approval process to become more stringent for new entrants as China's health food product standards and testing regime continue to develop. Our established market reputation, experienced product development team, extensive distribution network and pipeline of SFDA-approved products give us a competitive advantage in bringing new products to the market. The Group will continue to work with its broad customer base and business partners to further build the "Besunyen" brand into a famous household Chinese brand in the herbal tea-based health industry. At the same time, the Group strives to bring promising investment return to the shareholders of the Company.

Dividends

Considering the operation and financial results of our Group for 2010, as well as the surplus, financial condition, capital expenditure and capital requirements of our Group, the Board of Directors of our Company proposed to have the Annual General Meeting to be held on 29 April 2011 to approve for distributing a year-end cash dividend for 2010 at HK$0.01 per share, with dividend-payout ratio of approximately 23.8%, on or around 13 May 2011.

Acknowledgement

Over the past year, our Group had extensive support and hard work from many parties, which contributed to our achieving such results and progress. On behalf of the Board of Directors, I would like to extend the deepest gratitude to the full support from our consumers, distributors, suppliers, media and other partners, shareholders and investors. In particular, I would like to thank all the staff of our Group for their hard work in 2010.

Chairman and CEO
Zhao Yihong

Beijing, 28 March 2011

Management Discussion and Analysis

Overview

In 2010, the majority of the Group's turnover comes from the Group's two best-selling products, namely Besunyen Detox Tea and Besunyen Slimming Tea. In 2010, the turnover of the Group continued to grow rapidly, increasing from RMB646.5 millions in 2009 to RMB874.2 millions in 2010, with an annual growth rate of 35.2%. The gross profit of the Group also increased from RMB578.1 millions in 2009 to RMB783.1 millions in 2010, increased by 35.4%. Net profit and total comprehensive income for the year reduced from RMB141.7 millions in 2009 to RMB59.7 millions in 2010, decreased by 57.9%, mainly due to the non-cash expenses of RMB121.4 millions related to change in the fair value of the Series A Preferred Shares of the Group in 2010, IPO related expenses amounted to RMB33.5 millions, and the share-based compensation amounted to RMB36.6 millions.

The Group's products are sold in about 119,000 retail outlets across 31 provinces, autonomous regions and centrally administered municipalities.

Management Discussion and Analysis

Comparison Against the "IPO Prospectus"

In the IPO Prospectus published on 16 September 2010, and the announcement related to the offer price and share allocation results published on 28 September 2010 ("Prospectus"), the Group expected that for the year ending 31 December 2010, the consolidated net profit attributable to the equity holders of the Group would not be less than RMB49.9 millions. According to the Consolidated Financial Statements for 2010, the consolidated net profit attributable to the equity holders of the Company for 2010 amounted to RMB59.7 millions, exceeding the minimum level of profit forecast.

Operational Results

The following table sets forth operational results of the Group during the years ended 31 December as indicated:

	For the years ended 31 December	
	2010	2009
	RMB'000	RMB'000
Turnover	**874,216**	646,535
Cost of Sales	**(91,135)**	(68,401)
Gross profit	**783,081**	578,134
Other (expense) income	**(32,090)**	13,338
Selling and marketing expenses	**(423,314)**	(343,808)
Administrative expenses	**(96,810)**	(27,800)
Finance costs	**(8,360)**	(8,654)
Changes in the fair value of the convertible redeemable Series A Preferred Shares	**(121,361)**	(33,497)
Profit before taxation	**101,146**	177,713
Taxation	**(41,491)**	(36,006)
Profit and total comprehensive income for the year	**59,655**	141,707
Earnings per share		
Basic (RMB)	**0.05**	0.13
Diluted (RMB)	**0.05**	0.13

Turnover

	For the years ended 31 December			
	2010		2009	
	RMB'000	**Percentage of the Total**	RMB'000	Percentage of the Total
Turnover:				
Besunyen detox tea	**566,222**	**64.8%**	373,135	57.7%
Besunyen slimming tea	**304,186**	**34.8%**	265,706	41.1%
Other products	**3,808**	**0.4%**	7,694	1.2%
Total	**874,216**	**100.0%**	646,535	100.0%

Management Discussion and Analysis

Besunyen Mei An Granules

The turnover of the Group increased 35.2% from RMB646.5 millions in 2009 to RMB874.2 millions for the year ended 31 December 2010, due to the rapid growth of the sales of the Group's Besunyen Detox Tea and Besunyen Slimming Tea. The turnover of Besunyen Detox Tea increased 51.7% from RMB373.1 millions in 2009 to RMB566.2 millions in 2010, mainly due to the increase of sales volume from 235.2 million tea bags to 371.0 million tea bags. The turnover of Besunyen Slimming Tea increased 14.5%, from RMB265.7 millions in 2009 to RMB304.2 millions in 2010, mainly due to the increase in sales volume from 216.8 million tea bags to 292.9 million tea bags. The growth of sales volume was mainly driven by the Group's efforts in developing new markets and expanding the distribution network.

The Group has expanded its sales and distribution network to covering 31 provinces, autonomous regions and centrally administered municipalities in the year ended 31 December 2010. In 2010, the Group has also substantially strengthened its efforts in mass media (especially television) advertising, brand sponsorship and appointing brand spokespersons, as well as organizing more local marketing and promotion activities. The sales and distribution network under local marketing operation led by the Group's sales teams increased from having 409 distributors in the year ended 31 December 2009 to having 462 distributors in the year ended 31 December 2010. Meanwhile, as on 31 December 2010, apart from the original coverage in Watsons and Walmart, the Group has also set up sales network channels in supermarkets and hypermarkets such as Carrefour, Tesco, RT-Mart, Auchan, Century Lianhua, Hualian Mall, Nong Gong Shang Supermarkets, and E-Mart, so as to foster further growth in the business of the Group.

Management Discussion and Analysis

In 2010, the actual selling price of Besunyen Detox Tea and Besunyen Slimming Tea (turnover divided by sales volume) remained relatively stable, despite the significant sales volume increase of these two products. During 2010, the actual selling price of Besunyen Detox Tea and Besunyen Slimming Tea were RMB1.53 per bag and RMB1.04 per bag respectively (compared to RMB1.59 per bag and RMB1.23 per bag respectively in 2009). The decline in actual retail selling price of Besunyen Slimming Tea was mainly due to the Group's shift to utilization of more advanced Italy-made packaging machines in late 2009 and new package contains 25 bags per box instead of 20 bags.

Cost of Sales and Gross Profit

	For the years ended 31 December			
	2010		2009	
	RMB'000	**Percentage of turnover**	RMB'000	Percentage of turnover
Raw material costs	**29,719**	**3.4%**	20,269	3.1%
Packing material costs	**38,416**	**4.4%**	34,293	5.3%
Labor costs	**7,172**	**0.8%**	4,887	0.8%
Manufacturing overhead	**15,828**	**1.8%**	8,952	1.4%
Total cost of sales	**91,135**	**10.4%**	68,401	10.6%
Gross profit	**783,081**	**89.6%**	578,134	89.4%

The cost of sales of the Group increased by 33.2%, from RMB68.4 millions in 2009 to RMB91.1 millions in 2010, mainly because the raw material costs, packaging material costs, labor costs, and manufacturing overhead all increased due to the Group's continuous expansion of its production level to fulfill growing demand. The cost of sales accounted for 10.6% of turnover in 2009, and it slightly dropped to 10.4% in 2010. On one hand, this is because the new plant is put into use and the Group started to use new equipment and facilities like the Italy-made automated tea bag packaging machines, which in turn has increased expenses in water and energy consumption as well as asset depreciation. Furthermore, inspection fees incurred in the process of product manufacturing also increased. As a result, the cost of manufacturing as percentage of turnover increased from 1.4% in 2009 to 1.8% in 2010. Another factor was the increased automation resulted from the utilization of new packaging machines caused the need to have more skilled labor even though at a reduced staff count, hence unit labor costs increased. In general, labor costs as a percentage of turnover almost remained the same in 2010 as compared to 2009. Furthermore, although the market prices of the major raw materials for the Group increased, with a strong bargaining power of the Group, the raw materials costs as a percentage of turnover only had a relatively mild increase. After the Group started using new equipment, the packaging specification for products also changed from 20 bags per box to 25 bags, which drove down the packaging materials cost.

As such, the factors driving cost of sales up was more than offset by other factors listed above. Therefore, the gross profit of the Group increased 35.4% from RMB578.1 millions in 2009 to RMB783.1 millions in 2010. The gross profit margin of the Group showed a slight increase from 89.4% in 2009 to 89.6% in 2010.

Other (Expenses) Income

Other expenses of the Group in 2010 amounted to RMB32.1 millions, while other income of the Group in 2009 was RMB13.3 millions. The change was mainly caused by IPO related expenses amounted to RMB33.5 millions. Other income (expense) was also affected by the appreciation of Chinese Renminbi against foreign currencies such as US Dollar and Hong Kong Dollar in 2010, such that the Group generated a loss of RMB11.7 millions in foreign exchange. The reduced portion in other (expense) income has been offset by a government grant of RMB12.0 millions provided by the Chinese government to support the Group's operations and business in Fangshan District, Beijing.

Sales and Marketing Expenses

	For the years ended 31 December			
	2010		2009	
	RMB'000	Percentage of turnover	RMB'000	Percentage of turnover
Advertising expenses	**250,105**	**28.6%**	196,694	30.4%
Other marketing and promotional expenses	**60,256**	**6.9%**	47,099	7.3%
Staff costs(1)	**83,512**	**9.6%**	70,014	10.8%
Others	**29,441**	**3.3%**	30,001	4.6%
Total	**423,314**	**48.4%**	343,808	53.1%

(1) Includes share-based compensation expenses of RMB4.3 millions for the year ended 31 December 2010.

Management Discussion and Analysis

The sales and marketing expenses of the Group increased 23.1% from RMB343.8 millions in 2009 to RMB423.3 millions in 2010. The main cause was that advertising expenses in 2009 increased 27.2% from RMB196.7 millions to RMB250.1 millions in 2010; and other marketing and promotional expenses (including point-of-sale terminals expenses, promotional expenses and expenses in gifts, etc.) increased 27.9% from RMB47.1 millions to RMB60.3 millions in 2010. The increase in advertising expenses was mainly due to the enlarged spending on television and other commercials, brand sponsorship and appointing brand spokespersons. The increase in marketing and promotional expenses was mainly because of the expansion of point-of-sale terminals sales network and increased point-of-sale terminals sales activities conducted by the Group. Excluding the share-based compensation expenses of RMB4.3 millions, labor costs in relation to sales and marketing of the Group in 2010 was RMB79.3 millions, showing an increase of 13.2% as compared to RMB70.0 millions in 2009. This was mainly because of an increase in the sales labor costs per head. The number of sales and marketing staff of the Group slightly dropped from 2,279 as of 31 December 2009 (including 916 promotion staff employed through agencies) to 2,221 as of 31 December 2010 (including 751 promotion staff employed through agencies).

Administrative Expenses

	For the years ended 31 December			
	2010		2009	
	RMB'000	**Percentage of turnover**	RMB'000	Percentage of turnover
Staff costs[1]	**57,895**	**6.6%**	9,508	1.5%
Office expenses	**11,917**	**1.4%**	6,697	1.0%
Professional fees	**4,942**	**0.6%**	3,304	0.5%
Travel and entertainment expenses	**6,640**	**0.8%**	3,452	0.5%
Research and development costs	**8,185**	**0.9%**	1,946	0.3%
Others	**7,232**	**0.8%**	2,893	0.4%
Total	**96,810**	**11.1%**	27,800	4.2%

(1) Includes share-based compensation expenses of RMB32.4 millions for the year ended 31 December 2010.

The administrative expenses of the Group increased 248.2% from RMB27.8 millions in 2009 to RMB96.8 millions in 2010, mainly driven by the employment of some experienced senior managers across divisions for the purpose of IPO and meeting the business rapid growth needs, as well as the Group incurred non-cash share-based compensation expenses paid in form of share options to its executives amounted to RMB32.4 millions (2009: Nil). Meanwhile, the Group's research and development costs increased by 320.6% from RMB1.9 millions in 2009 to RMB8.2 millions in 2010 due to the Group's efforts in improving production quality and enhancing research and development capabilities. Moreover, the Group's office expenses as well as travel and entertainment expenses increased primarily due to business development and IPO preparation.

Finance Costs

Finance costs of the Group slightly reduced from RMB8.7 millions in 2009 to RMB8.4 millions in 2010. In 2010, interest expenses from bank loans and bank financings after the portion of capitalization increased from RMB1.3 millions in 2009 to RMB8.4 millions.

Changes in the Fair Value of the Redeemable Convertible Preferred Shares

Relevant charge related to the change in the fair value of the redeemable convertible Series A Preferred Shares of the Group in 2010 was RMB121.4 millions, compared to RMB33.5 millions in 2009. This was due to the increased fair value of the Series A Preferred Shares issued in October 2009. Increase in fair value was mainly due to: (i) in May 2010, according to the profit adjustment and anti-dilution protection stipulated in the Series A preferred shares, the Group issued an additional 144,572 shares of the Series A Preferred Shares; and (ii) increase in the Group's recognition led to a decrease in the risk for future operations. During the period just before the IPO, the liquidity of its shares increased, so that the Group's corporate value before the listing increased as well. The Series A Preferred Shares were converted into ordinary shares of the Company before the IPO, and became part of the shareholders' equities of the Company. After the conversion, Series A Preferred Shares were no longer liabilities of the Company.

Taxation

Taxation expenses of the Group increased 15.2% from RMB36.0 millions in 2009 to RMB41.5 millions in 2010. This was mainly due to the taxable income of the Group increased.

Profit and Total Comprehensive Income for the Year of the Group

Due to the aforementioned factors, the profit and total comprehensive income of the Group for 2010 reduced 57.9% from RMB141.7 millions in 2009 to RMB59.7 millions in 2010. The reduction of the profit and total comprehensive income of the Group was mainly caused by the impact of non-cash expenses of RMB121.4 millions resulting from the change in fair value of preferred shares of the Group in 2010, the IPO related expenses amounted to RMB33.5 millions and share-based compensation expense amounted to RMB36.6 millions.

Use of the Net Proceeds from the IPO

The net proceeds from the IPO amounted to RMB1,033.2 millions. The use of proceeds has been consistent with the disclosure in the Prospectus, and the respective use of the net proceeds until 31 December 2010 is as follows:

	Net Amount from IPO		
	Available	**Used**	**Unused**
	RMB'000	RMB'000	RMB'000
Acquisition of new production equipment and building new production facilities	364,913	52,761	312,152
Setup the East China Headquarters	273,664	–	273,664
Extension of sales and distribution network, channels and brand building	73,092	54,957	18,135
Design, R&D of new products	146,185	8,979	137,206
Improve ERP and overall IT system	43,855	408	43,447
Loan repayment	73,000	73,000	–
Working capital	58,474	58,474	–
Total	1,033,183	248,579	784,604

Cash Flow and Capital Resources

In 2010, funds and capital expenditure required in the operation of the Group mainly came from cash flow generated from its internal operations, and financings of bank loans and the Company's issuance of ordinary shares.

Cash Flow

The following table summarizes net cash flow of the Group during the year ended 31 December as indicated:

	For the years ended 31 December	
	2010	2009
	RMB'000	RMB'000
Net cash from (used in) operating activities	**181,302**	96,564
Net cash used in investing activities	**(142,681)**	(131,735)
Net cash (used in) from financing activities	**975,795**	115,870
Increase (decrease) in cash and cash equivalents	**1,014,416**	80,699
Cash and cash equivalents at end of the year	**1,170,469**	168,777

Net Cash from (Used in) Operating Activities

In 2010, net cash from (used in) operating activities of the Group was RMB181.3 millions (2009: RMB96.6 millions), and profit before taxation was RMB101.1 millions. The difference was mainly caused by an increase in trade receivables and notes receivables amounted to RMB58.1 millions, an increase in deposits, prepayments and other receivables (mainly prepaid advertisement expenses) amounted to RMB54.3 millions, an increase in other payables and accrued expenses amounted to RMB48.6 millions (mainly caused by accrued expenses and payables to prepay lease payments after acquiring land) and prepaid income tax amounted to RMB45.8 millions. Part of this amount was offset by the non-cash expenses of RMB121.4 millions related to the change in fair value of the Series A Preferred Shares, and by the non-cash expenses of RMB36.6 millions as compensation paid to staff (including Directors) of the Group through shares options.

Net Cash Used in Investing Activities

In 2010, Net cash used in investing activities amounted to RMB142.7 millions (2009: RMB131.7 millions). This was mainly caused by the purchase of properties, plants and equipment payment amounted to RMB139.5 millions for the building, installation and assembly of production facilities and purchase of the Italy-made automated tea bag packaging machines in Fangshan District, Beijing, and the further acquisition of land in Fangshan District, Beijing involving the payment of RMB13.5 millions.

Net Cash (Used in) from Financing Activities

In 2010, net cash (used in) from financing activities of the Group was RMB975.8 millions (2009: RMB115.9 millions), mainly due to the amount raised from the IPO amounted to RMB1,131.4 millions, and bank loans amounted to RMB50.0 millions; where some of such cash was offset by the special dividend payment amounted to RMB47.5 millions, repayment of bank loans amounted to RMB115.0 millions, and IPO-related expenses which were charged against equity amounted to RMB51.6 millions.

Cash and Bank Loans

As of 31 December 2010, the bank balance and cash totaled RMB1,170.5 millions (31 December 2009: RMB168.8 millions), representing an increase of RMB1,001.7 millions as compared to the previous year. Over 77.3% of the bank balance and cash of the Group was in Renminbi. In addition, as at 31 December 2010, the Group did not have any bank borrowings (31 December 2009: bank borrowings was RMB65.0 millions). Also, as at 31 December 2010, the Group did not have any unused bank credit lines.

Capital Expenditure

In 2010, capital expenditure of the Group was RMB152.3 millions (2009: RMB149.1 millions), which mainly included acquisition of land-use rights and expenditure for purchasing properties, plants and equipment for production equipment. The following table sets forth capital expenditure by the Group during the years ended 31 December as indicated:

	For the years ended 31 December	
	2010	2009
	RMB'000	RMB'000
Land-use rights	**13,546**	994
Property, plant and equipment	**139,499**	142,518
Intangible assets	**1,255**	3,602
Deposit refunded for acquisition of a subsidiary	**(2,000)**	–
Deposit paid for acquisition of a subsidiary	**–**	2,000
Total	**152,300**	149,114

Currently the Group expects that the capital expenditure for 2011 to be amounted to around RMB498.8 millions, which will be mainly used to purchase land properties, plants and equipment related to the building, installation and assembly of additional production facilities in Fangshan, to increase investments in research and development equipment, to purchase and upgrade IT facilities and functions, and to set up the East China Headquarters in Shanghai. The Group expects to use its current cash balance, cash generated from its operations, and the net proceeds from the IPO to fund the capital expenditure of the Group in 2011.

Inventories

The Group's inventories included raw materials and packaging materials, work in progress, and finished goods. The following table sets forth the inventory analysis as of the dates indicated:

	As of 31 December	
	2010	2009
	RMB'000	RMB'000
Raw materials and packing materials	**4,159**	2,943
Work in progress	**1,354**	3,042
Finished goods	**156**	412
Total inventories	**5,669**	6,397

Management Discussion and Analysis

The Group's inventories as a percentage of cost of sales in 2010 continued to drop as compared to 2009. The turnover days of the Group's inventories (calculated by dividing the average amount of inventories balances at the beginning and the end of the period by the cost of sales of the period, then multiplying the number of days in the period) reduced from 35 days in 2009 to 25 days in 2010. The Group actively monitors its inventories level to ensure that the inventories volumes of raw materials, work in progress and finished goods remain at a rather low but sufficient level. Throughout the distribution and retail process, the Group monitors and evaluates sales performance and product trend, so as to better estimate inventories requirements.

Trade Receivables and Notes Receivables

The Group generally requests distributors to pay before the delivery of products. For certain major distributors having a long-term cooperation relationship with the Group, the Group may allow more favorable payment and clearance provisions. For example, if those suppliers may provide effective proof of payment, such as acceptance bills issued by a bank, although such acceptance bills are listed as notes receivables before its maturity date or before the Group has transferred them to a third party, if the Group deems such acceptance bills as low risk and regards the payment as settled, the Group would deliver new products. The Group usually monitors the sales contracts and provides a credit period of 60 days or a maximum of six months to a limited number of distributors. Those distributors are mainly reliable and reputable distributors providing wholesale to supermarkets and convenience store chains (general industry practice allows credit sales). For distributors not enjoying a credit period from the sales contract, they may apply for credit on an individual basis, and the Group would grant approval on an individual case basis considering marketing development needs, payment capabilities of the distributors and their past payment records.

The following table sets forth the Group's trade and notes receivables analysis as of the dates indicated:

	As of 31 December	
	2010	2009
	RMB'000	RMB'000
Trade receivables	**135,117**	39,428
Notes receivables	**17,686**	55,295
	152,803	94,723

The following table sets forth the turnover period of trade receivables and notes receivables of the Group during the periods indicated (calculated by dividing the average amount between the amount at the beginning and the end of the period by the turnover of the period, then multiplying the number of days in the period):

	For the years ended 31 December	
	2010	2009
Trade and notes receivables turnover days	**52**	29
Of which, trade receivables turnover days	**37**	13

Trade and notes receivables turnover days of the Group for the year ended 31 December 2009 was 29 days, and was 52 days for the year ended 31 December 2010. The main reasons were that the scale of the Group's business expanded, as well as the sales of the distributors (who the Group granted credit period) increased, so that the Group's trade receivables increased from RMB39.4 millions in 31 December 2009 at RMB135.1 millions as at 31 December 2010.

The following table summarizes the aging of the Group's trade and notes receivables as of the dates indicated:

	As of 31 December	
	2010	2009
	RMB'000	RMB'000
0-90 days	**149,392**	93,150
91-180 days	**3,411**	1,502
181-365 days	**–**	71
Total	**152,803**	94,723

As of 31 December 2010, the Group had no bad and doubtful debt provision (31 December 2009: nil). In 2010, the Group did not incur any bad and doubtful debt impairment (2009: nil).

Trade Payables

The Group's trade payables mainly comprise payables by the Group to the suppliers of raw materials and packaging materials. Based on the long-term relationships with major suppliers of the Group, the Group generally enjoys favorable credit terms of up to 90 days.

The following table sets forth the Group's trade payables analysis as of the dates indicated:

	As of 31 December	
	2010	2009
	RMB'000	RMB'000
Trade payables	**7,342**	10,512

The following table sets forth the turnover of trade payables of the Group for the years ended 31 December as indicated (calculated by dividing the average amount of the trade payables balance at the beginning and end of the period by the cost of sales of the period, then multiplying the number of days in the period):

	For the years ended 31 December	
	2010	2009
Trade payables turnover days	**36**	41

Management Discussion and Analysis

Trade payables turnover days reduced from 41 days in 2009 to 36 days for the year ended 2010. The main reason was because of the increase in price of raw materials and packaging materials, in order to stabilize procurement cost, the Group reduced the credit period to its suppliers.

The following table summarizes the age of the Group's trade payables during the years ended 31 December as indicated:

	As of 31 December	
	2010	2009
	RMB'000	RMB'000
0-90 days	**7,342**	10,512

Deposits, Prepayments and Other Receivables

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

	As of 31 December	
	2010	2009
	RMB'000	RMB'000
Prepaid advertising	**89,933**	37,050
Other prepayments	**6,165**	5,223
Other receivables	**4,023**	1,392
Prepaid lease payments	**1,447**	388
Prepayments to suppliers	**980**	349
Staff advances	**–**	104
Total	**102,548**	44,506

Increase in the Group's prepaid advertising as of 31 December 2010 was due to a number of factors (i) the Group's advertising activities increased significantly; (ii) there were more media channels requesting prepaid advertising expenses (particularly television channels); and (iii) the Group decided to prepay expenses for more advertising so as to bargain for more advantageous television advertising fees, which would in turn reduce the impact of increased advertising expenses. The Group normally sets up agreements on prepaid advertising with television channels and other mass media platform, or through their advertising agents (all of which are independent third parties).

Other Payables and Accrued Expense

The table below lists an analysis of the Group's other payables and accrued expenses as of the dates indicated:

	As of 31 December	
	2010	2009
	RMB'000	RMB'000
Other tax payables	**23,444**	14,326
Accrued sales rebate	**18,851**	–
Accrued payroll	**15,268**	6,354
Other payables	**12,691**	632
Payables for land-use right	**11,210**	–
Advances from customers	**9,911**	5,528
Payable to former shareholders of Zhuhai Qijia	**4,550**	–
Payable for acquisition of a subsidiary	**2,000**	–
Accrued expenses	**1,493**	3,033
Deferred government grant	**786**	136
Advertising expenses payable	**300**	1,855
Accrued interest expense	**–**	117
	100,504	31,981

Changes in the Group's other payables and accrued expenses as of 31 December 2010 are mainly due to changes in payables for land-use rights, other tax payable, accrued payroll, accrued sales rebate and other payables. Payables on land-use rights of the Group as of 31 December 2010 was related to the Group's acquisition of land for production purpose in Fangshan District, Beijing. Increase in other tax payables of the Group in 2010 was mainly because increased Group's turnover led to an increase in value added tax and income tax payable. Increase in accrued payroll of the Group in 2010 was mainly because of an increase in senior management staff of the Group and an increase in salary per head, hence increasing the accrued bonus at year end. Increase in accrued sales rebate was mainly because the Group started to follow the policy of sales rebate from the year of 2010, and thus at the year end, there was sales rebate yet to be realized. Increase in other payables is mainly because of accrued expenses for IPO.

Risks in Foreign Exchange

The majority of sales income, costs and expenses of sales, as well as administrative expenses of the Group are calculated based on Renminbi. Apart from some bank deposits that are held in Hong Kong dollar and US dollar, most assets and liabilities of the Group are valued in Renminbi. Since Renminbi is the functional currency of the Group, risks in foreign exchange mainly come from assets valued in Hong Kong dollar and US dollar.

For the year ended 31 December 2010, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools.

Pledge of Assets

As of 31 December 2010, the Group had no pledge of assets.

Management Discussion and Analysis

Contingent Liabilities and Guarantees

As of 31 December 2010, the Group had no material contingent liabilities or guarantees.

Off-Balance Sheet Commitments and Arrangements

As of 31 December 2010, the Group had no off-balance sheet commitments or arrangements.

Capital Commitment

As of 31 December 2010, the Group had a total of capital commitment of RMB16.1 millions, mainly used to acquire equipment and expansion for the Research and Development Center.

Human Resources Management

The Group regards high quality employees as its most important resources. As at 31 December 2010, the Group had about 2,711 employees in mainland China and Hong Kong (including 751 promotional staff employed by employment agents) (2009: 2,693 staff members (including 916 promotional staff employed by employment agents)). As at 31 December 2010, the total labor costs (including Directors' remunerations and non-cash share-based compensation) was approximate RMB148.6 millions. Staff Compensation is formulated with reference to individual performance, work experience, qualification and current industry practice. Apart from basic salary and statutory pension welfare, staff welfare also includes discretionary bonus and stock options.

The Group values the recruitment, motivation and retention of suitable talents. Directors and some of the senior and middle management executives enjoy share options based on the pre-IPO share option scheme adopted by the Company. On the other hand, the employee's share options scheme aims at giving staff members an incentive, to encourage them to keep working hard to enhance the value of the Group and foster better long-term development of the Group.

The Group invest sufficient efforts into continuous education and training for its staff members, so as to keep extending staff knowledge and skills, and to promote the spirit of teamwork. The Group often provides internal and external training courses to relevant staff based on various needs.

Changes after the Closing Date of the Report

The Directors hereby acknowledge that since 31 December 2010, the Group has no major change in debt or contingent liabilities.

Directors and Senior Management Profile

Directors

Executive Directors

Mr. ZHAO Yihong, age 44, is our co-founder, Chairman and Chief Executive Officer and was appointed as an executive Director of the Company in August 2009. Mr. Zhao is also a director of Besunyen Investment (BVI) Co. Ltd. ("Besunyen Investment"), Besunyen (Hong Kong) Co., Limited ("Besunyen HK"), Beijing Outsell Health Product Development Co., Ltd. ("Beijing Outsell"), Beijing Outsell Trading Co., Ltd. ("Outsell Trade"), Beijing Besunyen Trading Co., Ltd. ("Besunyen Trade"), Guangzhou Outsell Trading Co., Ltd. ("Guangzhou Outsell"), Zhuhai Qi Jia Medicine Industry Co., Ltd. ("Zhuhai Qi Jia") and Ever Assure Limited ("Ever Assure"). Mr. Zhao is the legal representative of Beijing Outsell, Outsell Trade, Besunyen Trade, Guangzhou Outsell and Zhuhai Qi Jia. Mr. Zhao is primarily responsible for our Group's overall strategic planning and the management of our Group's business. Mr. Zhao established Beijing Outsell to pioneer the Group's therapeutic tea products production and distribution in the PRC and has played a vital role in the development of our Group since its commencement in 2000. Mr. Zhao has 21 years of experience in China's food and beverage industry. Between 1988 and 1991, Mr. Zhao has served as an officer at the Jinan Municipal Bureau of Grain of the Shandong Province. Between 1991 and 2000, Mr. Zhao served in various positions, including a sales and a vice manager, responsible for the beverage business in the Northern China region, at Ting Hsin International Group, a food conglomerate in the PRC. Mr. Zhao graduated from China Coal Economic College, now known as Shandong Institute of Business and Technology, in 1988 with a bachelor's degree in economics. He also completed the China New Entrepreneur Development Program in 2006, a joint program sponsored by the Enterprise Research Institution, DRC-ERI and the Stanford Center for Professional Development. Mr. Zhao is the spouse of Ms. Gao Yan, our Vice Chairman and executive Director.

Ms. GAO Yan, aged 42, is our co-founder and Vice Chairman and was appointed as an executive Director of the Company in October 2009. Ms. Gao is also a director of Besunyen Investment, Besunyen HK and Beijing Outsell. Ms. Gao has served as the vice chairman of Beijing Outsell since 2000. Between 1997 and 2000, Ms. Gao worked as a director at Beijing Ruipule Commerce and Trade Co., Ltd., a private trading company. Ms. Gao is the spouse of Mr. Zhao Yihong, our Chairman, Chief Executive Officer and executive Director.

Non-executive Directors

Mr. ZHUO Fumin, aged 59, was appointed as a non-executive Director of the Company in October 2009. Mr. Zhuo is also the director of Besunyen Investment, Besunyen HK and Beijing Outsell. Mr. Zhuo has more than 30 years of experience in the field of fund management and capital markets. Between 1987 and 1995, Mr. Zhuo served senior positions including an office head and an officer assistant of the Shanghai Economic System Reform Committee. Between 1995 and 2002, Mr. Zhuo held in turn various senior positions at Shanghai Industrial Investment (Holdings) Co., Ltd., including the chief executive officer and the vice chairman of Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 363) and the chairman and an executive director of SIIC Medical Science and Technology (Group) Limited, a medical company. From 2002 to 2005, Mr. Zhuo was the chairman and the chief executive officer of Vertex China Investment Co., Ltd., a wholly owned subsidiary of Vertex Management Group, a global venture capital management company. In 2005, Mr. Zhuo co-founded SIG Capital Limited, an investment fund which focuses primarily on consumer products, new energy and health care sectors. Mr. Zhuo has been serving as a management partner of GGV Capital, a venture capital fund, since 2008. Mr. Zhuo was an independent director of China Enterprise Company Limited (a company listed on the Shanghai Stock Exchange, stock code: 600675). He is an independent non-executive director of Focus Media Holding Limited (a company listed on NASDAQ, stock code: FMCN), Shenyin Wanguo (H.K.) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 218), a director of Daqo New Energy Corp. (a company listed on the New York Stock Exchange, stock code: DQ) and an independent non-executive director of SRE Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1207). Mr. Zhuo graduated from Shanghai Jiaotong University of Engineering Science in 1983. He subsequently obtained a master's degree in economics from Fudan University in 1997.

Directors and Senior Management Profile

Mr. WANG Bing, aged 42, was appointed as a non-executive Director of the Company in May 2010. Mr. Wang has more than 20 years of experience in the field of investment management. In 2000, Mr. Wang founded Dingtian Asset Management Corporation, an investment fund. Mr. Wang established DTC Investment Management (HK) Ltd. and Beijing Dingtian Investment Management Co., Ltd., both being investment companies, in 2008 and served as the chairman for both companies. Mr. Wang has served as an independent non-executive director of TCL Multimedia Technology Holdings Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 1070) and China Paradise Electronics Retail Limited (a company previously listed on the Hong Kong Stock Exchange). Mr. Wang has also held directorship in the following companies listed on the Shanghai Stock Exchange: Beijing Vantone Real Estate Co., Ltd. (stock code: 600264), as an independent director and Tongwei Co., Ltd. (stock code: 600438), as an independent director. Mr. Wang has also served as an independent director of Huayi Brothers Media Corporation (a company listed on the Shenzhen Stock Exchange, stock code: 30027) and an independent director of China Capital Investment (Group) Co., Ltd., a company which specializes in providing financial services. He is currently an independent non-executive director of China Huiyuan Juice Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1886). Mr. Wang graduated from the Capital University of Economics and Business in 1991 with a bachelor's degree in economics. He subsequently graduated from the China Europe International Business School in 2003 with a master's degree in business administration.

Mr. HUANG Jingsheng, aged 53, was appointed as an independent non-executive Director of the Company in May 2010. Mr. Huang co-founded Mtone Wireless Corporation, a mobile phone service provider in China, in 1993 and served as a vice president of marketing. Between 1996 and 1998, Mr. Huang served as a director of Asia Pacific research operations at the Gartner Group, an information and technology research and advisory company. Between 1999 and 2000, he was a senior manager at Intel Capital and was responsible for strategic investment. In 2001, Mr. Huang was a partner at SUNeVision Ventures, an investment company which focuses on the information technology sector. Between 2002 and 2005, Mr. Huang was the managing director of SOFTBANK Asia Infrastructure Fund, a private equity firm. Since 2005, Mr. Huang has served as a managing director of Bain Capital, a private investment firm. Between 2003 to 2008, Mr. Huang has served as an independent director of Gemdale Corporation (a company listed on the Shanghai Stock Exchange, stock code: 600383). Mr. Huang is currently an independent director of Shanda Interactive Entertainment Limited (a company listed on NASDAQ, stock code: SNDA), a non-executive director Clear Media Limited (a company listed on the Hong Kong Stock Exchange, stock code:100) and SinoMedia Holding Limited (a company listed on the Hong Kong Stock Exchange, stock code: 623). Mr. Huang graduated from the Beijing Foreign Studies University in 1984 with a bachelor's degree in English and obtained a master's degree in arts in 1988 from Stanford University. Mr. Huang received a master's degree in business administration from Harvard University in 1999.

Mr. WONG Lap Tat Arthur, aged 51, was appointed as an independent non-executive Director of the Company in July 2010. Mr. Wong has more than 25 years of experience in the field of accounting. From July 1982 to May 2008, he worked for Deloitte Touche Tohmatsu, an international public accounting firm, in Hong Kong, San Jose and Beijing during different periods of time, and lastly as a partner of its Beijing office, assisting companies with their listings on stock exchanges in the United States and Hong Kong and serving other local and multinational companies. Mr. Wong has not, by himself or through the firm he practices with, provided professional services to the Company in the past. From June 2008 to December 2009, he served as the chief financial officer of Asia New Energy Holdings Pte. Ltd, a company engaged in the business of manufacturing and sales of chemical, fertilizer and energy products in China. From March 2010 to November 2010, Mr. Wong served as the chief financial officer of Nobao Renewable Energy Holdings Limited, a company engaged in clean energy management service utilizing ground source heat pump technologies in China. Since February 2011, Mr. Wong has been serving as the chief financial officer of GreenTree Inns Hotel Management Group, Inc. Mr. Wong received a higher diploma of accountancy from Hong Kong Polytechnic University in 1982 and a bachelor's degree in applied economics from the University of San Francisco in 1988. He is a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants.

Ms. XIN Katherine Rong, aged 47, was appointed as an independent non-executive Director of the Company in July 2010. Ms. Xin graduated from the University of California in 1995 with a doctorate degree in administration and has over 15 years of experience in academia. Her academic experience includes teaching at the Marshall School of Business at the University of Southern California (from 1995 to 1999), the Hong Kong University of Science and Technology (from 1999 to 2002), the China Europe International Business School (from 2002 to 2006) and the IMD Business School in Switzerland (from 2006 to 2009). In addition to her teaching experience, Ms. Xin has provided management consultancy services to various multinational conglomerates and PRC listed companies. In 2009, Ms. Xin returned to China Europe International Business School as a professor in the School of Management and also serves as a professor in charge of the bilingual executive master's degree of Business Administration program at the Hong Kong University of Science and Technology. Ms. Xin is currently the editor-in-chief of the Harvard Business Review (China).

Senior Management

Mr. ZHAO Yihong is our Chief Executive Officer. His profile is shown in the director profile above.

Mr. MOU Wenjun, aged 37, is our Vice President principally in charge of our sales. Mr. Mou joined our Group in July 2001 and has more than 10 years of experience in the field of sales and marketing. Between 1998 and 1999, Mr. Mou served as a manager at Hainan Yangshengtang Medical Co., Ltd., a health care product company and was responsible for marketing. Between 1999 and 2001, Mr. Mou worked at Beijing Green World Nutrition Health Products Co., Ltd., a health food manufacturer, as a sales director responsible for the PRC southern region. Mr. Mou has held various senior positions in our Group, including a branch office manager in Guangzhou and a sales director. Mr. Mou graduated from Huabei Chemical School in 1995 with a diploma in polymer chemistry.

Ms. LU KU Yueh-yueh, aged 61, is our Vice President principally in charge of our marketing. Ms. Ku joined our Group in November 2008 and has more than 30 years of experience in the field of marketing. Between 1976 and 1994, Ms. Ku held various positions at Unilever, a multinational consumer products corporation, in Taiwan and was responsible for production, marketing and business development. Between 1994 and 1997, Ms. Ku worked at Smithkline Beecham Pharmaceuticals, a pharmaceutical company, as a director responsible for marketing. Between 1997 and 2008, Ms. Ku served various positions including a vice general manager and a director of the marketing department at Joincare Pharmaceutical Group Industry Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600380). Ms. Ku graduated from National Taiwan University in 1971 with a bachelor's degree in law.

Mr. LIU Xiong, aged 36, is our Vice President principally in charge of our media buying. Mr. Liu joined our Group in May 2009 and has more than 15 years of experience in the field of sales and marketing. Between 1998 and 2006, Mr. Liu worked at Juren Group, a health care product company, where he has held various managerial positions in different subsidiaries of the group. Between 2007 and 2009, Mr. Liu worked as a general manager at Suzhou Rundong Daily Products Co., Ltd., a health care product company, and was responsible for the sales of various medical products. In 1995, Mr. Liu obtained a diploma in economics management from the Inner Mongolian University.

Directors and Senior Management Profile

Mr. CAI Ya, aged 53, is our Vice President principally in charge of our research & development. Dr. Cai is also a director of Ever Assure and a director and the legal representative of Jian Shi Xing, a company which focuses on the research and development of tea and Chinese medicinal herbal products. Dr. Cai joined our group in June 2010 and has more than 25 years of experience in the field of chemistry research. Between 1988 and 1990, Dr. Cai worked at the chemistry department of the University of Sheffield as a researcher. Between 1990 and 1992, Dr. Cai worked at the School of Pharmacy of the University of London as a researcher. Between 1992 and 1993, Dr. Cai worked at the Stiefel Laboratories as a researcher for the Chinese herbal project. Between 1993 and 1997, Dr. Cai worked at the natural products department of the England office of Unilever, a multinational consumer products corporation, as a tea scientist. Between 1997 and 2000, Dr. Cai worked as a senior manager at the PRC office of Unilever and was responsible for the business development of the Lipton Tea business. Between 2000 and 2001, Dr. Cai worked at the London office of Unilever as a senior manager for the China business. Between 2002 and 2006, Dr. Cai worked as a research director of Unilever in the PRC. Between 2007 and 2010, Dr. Cai worked at Jian Shi Xing as a general manager. Dr. Cai graduated from the polymer science department of Chengdu Technology University in 1982 with a bachelor's degree in engineering and in 1985 with a master's degree in engineering. He graduated from the University of Sheffield in 1990 as a doctor of philosophy.

Mr. Allen CHIEN Kun, aged 48, is our Chief Financial Officer. Mr. Chien joined our Group in January 2010 and has more than 17 years of experience in the fields of investment banking, finance and corporate financial management. Between 1993 and 1997, Mr. Chien worked at BZW Asia Limited, a company which specializes in providing financial services and held senior positions including senior manager. Between 1997 and 2001, Mr. Chien served as a vice president and subsequently a director of Salomon Smith Barney Hong Kong Limited, a company which specializes in providing financial services. Between 2001 and 2006, Mr. Chien held various senior positions at the Hongkong and Shanghai Banking Co., Ltd., including serving as a managing director of the investment banking division and the Asia Pacific Regional Head of Transport and Logistics. From 2007 to 2008, Mr. Chien served as the chief financial officer of Xiwang Sugar Holdings Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 2088). From May 2009 to November 2010, Mr. Chien served as an independent non-executive director and the chairman of the audit committee of China Mass Media Corp. (a company listed on the New York Stock Exchange, stock code: CMM). Mr. Chien graduated from Fudan University in 1984 with a bachelor degree in mathematics. He obtained a master's degree in mathematics from the University of Alberta in Canada in 1990 and a master's degree in business administration from the Richard Ivey Business School of the University of Western Ontario in Canada in 1993.

Mr. YU Hongjiang, aged 46, is our Vice President principally in charge of our internal control. Mr. Yu is also a director and the legal representative of Besunyen Food and Beverage. Mr. Yu joined our Group in July 2000 and has more than 20 years of experience in the field of finance. Between 1987 and 1989, Mr. Yu served as a manager of the finance department at Tianjin Binhai Company Limited (now known as Tianjing Zhongxin Pharm. Binhai Corp., Ltd.). Between 1997 and 2000, Mr. Yu worked at Beijing Green World Nutrition Health Products Co., Ltd., a health food manufacturer, as the chief financial officer. Mr. Yu graduated from Shanxi University of Finance and Economics in 1987 and obtained a bachelor's degree in economics with a major focus in accounting.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Company is committed to maintaining high standards of corporate governance in order to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has adopted the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") as its own code of corporate governance. The Company has complied with the code provisions, except code provisions A.2.1 and A.4.1, under the CG Code from the listing date of the Company on 29 September 2010 to 31 December 2010 ("Review Period").

The Directors are committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximize the interests of the shareholders.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own securities dealing code for the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they complied with the required standard set out in the Model Code throughout the Review Period.

BOARD OF DIRECTORS

The Board comprised seven Directors, including two executive Directors, namely Mr. ZHAO Yihong (Chairman and Chief Executive Officer), Ms. GAO Yan (Vice Chairman); two non-executive Directors, namely Mr. ZHUO Fumin and Mr. WANG Bing; and three independent non-executive Directors, namely Mr. HUANG Jingsheng, Mr. WONG Lap Tat Arthur, and Ms. XIN Katherine Rong. Biographical details of the Directors are set out under the section headed "Directors and Senior Management Profile" of this annual report on pages 35 to 38.

Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of both Chairman and Chief Executive Officer are performed by Mr. Zhao Yihong. Mr. Zhao is a co-founder of the Group and has 21 years of experience in China's food and beverage industry. The Board believes that vesting the two roles in the same person provides the Company with strong and consistent leadership and facilitates the implementation and execution of the Group's business strategies currently and in the foreseeable future. The Group will nevertheless review the structure from time to time in light of the prevailing circumstances.

Mr. ZHAO Yihong is the spouse of Ms. GAO Yan. Save as disclosed in this annual report, to the best knowledge of the Company, there is no financial, business, family or other material or relevant relationships among members of the Board.

The executive Directors, with the assistance from the senior management, form the core management team of the Company. The executive Directors have the overall responsibility for formulating the business strategies and development plan of the Group and the senior management are responsible for supervising and executing the plans of the Group.

Mr. Wong Lap Tat Arthur and Ms. Xin Katherine Rong, the independent non-executive Directors, are appointed for a term of 3 years. Under code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Mr. Zhuo Fumin and Mr. Wang Bing, non-executive Directors of the Company, and Mr. Huang Jingsheng, an independent non-executive Director of the Company, are not appointed for a specific term. However, all Directors (including executive and non-executive) of the Company are subject to retirement by rotation at least once every three years at the annual general meeting in accordance with article 16.18 of the articles of association of the Company. The Board believes that this retirement by rotation requirement serves the same purpose as that of code provision A.4.1.

The primary responsibilities of the Chairman are to provide leadership to the Board in setting corporate goals of the Company, to oversee the performance and effectiveness of the Board and to take a lead to ensure that the Board acts in the best interest of the Company and shareholders as a whole.

The primary responsibilities of the executive Directors of the Company are to provide leadership for the management of the Company, to take a lead to implement the Company's strategy and to oversee the performance of the management in achieving corporate goals.

The non-executive Directors and independent non-executive Directors play the important roles in corporate governance. They contributed to the Group by sharing their valuable expertise, in-depth knowledge and impartial judgment on issues discussed at the board and committee meetings which became more effective.

The Board has adopted the recommended practice under the Listing Rules to appoint one-third of its Directors as independent non-executive Directors. The Company has received an annual written confirmation from each of the independent non-executive Directors of his independence. The Board considers that all the independent non-executive Directors are independent in accordance with the guidelines set out under the Listing Rules.

All Directors have full and timely access to all relevant information, including reports from the Board Committees and briefing on significant legal, regulatory or accounting issues affecting the Group. The Directors are able to seek independent professional advice at the Company's expense in appropriate circumstances.

A kit of corporate information and an induction regarding the management, operations and governance practices of the Group and general compliance regulations under the Listing Rules has been provided to all Directors shortly upon their appointments as Directors of the Company. Update on the amendments of applicable rules and regulations were given to the Directors from time to time.

At least four regular Board meetings will be held each year, with additional meetings to be held as and when required. In respect of regular meetings, at least 14 days' notice was given to all Directors to allow them an opportunity to include matters in the agenda and the board papers were sent to all Directors at least 3 days before the meeting. For all other meetings, reasonable notice was given.

No regular Board meeting was held during the Review Period. Two regular Board meetings were held in 2011 so far and the attendance is set out in the following table:

Members of the Board	Number of meetings attended
Executive Directors	
Mr. ZHAO Yihong	2
Ms. GAO Yan	2
Non-executive Directors	
Mr. ZHUO Fumin	2
Mr. WANG Bing	2
Independent Non-executive Directors	
Mr. HUANG Jingsheng	2
Mr. WONG Lap Tat Arthur	2
Ms. XIN Katherine Rong	2

COMMITTEES UNDER THE BOARD

Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely Mr. WONG Lap Tat Arthur, a Director with the appropriate professional qualifications and serving as the chairman of the audit committee, Mr. HUANG Jingsheng and Ms. XIN Katherine Rong.

The terms of reference for the Audit Committee has been adopted by the Board at the meeting held on 8 September 2010.

The primary responsibilities of the Audit Committee include:

- monitoring integrity of the financial statements;
- reviewing the annual report and the interim report;
- monitoring and assessing the internal control system (including the adequacy of resources, qualifications and experience of accounting and financial reporting staff) and risk management system;
- monitoring and assessing the effectiveness of internal control function;
- monitoring the independence of an external auditor; and
- proposing to the board the appointment or removal of external auditor, and facilitating the communication between external auditor and internal audit function.

No Audit Committee meeting was held during the Review Period. Two Audit Committee meetings were held in 2011 so far and the attendance is set out in the following table:

Members of Audit Committee	Number of meetings attended
Mr. WONG Lap Tat Arthur	2
Mr. HUANG Jingsheng	2
Ms. XIN Katherine Rong	2

In the two Audit Committee meetings held in 2011 so far, the following works were performed by the Audit Committee:

(i) reviewed and discussed with Deloitte Touche Tohmatsu, the Group's external auditor, on the audit scope, audit approach and audit areas of focus for the financial year ended 31 December 2010;

(ii) reviewed and approved the audit fees;

(iii) reviewed the 2010 auditor's report from Deloitte Touche Tohmatsu;

(iv) reviewed the 2010 annual report and audited financial statements and the 2010 annual results announcement;

(v) reviewed the report on the continuing connected transactions for the financial year ended 31 December 2010;

(vi) reviewed the management letter prepared by Deloitte Touche Tohmatsu; and

(vii) reviewed various aspects of risk management.

For the year ended 31 December 2010, approximately RMB2,850,000 has been paid to Deloitte Touche Tohmatsu, auditor of the Company for audit services and the non-audit service fee was approximately RMB950,000 in respect of the global offering services.

Remuneration Committee

The Remuneration Committee comprises three independent non-executive Directors, namely Mr. HUANG Jingsheng, who serves as the chairman of the Remuneration Committee, Mr. WONG Lap Tat Arthur and Ms. XIN Katherine Rong and one executive Director, Mr. ZHAO Yihong.

The primary responsibilities of the Remuneration Committee include:

- reviewing and approving performance-based remuneration;
- determining and recommending the remuneration package of Directors and senior management to the Board for approval; and
- reviewing, approving and advising the compensation arrangement to Directors and senior management.

No meeting was held by the Remuneration Committee during the Review Period.

Nomination Committee

The Nomination Committee comprises three independent non-executive Directors, namely Ms. XIN Katherine Rong, who serves as the chairman of the Nomination Committee, Mr. WONG Lap Tat Arthur and Mr. HUANG Jingsheng and one executive Director, Mr. ZHAO Yihong.

The primary responsibilities of the Nomination Committee are to identify suitable individuals to become members of the Board and to advise on the selection of individuals nominated for directorships.

No meeting was held by the Nomination Committee during the Review Period.

The candidates for directorship during the year were nominated and approved by the Board in accordance with the articles of association of the Company. The criteria adopted by the Board during the year in nominating and approving candidates for directorship are the candidates' experience and potential contribution to the Group.

INTERNAL CONTROLS

The Directors are responsible for maintaining and reviewing the effectiveness of the Group's internal controls. Appropriate policies and control procedures have been designed and established to ensure that assets are safeguarded against improper use or disposal; relevant rules and regulations are adhered to and complied with; reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements; and key risks that may impact on the Group's performance are appropriately identified and managed. Such procedures are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. These procedures can only provide reasonable, and not absolute, assurance against material errors, losses and fraud. The Directors, through the Company's Audit Committee, are kept regularly appraised of significant risks that may impact on the Group's performance.

In addition to the internal control function established internally by the Group, an external consultancy firm, RSM China Consulting Co., Ltd, was engaged by the Company to review the internal control system of the Group. The internal control plan of the Group covers major activities and processes of the Group's business and service units.

Corporate Governance Report

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

We believe accountability and transparency are indispensable for ensuring good corporate governance and, in this regard, timely communication with our shareholders, including institutional investors, is crucial. We manage investor relations systematically as a key part of our operations.

We maintain a website (www.besunyen.com) to keep our shareholders and the public investors being informed of our latest business developments and to disseminate shareholder information.

During the year, we followed a policy of maintaining an open and regular dialogue with institutional and minority shareholders, fund managers, analysts and the media through different means, including meetings, presentations, telephone conferences, correspondence, media briefings and press releases to distribute information of the Group's latest developments and strategies. We are also proactive in responding to general enquires raised by the investing public, individual and institutional investors and analysts.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and of the profits and cash flows of the Group. In preparing the financial statements for the year ended 31 December 2010, the Directors have selected suitable accounting policies and applied them consistently; made judgments and estimates which are reasonable and have prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position, results of operations, cash flows and changes in equity of the Group.

The Directors' and auditor's responsibilities for the financial statements of the Company are set out in the independent auditor's report on pages 55 and 56 of this annual report.

Directors' Report

The Board hereby presents its report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activities of the Group are engaged in the development, production, sales and marketing of therapeutic tea and other health food products in China. The particulars of the Company's subsidiaries are set out in note 41 of the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the Consolidated Statement of Comprehensive Income on page 57 of this annual report.

The Board recommends to pay a final dividend of HK$0.01 per share for the year ended 31 December 2010, with a dividend payout ratio of approximately 23.8%, on or around 13 May 2011.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last four financial years is set out on page 120.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the issued share capital of the Company during the year are set out in note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2010 amounted to RMB1,198.6 million.

Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

Movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity on page 59 of this annual report.

BANK BORROWINGS

Particulars of the Group's bank borrowings are set out in note 25 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2010:

(a) the turnover attributable to the five largest customers of the Group was less than 30% of the turnover of the Group;

(b) the purchases attributable to the five largest suppliers of the Group accounted for 52.1% of the purchases of the Group;

(c) the purchases attributable to the largest supplier of the Group accounted for 21.8% of the purchases of the Group; and

(d) none of the Directors, their associates or any shareholders of the Company (who or which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in any of the five largest suppliers of the Group.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive Directors

Mr. ZHAO Yihong *(Chairman and Chief Executive Officer)*
Ms. GAO Yan *(Vice Chairman)*

Non-executive Directors

Mr. ZHUO Fumin
Mr. WANG Bing (appointed on 18 May 2010)

Independent non-executive Directors

Mr. HUANG Jingsheng (appointed on 18 May 2010)
Mr. Wong Lap Tat Arthur (appointed on 1 July 2010)
Ms. XIN Katherine Rong (appointed on 1 July 2010)

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company has assessed their independence and considers that all the independent non-executive Directors are independent in accordance with guidelines set out under the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

None of the Directors have a service contract with the Company which is not determinable by the Company within one year without the payment of compensation other than statutory compensation.

REMUNERATION OF THE DIRECTORS

The remuneration of each Director is determined with reference to the duties, responsibilities, performance of the Directors and the results of the Group.

Details of the remuneration of the Directors are set out in note 10 to the consolidated financial statements of this annual report.

EMOLUMENTS POLICY

The Group's emolument policies are formulated on the performance of individual employee and on the basis of the salary trends in Hong Kong and the PRC, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted a share option scheme for its employees.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed under the section headed "NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS" in this report of the Directors, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party, and which subsisted at the end of the year or at any time during the year.

RETIREMENT BENEFIT PLANS

The retirement benefit plans are set out in note 32 to the consolidated financial statements of this annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the Directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be and were entered into in the register required to be kept by the Company pursuant to Section 352 of the SFO, or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules:

Name of Director/ Chief Executive	Nature of interest	Number and class of securities(9)	Number and class of securities subject to options granted under the Pre-IPO Share Option Scheme	Approximate percentage of interest of total issued shares (%)(9)
Mr. ZHAO Yihong	Beneficial owner, interest of his spouse and founder of a discretionary trust(1)(3)	1,067,178,600 shares(1)(L)	36,000,000 shares(1)(L)	63.48%
Ms. GAO Yan	Beneficial owner and interest of her spouse(2)(3)	1,067,178,600 shares(2)(L)	36,000,000 shares(2)(L)	63.48%
Mr. ZHUO Fumin	Beneficial owner and interest of his spouse	460,000 shares(4)(L)	400,000 shares(4)(L)	0.03%
Mr. WANG Bing	Beneficial owner and interest of corporation controlled by the director	21,939,400 shares(5)(L)	400,000 shares(5)(L)	1.31%
Mr. HUANG Jingsheng	Beneficial owner	500,000 shares(6)(L)	500,000 shares(6)(L)	0.03%
Mr. WONG Lap Tat Arthur	Beneficial owner	500,000 shares(7)(L)	500,000 shares(7)(L)	0.03%
Ms. XIN Katherine Rong	Beneficial owner	500,000 shares(8)(L)	500,000 shares(8)(L)	0.03%

(1) Mr. Zhao Yihong, our executive Director, beneficially owns 24,000,000 Shares pursuant to the grant of an option for 24,000,000 Shares under the Pre-IPO Share Option Scheme. Mr. Zhao is also deemed or taken to be interested in the following Shares for the purposes of the SFO:

(i) 1,031,178,600 Shares which are beneficially owned by Foreshore Holding Group Limited, a company which is controlled by Mr. Zhao; and

(ii) 12,000,000 Shares which are beneficially owned by Ms. Gao Yan, Mr. Zhao's spouse, pursuant to the grant of an option for 12,000,000 Shares under the Pre-IPO Share Option Scheme.

(2) Ms. Gao Yan, our executive Director, beneficially owns 12,000,000 Shares pursuant to the grant of an option for 12,000,000 Shares under the Pre-IPO Share Option Scheme. Ms. Gao is also deemed or taken to be interested in the following Shares for the purposes of the SFO:

(i) 1,031,178,600 Shares which are deemed to be beneficially owned by Mr. Zhao Yihong, Ms. Gao's spouse, as controlling shareholder of Foreshore Holding Group Limited; and

(ii) 24,000,000 Shares which are beneficially owned by Mr. Zhao Yihong, Ms. Gao's spouse, pursuant to the grant of an option for 24,000,000 Shares under the Pre-IPO Share Option Scheme.

(3) 84.15% of the issued share capital of Foreshore is directly owned by Sea Network Holdings Limited. The entire issued share capital of Sea Network Holdings Limited is held by KCS Trust Limited, in its capacity as the trustee of a family trust established by Mr. Zhao Yihong as the settlor for the benefit of himself and his family members.

(4) Mr. Zhuo Fumin, our non-executive Director, beneficially owns 400,000 Shares pursuant to the grant of an option for 400,000 Shares under the Pre-IPO Share Option Scheme. Mr. Zhuo is also deemed or taken to be interested in the 60,000 Shares beneficially owned by his wife for the purposes of the SFO.

(5) Mr. Wang Bing, our non-executive Director, beneficially owns 400,000 Shares pursuant to the grant of an option for 400,000 Shares under the Pre-IPO Share Option Scheme. Mr. Wang is also deemed or taken to be interested in the 21,539,400 Shares indirectly owned by Ding Tian Capital Management (Cayman) Limited, a company which is controlled by Mr. Wang, for the purposes of the SFO. Ding Tian Capital Management (Cayman) Limited is the parent company of Ding Tian Greater China Strategy Fund, which beneficially owns 20,339,400 Shares, and DTC China New Economy Growth Fund, which beneficially owns 1,200,000 Shares.

(6) Mr. Huang Jingsheng, our independent non-executive Director, beneficially owns 500,000 Shares pursuant to the grant of an option for 500,000 Shares under the Pre-IPO Share Option Scheme.

(7) Mr. Wong Lap Tat Arthur, our independent non-executive Director, beneficially owns 500,000 Shares pursuant to the grant of an option for 500,000 Shares under the Pre-IPO Share Option Scheme.

(8) Ms. Xin Katherine Rong, our independent non-executive Director, beneficially owns 500,000 Shares pursuant to the grant of an option for 500,000 Shares under the Pre-IPO Share Option Scheme.

(9) This is calculated based on 1,681,091,320 Shares, being the number of Shares in issue on the 31 December 2010. The Shares and the percentage of interest in the columns include the Pre-IPO share options.

* The letter "L" denotes the person's long position in such securities.

PRE-IPO SHARE OPTION SCHEME

The Company adopted a Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") on 30 April 2010. The Pre-IPO Share Option Scheme is to give our employees an opportunity to have a personal stake in the Company and to motivate our employees to optimize their performance and efficiency, and to retain our employees whose contribution are important to the long-term growth and profitability of the Group. No further options under the Pre-IPO Share Option Scheme can be granted after the date of listing of the shares of the Company on the Stock Exchange.

Details of the Pre-IPO Share Options outstanding and movements during the year ended 31 December 2010 are set out in note 33 to the consolidated financial statements of this annual report.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 8 September 2010.

The purpose of the Share Option Scheme is to provide an incentive to motivate, attract and retain eligible person, and to encourage them to optimize their performance efficiency, enhance the value of the Company and promote the long-term growth of the Company. This Scheme will provide the eligible participants, including employees, consultants, executives or officers of the Company to have a personal stake in the Company to achieve its intended purpose.

The Share Option Scheme shall be valid and effective for a period of 10 years from 8 September 2010, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

The maximum number of shares in respect of which may be issued upon exercise of all options to be granted under the Share Option Scheme and the Pre-IPO Share Option Scheme shall not, in aggregate, exceed 168,109,132, being 10% of the shares of the Company in issue immediately after the initial public offering ("IPO") on the listing date (i.e. 29 September 2010) which is the effective date of such scheme.

The maximum number of shares issued and to be issued upon exercise of the options granted to any eligible person under the Share Option Scheme shall not in any 12-month period up to the date of grant exceed 1% of the issued share capital of the Company from time to time. Any further grant of share options in excess of this limit is subject to the issue of a circular and shareholders' approval in general meeting. The period within which an option may be exercised under the Share Option Scheme or the Pre-IPO Share Option Scheme will be determined by the Board at its absolute discretion, save that no option may be exercised later than 10 years from the date of grant of the particular option. Under the Share Option Scheme, the exercise price in relation to each option shall be determined by the Board at its absolute discretion, but in any event shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of such option; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of such option; and (iii) the nominal value of a share on the date of grant of such option.

No share options were granted under the Share Option Scheme by the Company during the year ended 31 December 2010 and there were no outstanding share options under the Share Option Scheme as at 31 December 2010.

Save as disclosed above, during the year ended 31 December 2010, neither the Company nor any of its subsidiaries is a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities of, the Company or any associated corporation and none of the Directors had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS, AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, so far as known to any Director or chief executive of the Company, shareholders (other than a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

Substantial Shareholders	Number and class of securities*	Approximate percentage of interest of total issued shares (%)[4]
Foreshore Holding Group Limited[1]	1,031,178,600 shares[L]	61.34%
KCS Trust Limited[1]	1,031,178,600 shares[L]	61.34%
Sea Network Holdings Limited[1]	1,031,178,600 shares[L]	61.34%
GGV III Entrepreneurs Fund L.P.[2]	102,788,640 shares[L]	6.11%
Granite Global Ventures III L.L.C.[2]	102,788,640 shares[L]	6.11%
Granite Global Ventures III L.P.[2]	102,788,640 shares[L]	6.11%
FIL Limited[3]	87,073,000 shares[L]	5.18%

(1) 84.15% of the issued share capital of Foreshore Holding Group Limited is directly owned by Sea Network Holdings Limited. The entire issued share capital of Sea Network Holdings Limited is held by KCS Trust Limited, in its capacity as the trustee of a family trust established by Mr. Zhao Yihong as the settlor for the benefit of himself and his family members.

(2) Granite Global Ventures III L.L.C. is the general partner of Granite Global Ventures III L.P., which beneficially owns 101,144,040 Shares, and GGV III Entrepreneurs Fund L.P., which beneficially owns 1,644,600 Shares. Granite Global Ventures III L.P. and GGV III Entrepreneurs Fund L.P. are parties to an agreement under section 317 of the SFO and are deemed or taken to be interested in a total of 102,788,640 Shares.

(3) FIL Limited is the parent company of non-U.S. investment advisors, including FIL Investment Management (Hong Kong) Limited.

(4) This is calculated based on 1,681,091,320 Shares, being the number of Shares in issue on the 31 December 2010.

* The letter "L" demotes the person's long position in such securities.

Other than as disclosed above, as at 31 December 2010, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Beijing Outsell, an indirect wholly owned subsidiary of our Company, has entered into transactions with Besunyen Investment Co., Ltd. ("BSYI"), an associate of Mr. Zhao Yihong and Ms. Gao Yan. Pursuant to a commercial premises lease agreement dated 10 January 2010 and a supplemental lease agreement dated 9 August 2010 (together, the "BSYI Lease Agreements"), Beijing Outsell agreed to lease (the "BSYI Lease") from BSYI the premises located at Rooms 1811, 1813, 1815 and 1817 of No. 9, Si Huan Xi Road North, Haidian District, Beijing (the "Haidian Properties") for use as offices.

Beijing Outsell leased the Haidian Properties from 1 January 2008 to 31 December 2008 pursuant to a lease agreement dated 1 January 2008 and renewed the BSYI Lease from 1 January 2009 to 31 December 2009 pursuant to a lease agreement dated 1 January 2009. Pursuant to the BSYI Lease Agreements, the term of the BSYI Lease is effective from 1 January 2010 to 31 December 2012 and the rental per annum was RMB1.2 million, such rental payable in full by the end of August every year and is fixed throughout the term of the BSYI Lease. The aggregate amount of rental payments made by us to BSYI for the lease of the Haidian Properties for each of the financial years ended 31 December 2008 and December 2009 was RMB1.2 million. During the year ended 31 December 2010, the full rental payment of RMB1.2 million was paid pursuant to the BSYI Lease.

The Board, including the independent non-executive Directors, has reviewed and confirmed that the continuing connected transactions for the year ended 31 December 2010 were entered into:

(i) in the ordinary course of business of the Group;

(ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third party; and

(iii) in accordance with the relevant written agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions and the auditor has reported the factual findings on these procedures to the Board committee.

The auditor of the Company has confirmed to the Board in writing in respect of the continuing connected transactions set out above for the year ended 31 December 2010:

(a) were approved by the Board;

(b) were entered into in accordance with the relevant agreement governing the transactions; and

(c) did not exceed the relevant cap amount for the financial year ended 31 December 2010 as set out in the Prospectus.

As disclosed in the Prospectus, the annual cap of the fee payable for the financial year ended 31 December 2010 is RMB1.2 million. The aggregate fee paid under the BSYI Lease Agreements for the year ended 31 December 2010 was RMB1.2 million.

MANAGEMENT CONTRACTS

The Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the business of the Group, to which the Company or any of its subsidiaries was a party and in which a controlling shareholder of the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

So far as the Directors were aware, none of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law of the Cayman Islands where the Company is incorporated.

MODEL CODE FOR SECURITIES TRANSACTIONS

For details, please refer to the section headed "DIRECTORS' SECURITIES TRANSACTIONS" on page 39 of this annual report.

CORPORATE GOVERNANCE PRACTICE

For details of the corporate governance practice, please refer to the Corporate Governance Report from pages 39 to 44 of this annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the year ended 31 December 2010.

USE OF THE NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

For details, please refer to the section headed "Use of the Net Proceeds from the IPO" on page 27 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

The shares of the Company were listed on 29 September 2010 on the main board of the Stock Exchange. Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this annual report, the Company has maintained sufficient public float since the listing of the shares of the Company on the main board of the Stock Exchange.

AUDITOR

The Company has appointed Messrs. Deloitte Touche Tohmatsu as auditor of the Company for the year ended 31 December 2010. Messrs. Deloitte Touche Tohmatsu will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed for approval by shareholders at the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members will be closed by the Company from 27 April 2011 to 29 April 2011, both days inclusive. During such period, no transfer of shares of the Company will be registered. In order to qualify for entitlement to attend the forthcoming annual general meeting of the Company and, if applicable, to receive a final dividend for the year ended 31 December 2010, all completed transfer forms accomplished by the relevant shares certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 26 April 2011. The record date for the determination of entitlement to the final dividend will be on 29 April 2011.

On behalf of the Board
ZHAO Yihong
Chairman

Independent Auditor's Report

Deloitte.
德勤

To the Members of Besunyen Holdings Company Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Besunyen Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 57 to 119, which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

11 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	Year ended 31 December 2010 RMB'000	 2009 RMB'000
Turnover	5	**874,216**	646,535
Cost of sales		**(91,135)**	(68,401)
Gross profit		**783,081**	578,134
Other (expenses) income	6	**(32,090)**	13,338
Selling and marketing expenses		**(423,314)**	(343,808)
Administrative expenses		**(96,810)**	(27,800)
Finance costs	7	**(8,360)**	(8,654)
Change in fair value on redeemable convertible preferred shares	30	**(121,361)**	(33,497)
Profit before taxation	8	**101,146**	177,713
Taxation	9	**(41,491)**	(36,006)
Profit and total comprehensive income for the year		**59,655**	141,707
Earnings per share			
Basic (RMB)	12	**0.05**	0.13
Diluted (RMB)	12	**0.05**	0.13

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	At 31 December 2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property plant and equipment	13	**272,145**	130,935
Prepaid lease payments	14	**68,767**	18,025
Intangible assets	15	**22,147**	7,138
Non-current deposits	16	**58,705**	93,056
Deferred tax assets	27	**8,408**	976
Goodwill	17	**20,785**	–
		450,957	250,130
CURRENT ASSETS			
Inventories	18	**5,669**	6,397
Trade and notes receivables	19	**152,803**	94,723
Deposits, prepayments and other receivables	20	**102,548**	44,506
Amounts due from related parties	38	**–**	20
Pledged bank deposits	21	**–**	1,955
Bank balances and cash	22	**1,170,469**	168,777
		1,431,489	316,378
CURRENT LIABILITIES			
Trade payables	23	**7,342**	10,512
Other payables and accrued expenses	24	**100,504**	31,981
Amount due to a related party	38	**1,000**	–
Taxation payable		**17,142**	13,436
Bank borrowings	25	**–**	50,000
		125,988	105,929
NET CURRENT ASSETS		**1,305,501**	210,449
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,756,458**	460,579
CAPITAL AND RESERVES			
Paid in capital/share capital	28	**95**	63
Reserves	29	**1,735,600**	299,451
		1,735,695	299,514
NON-CURRENT LIABILITIES			
Bank borrowings	25	**–**	15,000
Deferred government grant	26	**9,459**	3,944
Deferred tax liabilities	27	**11,304**	6,200
Redeemable convertible preferred shares	30	**–**	135,921
		20,763	161,065
		1,756,458	460,579

The consolidated financial statements on pages 57 to 119 were approved and authorised for issue by the Board of Directors on 11 March 2011 and are signed on its behalf by:

Zhao Yihong
DIRECTOR

Gao Yan
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Paid-in capital/ Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 Note 29 (a)	Special reserve RMB'000 Note 29 (b)	Statutory surplus reserve RMB'000 Note 29 (c)	Share option reserve RMB'000	Accumulated profits RMB'000	Total equity attributable to owners of the Company RMB'000
At 1 January 2009	61,994	–	272	–	16,812	–	80,866	159,944
Profit and total comprehensive income for the year	–	–	–	–	–	–	141,707	141,707
Transfer	–	–	–	–	10,987	–	(10,987)	–
Capitalisation of accumulated profits	170,798	–	–	–	–	–	(170,798)	–
Distribution to a shareholder (note 1(d))	–	–	–	(2,200)	–	–	–	(2,200)
Issuance of ordinary shares	63	–	–	–	–	–	–	63
Transfer upon the Reorganisation	(232,792)	–	(272)	233,064	–	–	–	–
At 31 December 2009	63	–	–	230,864	27,799	–	40,788	299,514
Profit and total comprehensive income for the year	–	–	–	–	–	–	59,655	59,655
Transfer	–	–	–	–	25,147	–	(25,147)	–
Dividend	–	–	–	–	–	–	(47,500)	(47,500)
Issuance of ordinary shares	26	1,182,675	–	–	–	–	–	1,182,701
Expenses incurred in connection with the issuance of ordinary shares	–	(51,556)	–	–	–	–	–	(51,556)
Conversion of redeemable convertible preferred shares	6	256,232	–	–	–	–	–	256,238
Share-based payments	–	–	–	–	–	36,643	–	36,643
At 31 December 2010	**95**	**1,387,351**	**-**	**230,864**	**52,946**	**36,643**	**27,796**	**1,735,695**

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**101,146**	177,713
Adjustments for:		
Amortisation of intangible assets	**4,102**	1,807
Depreciation of property, plant and equipment	**15,690**	4,081
Exchange loss	**11,680**	–
Finance costs	**8,360**	8,654
Fair value change on redeemable convertible preferred shares	**121,361**	33,497
Fair value change of investments held for trading	**–**	(2,604)
Loss on disposal of property, plant and equipment	**152**	642
Impairment loss on property, plant and equipment	**1,528**	–
Reversal of impairment loss on trade receivables	**–**	(323)
Interest income	**(2,209)**	(3,328)
Loss on deregistration of subsidiaries	**–**	86
Release of deferred government grant	**(336)**	–
Release of prepaid lease payments	**1,125**	368
Share-based compensation	**36,643**	–
Operating cash flows before movements in working capital	**299,242**	220,593
Decrease in inventories	**1,042**	298
Increase in trade and notes receivables	**(58,080)**	(86,305)
Increase in deposits, prepayments and other receivables	**(54,258)**	(26,833)
Decrease in amounts due from related parties	**20**	10,622
Decrease in investments held for trading	**–**	7,755
(Decrease) increase in trade payables	**(3,170)**	5,756
Increase (decrease) in other payables and accrued expenses	**48,614**	(17,561)
Decrease in amounts due to related parties	**–**	(383)
Cash generated from operations	**233,410**	113,942
Income taxes paid	**(45,809)**	(17,358)
Interest paid	**(8,508)**	(3,348)
Interest received	**2,209**	3,328
NET CASH FROM OPERATING ACTIVITIES	**181,302**	96,564

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(139,499)**	(142,518)
Purchase of land use rights	**(13,546)**	(994)
Loan to a related party	**(6,500)**	(60,700)
Purchase of intangible assets	**(1,255)**	(3,602)
Loan repayment from a related party	**6,500**	60,700
Receipt of government grant income	**6,500**	2,080
Refund of a deposit for acquisition of a subsidiary	**2,000**	–
Decrease in pledged bank deposits	**1,955**	10,199
Acquisition of subsidiaries (note 39)	**1,122**	–
Deposit paid for acquisition of a subsidiary	**–**	(2,000)
Loan repayment from a third party	**–**	4,560
Proceeds from disposal of property, plant and equipment	**42**	540
NET CASH USED IN INVESTING ACTIVITIES	**(142,681)**	(131,735)
FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	**1,151,851**	63
Proceeds from bank borrowings	**50,000**	30,000
Advances from related parties	**1,000**	19,180
Repayment of bank borrowings	**(115,000)**	–
Share issue cost	**(51,556)**	–
Dividend paid	**(47,500)**	(25,759)
Loan repayment to an independent third party	**(12,500)**	–
Advances repayment to related parties	**(500)**	(520)
Proceeds from issuance of redeemable convertible preferred shares	**–**	102,424
Issuance cost for redeemable convertible preferred shares	**–**	(7,318)
Distribution to a shareholder	**–**	(2,200)
NET CASH FROM FINANCING ACTIVITIES	**975,795**	115,870
INCREASE IN CASH AND CASH EQUIVALENTS	**1,014,416**	80,699
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR REPRESENTING BANK BALANCES AND CASH	**168,777**	88,078
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	**(12,724)**	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR REPRESENTING BANK BALANCES AND CASH	**1,170,469**	168,777

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. Group Reorganisation and Basis of Presentation of Consolidated Financial Statements

The Company was incorporated in the Cayman Islands on 5 August 2009 as an exempted company under the Cayman Companies Law. The addresses of the registered office is the Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman KY1-1208, Cayman Islands, and the principal place of business of the Company is No. 1 Qiushi Industry Park, Doudian Town, Fangshan District, Beijing.

The Company underwent the group reorganisation (the "Reorganisation") which included the following steps:

(a) Prior to the Reorganisation, Mr. Cui Shan held the entire shareholding of Beijing Outsell Health Product Development Co., Ltd. ("Beijing Outsell") on trust for Mr. Zhao Yihong. Pursuant to the sales and purchase agreement dated 1 September 2009, Mr. Cui Shan agreed to transfer the entire equity interest in Beijing Outsell to Besunyen (Hong Kong) Co., Limited ("Besunyen HK") in exchange for all of the share of Besunyen HK.

(b) Besunyen Investment (BVI) Co. Ltd. ("Besunyen Investment") was incorporated in the British Virgin Islands ("BVI") with limited liability on 11 August 2009 and was owned by Mr. Zhao Yihong. On 25 September 2009, 100% of equity interest owned by Mr. Zhao Yihong in Besunyen Investment was transferred to the Company.

(c) Besunyen HK was incorporated in Hong Kong with limited liability on 10 June 2009 and was owned by Mr. Cui Shan. On 5 October 2009, 100% of equity interest owned by Mr. Cui Shan was transferred to Besunyen Investment in exchange for one share at par value of US$1 pursuant to a share transfer agreement. Thereafter, the Company has become the holding company of the Group since 5 October 2009.

(d) Besunyen Food and Beverage Co., Ltd. ("Besunyen Food and Beverage") was established on 29 June 2007 and the beneficial owner is Mr. Zhao Yihong. On 9 October 2009, Beijing Outsell acquired 100% of equity interest of Besunyen Food and Beverage from Besunyen Investment Co., Ltd., a company owned by Mr. Zhao Yihong, for a consideration of RMB2,200,000. Such consideration was accounted for as a distribution to the shareholder.

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group which has been prepared by applying the principles of merger accounting, as if the group structure had been in existence throughout the year presented, or since their respective dates of incorporation/establishment where this is a shorter period.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are the manufacture and sales of therapeutic tea products. Details of the subsidiaries are set out in note 41.

2. Adoption of New and Revised International Financial Reporting Standards

New and revised Standards and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRSs"), amendments and the related Interpretations ("IFRICs").

IFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (as revised in 2008)	Business Combinations
IAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
IAS 39 (Amendments)	Eligible Hedged Items
IFRSs (Amendments)	Improvements to HKFRSs issued in 2009
IFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to IFRSs issued in 2008
IFRIC – Int 17	Distributions of Non-cash Assets to Owners

Except as described below, the application of the new and revised IFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

IFRS 3 (as revised in 2008) Business Combinations

IFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

- IFRS 3 (2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. In the current year, in accounting for the acquisition of Subsix Limited, the Group has elected to measure the non-controlling interests at fair value at the date of acquisition. Consequently, the goodwill recognised in respect of that acquisition reflects the impact of the difference between the fair value of the non-controlling interests and their share of the recognised amount of the identifiable net assets of the acquiree.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. Adoption of New and Revised International Financial Reporting Standards *(Continued)*

IFRS 3 (as revised in 2008) Business Combinations *(continued)*

- IFRS 3 (2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

- IFRS 3 (2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

- IFRS 3 (2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

In the current year, the application of IFRS3 (as revised in 2008) has affected the acquisition of Zhuhai Qi Jia Medical Industry Co. Ltd. ("Zhuhai Qi Jia") and Ever Assure Limited ("Ever Assure"), the acquisition-related costs of RMB942,000 was recognised as an expense in the profit or loss as incurred.

At the date of this report, the International Accounting Standards Board ("IASB") has issued the following new and revised standards, amendments and interpretations which are not yet effective.

IFRSs (Amendments)	Improvements to IFRS May 2010[i]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[vii]
IAS 24 (Revised)	Related Party Disclosures[ii]
IAS 32 (Amendment)	Classification of Rights Issues[iii]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[iv]
IFRS 9	Financial Instruments[v]
IFRIC 14 (Amendment)	Prepayment of a Minimum Funding Requirement[ii]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[v]
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets[vi]

(i) Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
(ii) Effective for annual periods beginning on or after 1 January 2011
(iii) Effective for annual periods beginning on or after 1 February 2010
(iv) Effective for annual periods beginning on or after 1 July 2010
(v) Effective for annual periods beginning on or after 1 January 2013
(vi) Effective for annual periods beginning on or after 1 July 2011
(vii) Effective for annual periods beginning on or after 1 January 2012

The Group has not early adopted these new and revised standards, amendments and interpretations in the preparation of the consolidated financial statements.

2. Adoption of New and Revised International Financial Reporting Standards *(Continued)*

IAS 24 (Revised) Related Party Disclosures

IAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

IAS 32 (Amendment) Classification of Rights Issues

The amendments to IAS 32 titled Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under IFRS 9, all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2. Adoption of New and Revised International Financial Reporting Standards *(Continued)*

IFRS 9 Financial Instruments *(continued)*

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new Standard might have an impact on amounts reported in respect of the Groups' financial assets and financial liabilities.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

The directors of the Company anticipate that the application of the other standards, amendments and interpretations will have no material impact on the consolidated financial statements of the Group.

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of consideration given in exchange for goods.

3. Significant Accounting Policies *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair values, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Merger accounting for business combinations involving entities under common control

Business combinations under common control are accounted for in accordance with the merger accounting. In applying merger accounting, the consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or business first came under the control of controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values prior to the common control combinations from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is earlier.

3. Significant Accounting Policies *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts, returns, rebates, and sales related tax.

Revenue from sales of goods is recognised when the goods are delivered and title has passed.

Service income is recognised when services are rendered.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amounts of revenue can be measured reliably. Interest income from a financial asset excluding financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as and included in finance costs in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies *(Continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as expenses when employees have rendered services entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

Share options granted to suppliers/consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

3. Significant Accounting Policies *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies *(Continued)*

Property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost, other than construction in progress, over their estimated useful lives, and after taking into account their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Prepaid lease payments

Payment for obtaining land use rights is accounted for as prepaid lease payments and is charged to the statement of comprehensive income on a straight-line basis over the lease terms.

Intangible assets

Intangible assets acquired separately

Intangible assets represent product trademarks, patent, product development costs, contract backlog, customers base and non-compete agreement for the manufacturing of therapeutic tea products and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

3. Significant Accounting Policies *(Continued)*

Intangible assets *(Continued)*

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets including loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables (including trade and notes receivables, other receivables, amounts due from related parties, pledged bank deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and notes receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60-180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When trade receivables and other receivables are considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into finance liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

Redeemable convertible preferred shares issued by the Company comprise the host debt instrument and the embedded derivatives (including the redemption option and conversion option) and are designated as financial liabilities at FVTPL on initial recognition. The conversion option allows the holder to convert the preferred shares into ordinary shares and will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, and therefore it does not meet the equity classification. At the end of the reporting period subsequent to initial recognition, the entire redeemable convertible preferred shares are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Transaction costs that relate to the issue of the redeemable convertible preferred shares designated as financial liabilities at FVTPL are charged to profit or loss immediately.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to related companies, bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 3, management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight line method. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. As at 31 December 2010, the carrying amount of property, plant and equipment is RMB272,145,000 (2009: RMB130,935,000). Any change in these estimates may have a material impact on the results of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. Key Sources of Estimation Uncertainty *(Continued)*

Key sources of estimation *(Continued)*

Amortisation of intangible assets

The Group amortises its intangible assets on a straight-line basis over the estimated useful life ranged from 0.8 to 10 years commencing from the date on which the intangible assets are available for use. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from its intangible assets. As at 31 December 2010, the carrying amount of intangible assets was RMB22,147,000 (2009: RMB7,138,000). Any change in these estimates may have a material impact on the results of the Group.

Allowances for doubtful debts

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade and notes receivables. Allowances are applied to trade and notes receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying amounts of trade and notes receivables and doubtful debts expenses in the year in which such estimate is changed. As at 31 December 2010, the carrying amounts of trade and notes receivables was RMB152,803,000 (2009: RMB94,723,000). No allowance for doubtful debts was recognised for the year ended 31 December 2010 (2009: RMBNil).

5. Turnover and Segment Information

Turnover represents the invoiced value of therapeutic tea products sold to customers by the Group less returns, discounts, rebates and value-added tax.

The Group operates and manages its business as a single segment that includes primarily the manufacture and sales of therapeutic tea products. The Group's chief operating decision maker has been identified as the Company's Chairman and Chief Executive Officer, who reviews the revenue analysis by major products of the Group when making decisions about allocating resources and assessing performance of the Group. As no other discrete financial information is available for the assessment of performance of different products, no other segment information is presented.

The revenues attributable to the Group's major products are as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Detox tea	**566,222**	373,135
Slimming tea	**304,186**	265,706
Other tea products	**3,808**	7,694
	874,216	646,535

5. Turnover and Segment Information *(Continued)*

Major customers

No single customers contribute over 10% or more of the turnover of the Group for the years ended 31 December 2010 and 2009.

Geographical disclosures

The Group operates in the People's Republic of China ("PRC"). Substantially all of the non-current assets of the Group are located in the PRC.

6. Other (Expenses) Income

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Fair value gain on investments held for trading	**–**	2,604
Government grants (Note)	**11,977**	7,446
Interest income		
– Bank interest income	**2,089**	1,904
– Interest income from a related company	**120**	1,424
	2,209	3,328
Service income	**990**	–
Acquisition-related expenses	**(942)**	–
Listing expenses	**(33,516)**	–
Loss on deregistration of subsidiaries	**–**	(86)
Net foreign exchange loss	**(11,680)**	–
Others	**(1,128)**	46
	(32,090)	13,338

Note:

The government grants mainly represented the various subsidies from the PRC government for supporting the business operations in which the Company's headquarters is located.

The amount for the year ended 31 December 2010 also includes a government grant of RMB336,000 (2009: Nil) related to the construction of the plant facilities (see note 26).

7. Finance Costs

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Issuance costs of redeemable convertible preferred shares	**–**	7,318
Interest expense on bank borrowings wholly repayable within five years	**8,508**	3,336
Less: amounts capitalised	**(148)**	(2,000)
	8,360	8,654

Borrowings cost capitalised during the years arose from borrowings specifically for the purpose of obtaining qualifying assets.

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For the year ended 31 December 2010

8. Profit Before Taxation

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration		
– salaries and other allowances	**142,104**	54,267
– retirement benefit scheme contributions	**6,475**	5,748
Total staff costs	**148,579**	60,015
Amortisation of intangible assets	**4,102**	1,807
Auditors' remuneration	**3,921**	1,088
Cost of inventories recognised as expense	**91,135**	68,401
Depreciation of property, plant and equipment	**15,690**	4,081
Loss on disposal of property, plant and equipment	**152**	642
Impairment loss on property, plant and equipment	**1,528**	–
Release of prepaid lease payments	**1,125**	368
Research and development costs	**8,185**	1,946
Impairment loss on trade receivables	**–**	(323)

9. Taxation

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
The charge comprises		
PRC income tax	**49,515**	30,369
Deferred taxation		
– current year	**(8,024)**	5,637
	41,491	36,006

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Profit before taxation	**101,146**	177,713
Tax at PRC Enterprise Income Tax rate of 25% (2009: 25%)	**25,286**	44,428
Effect of tax exemption granted	**(35,301)**	(27,320)
Tax effect of tax loss not recognised	**2,426**	1,359
Utilisation of tax loss previously not recognised	**(1,838)**	(986)
Tax effect of income not taxable for tax purposes	**–**	(233)
Tax effect of expenses not deductible for tax purposes	**48,196**	12,558
Withholding tax on undistributed earnings	**2,722**	6,200
Tax charge for the year	**41,491**	36,006

9. Taxation *(Continued)*

The Company was incorporated in the Cayman Islands and Besunyen Investment was incorporated in the BVI that are tax exempted under the tax laws of the Cayman Islands and the BVI.

Starting from 1 January 2008, Beijing Outsell applied the statutory rate of 25% due to the change of the PRC Income Tax Laws. Beijing Outsell is exempted from PRC income tax for two years starting from its first profit making year, followed by a 50% reduction for the next three years. Beijing Outsell was exempted from PRC income tax in 2007 and 2008, and entitled to 50% reduction in PRC income tax in 2009, 2010 and 2011.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Except for Beijing Outsell, the remaining PRC subsidiaries are subject to a unified tax rate at 25% from 1 January 2008 onwards.

The EIT rate for entities operating in the PRC, other than Beijing Outsell, was 25% in 2010 (2009: 25%).

According to a joint circular of Ministry of Finance and the State Administration of Taxation, Cai Shui No. 1 of 2008, only the profits earned by foreign-investment enterprise prior to 1 January 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profit generated thereafter, shall be subject to EIT at 10% and withheld by the PRC entity, pursuant to Articles 3 and 27 of the EIT Law and Article 91 of its Details Implementation Rules. By the Tax Arrangement for Avoidance of Double Taxation between China and Hong Kong (China-HK TA), a Hong Kong resident company should be entitled to preferential tax rate of 5% when receiving dividend from its PRC subsidiary. Beijing Outsell received approval from national tax bureau on 5 August 2010 stating that its immediate holding company can enjoy the preferential tax rate of 5% on dividend received from the PRC subsidiary.

During the year ended 31 December 2010, deferred tax liabilities have been accrued at the tax rate of 5% on the expected dividend of about 25% of profit for the year which is determined by the directors of the Company.

No provision for Hong Kong Profits Tax has been made as the Group's operations in Hong Kong had no assessable profit in Hong Kong for either year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

10. Directors' and Employees' Emoluments

Directors

Details of the emoluments paid and payable to the directors of the Company are as follows:

For the year ended 31 December 2010:

	Directors' fee RMB'000	Salaries and other allowances RMB'000	Share-based compensation RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors					
Zhao Yihong	102	1,184	7,932	45	9,263
Gao Yan	102	963	3,966	43	5,074
	204	2,147	11,898	88	14,337
Non-executive directors					
Zhuo Fumin	102	–	108	–	210
Wang Bing	102	–	108	–	210
	204	–	216	–	420
Independent non-executive directors					
Arthur Wong Lap Tat	52	–	212	–	264
Huang Jingsheng	102	–	136	–	238
Xin Katherine Rong	51	–	212	–	263
	205	–	560	–	765

For the year ended 31 December 2009:

	Directors' fee RMB'000	Salaries and other allowances RMB'000	Share-based compensation RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors					
Zhao Yihong	–	379	–	26	405
Gao Yan	–	300	–	21	321
	–	679	–	47	726
Non-executive directors					
Zhuo Fumin	–	–	–	–	–
Wang Bing	–	–	–	–	–
	–	–	–	–	–
Independent non-executive directors					
Arthur Wong Lap Tat	–	–	–	–	–
Huang Jingsheng	–	–	–	–	–
Xin Katherine Rong	–	–	–	–	–
	–	–	–	–	–

10. Directors' and Employees' Emoluments *(Continued)*

Directors *(Continued)*

The bonus and other related incentive payments, which were discretionary, were determined based on financial performance of the Group and have been included in the salaries and other allowances disclosed above.

Employees

The five highest paid individuals of the Group for the year ended 31 December 2010 included two directors (2009: two). The emoluments of the remaining three individuals for the year ended 31 December 2010 (2009: three) are as follows:

	For the year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Salaries and other benefits	**2,536**	703
Share-based compensation	**8,929**	–
Retirement benefit scheme contributions	**82**	29
	11,547	732

The emoluments were within the following bands:

	Number of employees Year ended 31 December	
	2010	2009
HK$nil to HK$1,000,000	**–**	3
HK$1,500,001 to HK$2,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**1**	–
HK$6,000,001 to HK$7,500,000	**1**	–

During the year ended 31 December 2010, no remuneration was paid by the Group to the directors or the three highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration during both years.

Notes to the Consolidated Financial Statements

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11. Dividends

In April 2010, a special cash dividend of an aggregate amount of the US dollar equivalent of RMB47,500,000 was paid by the Company to the shareholders.

The rate of dividend and the number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

In respect of the financial year ended 31 December 2010, the directors propose a final dividend of HK$0.01 per share. The dividend is subject to approval by shareholders at the forthcoming Annual General Meeting.

12. Earnings Per Share

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share	**59,655**	141,707

	Year ended 31 December	
	2010	2009
	'000	'000
Numbers of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,276,841**	1,114,560
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**37,230**	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,314,071**	1,114,560

The weighted average number of ordinary shares for the purpose of calculating the basic earnings per share for either year has been retrospectively adjusted for the Reorganization and assuming that the Reorganisation had been effective on 1 January 2009, and the 120-for-one share sub-division that became effective on 10 September 2010.

The computation of diluted earnings per share for the year ended 31 December 2009 did not assume the conversion of the Company's outstanding redeemable convertible preferred shares since their exercise would result in an increase in earnings per share.

13. Property, Plant and Equipment

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Computer equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2009	13,715	8,916	5,352	765	753	30,848	60,349
Additions	32	42,371	1,971	291	1,759	35,636	82,060
Disposals	–	(918)	(533)	(60)	(257)	–	(1,768)
At 31 December 2009	13,747	50,369	6,790	996	2,255	66,484	140,641
Additions	10,428	65,745	5,949	1,648	8,038	57,755	149,563
Transfer	106,835	–	–	–	–	(106,835)	–
Acquisition though business combination	4,030	4,387	151	241	250	–	9,059
Disposals	–	(135)	(74)	–	(58)	–	(267)
At 31 December 2010	**135,040**	**120,366**	**12,816**	**2,885**	**10,485**	**17,404**	**298,996**
DEPRECIATION AND IMPAIRMENT							
At 1 January 2009	1,456	1,987	2,152	296	320	–	6,211
Provided for the year	422	2,084	1,071	162	342	–	4,081
Eliminated on disposals	–	(212)	(211)	(36)	(127)	–	(586)
At 31 December 2009	1,878	3,859	3,012	422	535	–	9,706
Provided for the year	4,243	7,828	1,986	317	1,316	–	15,690
Impairment loss	–	893	59	576	–	–	1,528
Eliminated on disposals	–	(31)	(9)	–	(33)	–	(73)
At 31 December 2010	6,121	12,549	5,048	1,315	1,818	-	26,851
NET BOOK VALUES							
At 31 December 2009	11,869	46,510	3,778	574	1,720	66,484	130,935
At 31 December 2010	**128,919**	**107,817**	**7,768**	**1,570**	**8,667**	**17,404**	**272,145**

The above items of property, plant and equipment, after taking into account their estimated residual value of 5% to 10% of the cost, are depreciated on a straight-line basis at the following rates per annum:

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

At 31 December 2010, the Group had pledged its buildings with an aggregate carrying value of RMBNil (2009: RMB11,869,000), to Beijing Rural Commercial Bank Co., LTD. Liangxiang Branch to secure the credit facilities granted to the Group.

The Group's buildings are situated on land in the PRC held by the Group under medium-term lease.

At 31 December 2010, the accumulated borrowing costs capitalised to construction in progress was RMB148,000 (2009: RMB2,000,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

14. Prepaid Lease Payments

The Group's prepaid lease payments comprise leasehold land in the PRC under medium-term lease and are analysed for reporting purposes as:

	31 December	
	2010	2009
	RMB'000	RMB'000
Current assets (included in deposits, prepayment and other receivables)	**1,447**	388
Non-current assets	**68,767**	18,025
	70,214	18,413

The prepaid lease payments represent the land use rights and are amortised on a straight-line basis over lease terms of 50 years as stated in the relevant land use right certificates granted for usage by the Group in the PRC.

At 31 December 2009, the Group had pledged its land use rights with an aggregate carrying value of RMB18,413,000 (2010: Nil,) to Beijing Rural Commercial Bank Co., LTD. Liangxiang Branch to secure the credit facilities granted to the Group. The pledge was released during the year ended 31 December, 2010.

15. Intangible Assets

	Trademarks	Patents	Product development costs	Contract backlog	Customers base	Non compete agreement	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2009	9,414	2,442	–	–	–	–	11,856
Additions	102	190	3,310	–	–	–	3,602
At 31 December 2009	9,516	2,632	3,310	–	–	–	15,458
Additions	–	18	173	–	–	–	191
Acquisition though business combination	–	14,030	–	200	2,430	2,260	18,920
At 31 December 2010	**9,516**	**16,680**	**3,483**	**200**	**2,430**	**2,260**	**34,569**
AMORTISATION							
At 1 January 2009	5,402	1,111	–	–	–	–	6,513
Provided for the year	1,416	391	–	–	–	–	1,807
At 31 December 2009	6,818	1,502	–	–	–	–	8,320
Provided for the year	1,336	1,243	763	146	284	330	4,102
At 31 December 2010	**8,154**	**2,745**	**763**	**146**	**284**	**330**	**12,422**
CARRYING VALUES							
At 31 December 2009	2,698	1,130	3,310	–	–	–	7,138
At 31 December 2010	**1,362**	**13,935**	**2,720**	**54**	**2,146**	**1,930**	**22,147**

15. Intangible Assets *(Continued)*

The above intangible assets are amortised on a straight-line basis over the following estimated useful lives:

Trademarks	10 years
Patents	5-10 years
Product development costs	3 years
Contract backlog	0.8 year
Customers base	5 years
Non compete agreement	4 years

All of the Group's intangible assets other than product development costs were acquired from third parties or through acquisition of subsidiaries. The product development costs represent payments to an independent third party, Jian Shi Xing Biotech Research and Development (Shanghai) Co., Ltd. ("Jian Shi Xing") for the development of new tea products. Jian Shi Xing is engaged in the research and development of tea and Chinese medicinal herbal products and was acquired by the Group in May 2010 (see Note 39(b) for further details).

16. Non-Current Deposits

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Deposits for purchase of property, plant and equipment (Note a)	**57,640**	67,556
Deposits for purchase of intangible assets (Note b)	**1,065**	–
Deposit for prepaid lease payments (Note c)	**–**	23,500
Deposit for acquisition of a subsidiary (Note d)	**–**	2,000
	58,705	93,056

Notes:

(a) Deposits for purchase of property, plant and equipment represented amounts paid for the acquisition of property, plant and equipment.

(b) Deposits for purchase of intangible assets represented amounts paid for the acquisition of trademarks.

(c) Deposit for prepaid lease payments represented payments for purchase of a land use right that was pending for the approval and registration at 31 December 2009. The registration was completed during the year ended 31 December 2010.

(d) Deposit for acquisition of a subsidiary represented a partial payment for the acquisition of a 100% equity interest in Zhuhai Qi Jia. The Group obtained a 100% beneficial interest in Zhuhai Qi Jia and the amount was fully refunded from the former shareholders of Zhuhai Qi Jia during the year ended 31 December 2010 (see Note 39(a) for further details).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

17. Goodwill

	RMB'000
Cost	
Arising on acquisition of subsidiaries during the year ended 31 December, 2010 and balance at 31 December 2010	**20,785**

There was no goodwill as at 31 December 2009.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	RMB'000
CGUs:	
Zhuhai Qi Jia (note 39(a))	5,305
Jian Shi Xing (note 39(b))	15,480
	20,785

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. During the year ended 31 December 2010, the directors of the Company determine that there are no impairments of any of its CGUs containing goodwill.

Zhuhai Qi Jia

The recoverable amount of Zhuhai Qi Jia has been determined based on value in use calculations. That calculation uses cash flow projections based on financial budgets approved by management covering a one-year period, and a discount rate of 23%. Cash flows beyond one-year period are extrapolated using a growth rate of 149.4% over the projected period of five years for impairment assessment purpose. Since the Group's current distribution network provides a ready platform for the launch of Besunyen MaiShuPing Tea acquired from Zhuhai Qi Jia and grants easy access to the market, management of the Group believes that a 149.4% growth rate is reasonable. Other key assumptions for the value in use calculation and the budgeted gross margins, which are determined based on the CGUs's past performance and management's expectations for the market development.

17. Goodwill *(Continued)*

Jian Shi Xing

The recoverable amount of Jian Shi Xing has been determined based on value in use calculations. That calculation uses cash flow projections based on financial budgets approved by management covering a one-year period, and a discount rate of 24%. Cash flows beyond one-year period are extrapolated using a growth rate of 57.4% over the projected period of five years for impairment assessment purposes. Since the research and development team of Jian Shi Xing has extensive experience in the development of tea health drink products for multi-national corporations, management of the Group believe that the research and development capabilities enable the Company to develop new customers and that a 57.4% growth rate is reasonable. Other key assumptions for the value in use calculation and the budgeted gross margins, which are determined based on the CGUs's past performance and management's expectations for the market development.

18. Inventories

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Raw materials	**4,159**	2,943
Work in progress	**1,354**	3,042
Finished goods	**156**	412
	5,669	6,397

19. Trade and Notes Receivables

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Trade receivables	**135,117**	39,428
Notes receivables	**17,686**	55,295
	152,803	94,723

The Group allows a credit period of 60-180 days to its trade customers. The following is an aged analysis of trade and notes receivables presented based on the invoice date at the end of the reporting period.

Notes to the Consolidated Financial Statements

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19. Trade and Notes Receivables *(Continued)*

	At 31 December	
	2010	2009
	RMB'000	RMB'000
0 – 90 days	**149,392**	93,150
91 – 180 days	**3,411**	1,502
181 to 365 days	**–**	71
	152,803	94,723

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines credit limits by customer internally. Limits and scoring attributed to customers are reviewed every year.

Included in the Group's trade and notes receivables are debtors at 31 December 2009 with an aggregate carrying amount of approximately RMB1,524,000 (2010: RMBNil) which were past due, for which the Group has not provided for an impairment loss. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired is as follows:

	At 31 December	
	2010	2009
	RMB'000	RMB'000
91 – 180 days	**–**	1,453
181 – 365 days	**–**	71
	–	1,524

The Group anticipates a full recovery of these amounts, and therefore no impairment has been recorded against these receivables.

No interest is charged on trade receivables. Allowances on trade receivables are made based on estimated irrecoverable amounts from the sales of goods by reference to past default experience and objective evidences of impairment determined by the difference between the carrying amount and the present value of the estimated future cash flow discounted at the original effective interest rate.

Movement in the allowance for doubtful debts

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Balance at beginning of the year	**–**	323
Amounts reversed during the year	**–**	(323)
Balance at end of the year	**–**	–

20. Deposits, Prepayments and Other Receivables

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Prepaid advertising	**89,933**	37,050
Other prepayments	**6,165**	5,223
Other receivables	**4,023**	1,392
Prepaid lease payments	**1,447**	388
Prepayment to suppliers	**980**	349
Staff advances	**–**	104
	102,548	44,506

21. Pledged Bank Deposits

The pledged bank deposits represent deposits pledged to a bank as guarantees for short-term trade facilities granted to the Group and are therefore classified as current assets. The pledged deposits were released upon the settlement of trade facilities during 2010.

22. Bank Balances and Cash

Bank balances and cash comprise cash and short-term deposits held by the Group with an original maturity of three months or less.

The bank deposit carries a weighted-average interest rate of 0.36% per annum as at 31 December 2010 (2009: 0.36%).

At the end of the reporting period, included in bank balances are the following amounts denominated in currencies other than the functional currency of the relevant group entity to which they relate.

	At 31 December	
	2010	2009
	RMB'000	RMB'000
United States Dollars	**150,069**	95,141
Hong Kong Dollars	**115,755**	–

23. Trade Payables

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Trade payables	**7,342**	10,512

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

23. Trade Payables *(Continued)*

The credit period granted by suppliers is 60-90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe. The following is an aged analysis of trade payables presented based on invoiced date at the end of the reporting period:

	At 31 December	
	2010	2009
	RMB'000	RMB'000
0 to 90 days	**7,342**	10,512

24. Other Payables and Accrued Expenses

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Other tax payables	**23,444**	14,326
Accrued sales rebate	**18,851**	–
Accrued payroll	**15,268**	6,354
Other payables	**12,691**	632
Payable for land use right	**11,210**	–
Prepayment from customers	**9,911**	5,528
Payable to former shareholders of Zhuhai Qi Jia	**4,550**	–
Payable for acquisition of a subsidiary	**2,000**	–
Accrued expenses	**1,493**	3,033
Deferred government grant	**786**	136
Advertising expenses payable	**300**	1,855
Accrued interest expenses	**–**	117
	100,504	31,981

The amounts due to former shareholders of Zhuhai Qi Jia are unsecured, non-trade related, interest free and repayable on demand.

25. Bank Borrowings

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Secured bank borrowings repayable:		
On demand or within one year	**–**	50,000
More than one year but not exceeding two years	**–**	15,000
	–	65,000
Less: Amounts due within one year shown under current liabilities	**–**	(50,000)
	–	15,000

25. Bank Borrowings *(Continued)*

The borrowings carrying variable interests with reference to the Benchmark Borrowing Rate of The People's Bank of China ("Benchmark Rate") were as follows:

	31 December 2009
Effective interest rate:	
Variable-rate borrowings	Benchmark Rate -0.5% to +1%

The borrowings were arranged at variable interest rates and exposed the Group to cash flow interest rate risk. Bank borrowings were guaranteed by Mr. Zhao Yihong, Ms. Gao Yan and Besunyen Investment Co., Ltd., a related company in which Mr. Zhao Yihong has a beneficial interest. Such guarantees were released during the year ended 31 December 2010.

The borrowings were secured by the Group's property, plant and equipment and prepaid lease payments as set out in notes 13 and 14 respectively. Such pledges were released upon settlement of the loans.

All of the borrowings were denominated in RMB which was the same as the functional currency of the corresponding group entities.

26. Deferred Government Grant

In May and December 2010, the Group received government grants of RMB2,000,000 and RMB4,500,000 respectively for the construction of a plant facility in the PRC.

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current liabilities (included in other payables and accrued expenses)	**786**	136
Non-current liabilities	**9,459**	3,944
	10,245	4,080

At 31 December 2009, the construction of the plant facility had not been completed and such government grant was recorded as liabilities in the consolidated statements of financial position.

During the year ended 31 December 2010, the construction of the plant facilities was completed, and the Group has commenced to use the plant facilities for production. As a result, the government grant is recognised over the estimated useful life of the relevant assets. The amount that will be recognised in the consolidated statements of comprehensive income within a year is classified as a current liability.

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27. Deferred Tax

The following are the major deferred tax (liability) asset recognised and movements thereon during the year ended 31 December 2010:

	Fair value adjustment on assets acquired through business combinations RMB'000	Accrued payroll and sales rebates RMB'000	Prepaid advertisement expenses RMB'000	Withholding tax on undistributed earnings RMB'000	Deferred government grant RMB'000	Total RMB'000
At 1 January 2009	–	413	–	–	–	413
Credit (charge) to profit or loss during the year	–	563	–	(6,200)	–	(5,637)
At 31 December 2009	–	976	–	(6,200)	–	(5,224)
Acquisition of subsidiaries	(5,696)	–	–	–	–	(5,696)
Credit (charge) to profit or loss during the year	814	6,500	145	(222)	787	8,024
At 31 December 2010	**(4,882)**	**7,476**	**145**	**(6,422)**	**787**	**(2,896)**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2010 RMB'000	2009 RMB'000
Deferred tax assets	**8,408**	976
Deferred tax liabilities	**(11,304)**	(6,200)
	(2,896)	(5,224)

At the end of the reporting period, the Group had unused tax losses of RMB13,083,000 (31 December 2009: RMB10,731,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax loss of RMB13,083,000 (31 December 2009: RMB10,731,000) due to the unpredictability of future profit streams. Tax losses of RMB9,704,000 (31 December 2009: RMB3,379,000) will expire in 2015 (31 December 2009:2014). There was no other significant unprovided deferred tax liability at 31 December 2010 and 2009.

28. Share Capital

The amount at 1 January 2009 represented the combined paid-in capital of Beijing Outsell and Besunyen Food and Beverage, while the amounts at 31 December 2009 and 2010 represented the then issued and fully paid share capital of the Company.

Movements of the Company's share capital from the Company's date of incorporation on 5 August 2009 to the year ended 31 December 2010 are set out below.

	Number of shares	Amount US$	Shown in the Financial Statements as RMB'000
Authorised:			
At date of incorporation (5 August 2009) (Note a)	50,000	50,000	341
Increase in number of shares due to a sub-division of shares during the period (Note b)	49,950,000	–	–
Designation and reclassification into redeemable convertible preferred shares (Note b)	(3,000,000)	(3,000)	(20)
At 31 December 2009	**47,000,000**	**47,000**	**321**
Share subdivision (Note f)	5,593,000,000	3,000	20
Designation and reclassification from redeemable convertible preferred shares	360,000,000	–	–
At 31 December 2010	**6,000,000,000**	**50,000**	**341**
Issued and fully paid:			
At date of incorporation (5 August 2009) (Note a)	1	–	–
Shares cancelled during the period	(1)	–	–
Shares issued during the period (Note c)	9,288,000	9,288	63
At 31 December 2009	9,288,000	9,288	63
Shares issued in connection with acquisition of a subsidiary (Note d)	217,313	217	1
Shares issued on 31 May 2010 (Note e)	144,876	145	1
Shares subdivision (Note f)	1,148,372,491	–	–
Conversion of redeemable convertible preferred shares (Note g)	102,788,640	857	6
Issuance new shares upon listing ("Global Offering") (Note h)	420,280,000	3,502	24
At 31 December 2010	**1,681,091,320**	**14,009**	**95**

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28. Share Capital *(Continued)*

Notes:

(a) The Company was incorporated on 5 August 2009 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. At the date of incorporation, one ordinary share of US$1 was issued at par to the subscriber to the Memorandum of Association to provide the initial capital to the Company.

(b) On 21 October 2009, the authorised shares were divided into 47,000,000 ordinary shares of US$0.001 each and 3,000,000 redeemable convertible preferred shares of US$0.001 each with details set out in Note 30

(c) On 21 October 2009, the Company issued 9,288,000 ordinary shares at US$0.001 each to the shareholder of the Company.

(d) On 31 May 2010, the Company issued 217,313 ordinary shares to acquire the entire equity interest of Jian Shi Xing, further details of which are set out in Note 39(b). These shares rank pari passu with other shares in issue in all respects.

(e) On 31 May 2010, the Company issued 144,876 ordinary shares to third party investors for an aggregate consideration of USD3,000,000 (equivalent to approximately RMB20,484,000). These shares rank pari passu with other shares in issue in all respects.

(f) In September 2010, the directors and shareholders of the Company approved a 120-for-one share subdivision which became effective on 10 September 2010. The ordinary shares of par value of US$0.001 each were subdivided into 120 share of par value of US$0.00000833333 each.

(g) On 22 September 2010, prior to the completion of the Global Offering, the holders of redeemable convertible preferred shares converted all of its 102,788,640 redeemable convertible preferred shares of par value of US$0.00000833333 each into 102,788,640 ordinary shares of par value of US$0.00000833333 each.

(h) On 29 September 2010, the Company issued 420,280,000 ordinary shares of par value of US$0.00000833333 each pursuant to the Global Offering at the price of HK$3.12 per Share upon listing and the Company's shares were listed on The Stock Exchange of Hong Kong Limited on the same date.

29. Reserves

(a) Capital reserve

Capital reserve represented the excess of capital contribution by the shareholder over the aggregate registered capital of Beijing Outsell and Besunyen Food and Beverage.

(b) Special reserve

Special reserve represents the aggregate of (i) the difference between the nominal value of the Company's share, issued upon Reorganisation and the net assets of Beijing Outsell and Besunyen Food and Beverage, and (ii) a deemed distribution of RMB2,200,000 to the shareholder.

(c) Statutory surplus reserve

According to the relevant laws in the PRC, the enterprises established in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a general reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The general reserve fund can be used to offset the previous year losses, if any. The general reserve fund is non-distributable other than upon liquidation.

30. Redeemable Convertible Preferred Shares

	Number of shares	Nominal amount RMB'000
Redeemable convertible preferred shares of US$0.001 each:		
Authorised		
Authorised during 2009 and balance at 31 December 2009	3,000,000	20
Share subdivision	357,000,000	–
Conversion into ordinary shares	(360,000,000)	(20)
Balance at 31 December 2010	–	–
Issued and fully paid		
Issued during 2009 and balance at 31 December 2009	712,000	4
Issued during the year	144,572	1
	856,572	5
Share subdivision	101,932,068	–
Conversion into ordinary shares	(102,788,640)	(5)
Balance at 31 December 2010	**–**	**–**

On 21 October 2009, the Company issued 712,000 shares of redeemable convertible preferred shares to an independent third party at a consideration of US$15,000,000 (approximately RMB102,424,000).

Under the redeemable convertible preferred shares agreements, the number of redeemable convertible preferred shares that the holder is entitled to receive is subject to earnings adjustment determined based on the Company's consolidated net profit for the year ended 31 December 2009. On 31 May 2010, 125,010 additional redeemable convertible preferred shares were allotted and issued to the holder at a par value per share in accordance with the exercise of the holder's such earnings adjustment right. Such earnings adjustment was arrived at based on the Company's consolidated net profit for the year ended 31 December 2009. Pursuant to such earnings adjustment, the holder's earnings adjustment right was fully exercised and there will be no further adjustment to the redeemable convertible preferred shares by such a holder. In addition, under the agreements, the holder is entitled to an anti-dilution protection with respect to the acquisition of Jian Shi Xing. On 31 May 2010, 19,562 redeemable convertible preferred shares were allotted and issued to the holder at a par value per share in accordance with the anti-dilution protection. Apart from the anti-dilution protection, there are no potential adjustments on the allotment of shares to the holders of redeemable convertible preferred shares in the future.

In September 2010, the directors and shareholders of the Company approved a 120-for-one share subdivision which became effective on 10 September 2010. 856,572 redeemable convertible preferred shares of par value of US$0.001 each were subdivided into 102,788,640 of par value of US$0.00000833333 each.

On 22 September, 2010, 102,788,640 (after 120-for-one share subdivision) redeemable convertible preferred shares were converted into same number of ordinary shares par value of US$0.00000833333 each of the Company.

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30. Redeemable Convertible Preferred Shares *(Continued)*

Conversion terms

One redeemable convertible preferred share can be converted to one ordinary share of the Company (before 120-for-one share sub-division) at any time after date of issuance, or is automatically converted upon the earlier of:

(i) the consummation of a qualified initial public offering ("IPO");

(ii) immediately prior to the closing of an acquisition by, merger or other combination with another entity where the Company is not the surviving entity where such surviving entity is listed on an internationally recognised stock exchange; and

(iii) the date specified by written consent or agreement of the holders of a majority of outstanding redeemable convertible preferred shares.

The conversion price is subject to adjustment for dilution, including but not limited to share dividends, subdivisions, combinations, other distributions, reclassifications, recapitalizations, other dilutive events, reorganizations, mergers, consolidations or sales of assets and certain issuances.

Redemption terms

The redeemable convertible preferred shares are redeemable at an amount equal to the greater of the then fair market value for such share, or 200% of the subscription price after five years from date of issuance.

Dividend

The redeemable convertible preferred shares are denominated in US dollar. Holders of the redeemable convertible preferred shares shall be entitled to a fixed cumulative dividend of 6% per annum of the principal amount of the redeemable convertible preferred shares to be payable every six months, in no event later than 31 August and 30 April for every fiscal year, respectively.

The entire redeemable convertible preferred shares is designated as a financial liability at FVTPL on initial recognition. The entire redeemable convertible preferred shares are measured at fair value with changes in fair value recognised in the consolidated statement of comprehensive income.

The redeemable convertible preferred shares were valued at fair value by the directors with reference to valuation carried out by an independent firm of professional valuers, Marsh (Beijing) Risk Consulting Co., Ltd. ("Marsh"), whose address is Unit 1506, North Tower, Kerry Center, 1 Guanghua Road, Chaoyang District, Beijing 100020, China, at 31 December 2009, at approximately US$19,906,000 (approximately RMB135,921,000).

The fair value of the entire redeemable convertible preferred shares at FVTPL at 31 December 2009 was determined by using valuation techniques which include discounted cash flow analysis and option pricing model. The present value of the estimated future cash flow is discounted at the weighted average cost of capital ("WACC") of 23% at 31 December 2009.

The redeemable convertible preferred shareholder waived the dividend for the year ended 31 December 2010. No dividend was paid to the redeemable convertible preferred shareholders during the year.

30. Redeemable Convertible Preferred Shares *(Continued)*

Dividend *(Continued)*

The assumptions adopted for the valuation of the redeemable convertible preferred shares are as follows:

	31 December 2009
Methodology	Option-pricing method
Estimated probability of the redeemable convertible preferred shares	
– for liquidation	5%
– for redemption	15%
– for conversion	80%
Risk-free rate	
– for liquidation	0.5%
– for redemption	2.6%
Time to redemption	4.81 years
Time to automatic conversion	1 year
Preferred shares dividend yield	6%
Volatility	
– for redemption	42%

The assumptions adopted for the valuation of redeemable convertible preferred shares were as follows:

(a) The estimation of the risk-free rate was made with reference to the yield of United States Treasury Bond as at the valuation date.

(b) Volatility was estimated based on the average historical stock price volatility of comparable listed companies over a period commensurate with the expected time to redemption.

On 22 September 2010, the redeemable convertible preferred shares were converted into the Company's ordinary shares. Immediately before the conversion, the fair value of the redeemable convertible preferred shares was approximately RMB256,238,000, which was measured by the Company with reference to the offering price of HK$3.12 per share as adjusted by an estimated discount rate for the restriction of trading given the converted ordinary shares are prohibited for sale for 6 months after the listing date.

The movement of the redeemable convertible preferred shares is set out below:

	Total RMB'000
At issuance of redeemable convertible preferred shares	102,424
Changes in fair value recognised in profit or loss	33,497
At 31 December 2009	135,921
Changes in fair value recognised in profit or loss	121,361
Exchange adjustments	(1,044)
Conversion into ordinary shares in September 2010	(256,238)
At 31 December 2010	**–**

The issue cost of redeemable convertible preferred shares amounted to approximately RMB7,318,000 and had been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2009.

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31. Major Non-Cash Transaction

Since Beijing Outsell is a High-Technology Enterprise as awarded by Beijing Scientific Technology Committee (北京市科學技術委員會), a third party entity named Yongtai Real Estate (永泰房地產公司) intended to cooperate with Beijing Outsell for a scientific research project on a piece of land owned by Yongtai Real Estate in order to utilise the privileges of the High-Technology Enterprise. As such, Beijing Outsell intended to purchase the piece of land and changed the usage of that piece of land from industrial use to scientific use, had paid a deed duty tax of RMB1,296,000 as at 31 December 2008.

During the year ended 31 December 2009, Beijing Outsell purchased the piece of land from Yongtai Real Estate for a consideration of RMB43,200,000 and the land title deed was transferred to Beijing Outsell. However, this project was terminated as the government's policy regarding the change of the land usage became stricter than expected. Since the purpose of the project was not achieved, during the same year, Yongtai Real Estate purchased the same piece of land back from Beijing Outsell for a consideration of RMB44,496,000 and the land title deed was transferred back to Yongtai Real Estate. Beijing Outsell had not yet made the payment for the purchase before the land was sold back to Yongtai Real Estate, and therefore, it resulted in a net cash inflow of RMB1,296,000.

In May 2010, the Group acquired 100% of the issued share capital Ever Assure by issuing 217,313 ordinary shares of par value of US$0.001 each of the Company with a fair value of RMB30,850,000.

In September 2010, the holders of redeemable convertible preferred shares converted 102,788,640 redeemable convertible preferred shares into 102,788,640 (after 120-for-one share subdivision) ordinary shares of par value of US$0.00000833333 each of the Company with amounting to RMB256,238,000.

32. Retirement Benefit Plans

The employees of the Group in the PRC are members of government-managed retirement benefit schemes operated by the respective local government in the PRC. The Group is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to these schemes is to make the specified contributions.

33. Share-Based Payments

The Company's pre-IPO share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 30 April 2010 for the primary purpose of providing incentives to eligible employees. Under the Scheme, the board of directors of the Company may grant options to eligible directors, employees and consultant to subscribe for shares in the Company.

The following share option information has been retrospectively adjusted to reflect a 120-for-one share sub-division that became effective on 10 September 2010.

The maximum number of shares which can be granted under the Scheme is 151,200,000.

33. Share-Based Payments *(Continued)*

Details of specific category of options are as follows:

Options type	Date of grant	Share options granted	Vesting period	Exercise period	Exercise price RMB	Fair value at grant date RMB
1st	6.5.2010	94,524,000	6.5.2010 – 5.11.2013	6.11.2010 – 5.5.2020	1.23	0.50
2nd	6.5.2010	19,872,000	6.5.2010 – 5.5.2014	6.5.2011 – 5.5.2020	1.23	0.51
3rd	6.5.2010	16,800,000	6.5.2010 – 5.5.2013	6.5.2011 – 5.5.2020	1.23	0.50
4th	6.5.2010	4,800,000	6.5.2010 – 5.5.2014	6.5.2011 – 5.5.2020	3.30	0.28
5th	31.5.2010	6,120,000	31.5.2010 – 5.5.2014	6.5.2011 – 30.5.2020	1.23	0.50
6th	21.6.2010	120,000	21.6.2010 – 5.5.2014	6.5.2011 – 20.6.2020	1.23	0.87
7th	28.6.2010	1,680,000	28.6.2010 – 5.5.2014	6.5.2011 – 27.6.2020	1.23	0.87

The following table discloses the details of the Company's share options granted to directors, employees and consultant for the year ended 31 December 2010 and outstanding at 31 December 2010:

	Date of grant	Option type	Vesting period	No. of shares options granted during the year	Cancelled during the year	Forfeited during the year	Outstanding at 31/12/2010
Executive directors							
Zhao Yihong	6.5.2010	1st	3.5 Years	28,800,000	(4,800,000)	–	24,000,000
Gao Yan	6.5.2010	1st	3.5 Years	14,400,000	(2,400,000)	–	12,000,000
				43,200,000	(7,200,000)	–	36,000,000
Non-executive directors							
Zhuo Fumin	6.5.2010	2nd	4 Years	480,000	(80,000)	–	400,000
Wang Bing	6.5.2010	2nd	4 Years	480,000	(80,000)	–	400,000
				960,000	(160,000)	–	800,000
Independent non-executive directors							
Arthur Wong	28.6.2010	7th	3.9 Years	600,000	(100,000)	–	500,000
Huang Jingsheng	6.5.2010	2nd	4 Years	600,000	(100,000)	–	500,000
Xin Rong	28.6.2010	7th	3.9 Years	600,000	(100,000)	–	500,000
				1,800,000	(300,000)	–	1,500,000
Employees and consultant							
In aggregate	6.5.2010	1st	3.5 Years	51,324,000	(8,554,000)	–	42,770,000
	6.5.2010	2nd	4 Years	18,312,000	(2,892,000)	(1,260,000)	14,160,000
	6.5.2010	3rd	3 Years	16,800,000	(2,800,000)	–	14,000,000
	6.5.2010	4th	4 Years	4,800,000	(800,000)	–	4,000,000
	31.5.2010	5th	3.9 Years	6,120,000	(1,020,000)	–	5,100,000
	21.6.2010	6th	3.9 Years	120,000	(20,000)	–	100,000
	28.6.2010	7th	3.9 Years	480,000	(80,000)	–	400,000
				97,956,000	(16,166,000)	(1,260,000)	80,530,000
	Total			143,916,000	(23,826,000)	(1,260,000)	118,830,000
Weighted average exercise price				1.3	1.3	1.3	1.3

There were no options exercised during the year ended 31 December 2010 and 19,692,500 options were exercisable at 31 December 2010.

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33. Share-Based Payments *(Continued)*

Pursuant to the Scheme, the first option type granted on 6 May 2010 shall be exercisable during the period from the first semi-anniversary of the date of grant (the "first semi-anniversary") and ending on the expiry of the option period in the following manner:

(i) up to 25% of the option will be exercisable during the period from the first semi-anniversary and ending on the expiry of the option period;

(ii) up to 50% of the option will be exercisable during the period from the first anniversary of the first semi-anniversary and ending on the expiry of the option period;

(iii) up to 75% of the option will be exercisable during the period from the second anniversary of the first semi-anniversary and ending on the expiry of the option period; and

(iv) up to 100% of the option will be exercisable during the period from the third anniversary of the first semi-anniversary and ending on the expiry of the option period.

Pursuant to the Scheme, the third option type granted on 6 May 2010, shall be exercisable during the period from the first anniversary of the commencement date and ending on the expiry of the option period in the following manner:

(i) up to 30% of the option will be exercisable during the period from 6 May 2011 and ending on the expiry of the option period;

(ii) up to 60% of the option will be exercisable during the period from 6 May 2012 and ending on the expiry of the option period; and

(iii) up to 100% of the option will be exercisable during the period from 6 May 2013 and ending on the expiry of the option period.

Pursuant to the Scheme, except the first and third option types above, the options granted on 6 May 2010, 31 May 2010, 21 June 2010 and 28 June 2010 shall be exercisable during the period from the first anniversary of the commencement date and ending on the expiry of the option period in the following manner:

(i) up to 25% of the option will be exercisable during the period from the first anniversary of the commencement date and ending on the expiry of the option period;

(ii) up to 50% of the option will be exercisable during the period from the second anniversary of the commencement date and ending on the expiry of the option period;

(iii) up to 75% of the option will be exercisable during the period from the third anniversary of the commencement date and ending on the expiry of the option period; and

(iv) up to 100% of the option will be exercisable during the period from the fourth anniversary of the commencement date and ending on the expiry of the option period.

33. Share-Based Payments *(Continued)*

The binomial option pricing model has been used to estimate the fair value of the options. The following assumptions were used to calculate the fair value of share options granted during the year ended 31 December 2010:

	Option types						
	1st	2nd	3rd	4th	5th	6th	7th
Fair value of ordinary share (RMB)	1.18	1.18	1.18	1.18	1.18	1.72	1.72
Exercise price (RMB)	1.23	1.23	1.23	3.30	1.23	1.23	1.23
Expected volatility	42%	42%	42%	42%	42%	42%	42%
Contractual Option life	10	10	10	10	10	10	10
Dividend yield	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%
Risk-free interest rate	3.39%	3.39%	3.39%	2.90%	3.28%	3.41%	3.38%
Total estimated fair value of the options granted (RMB'000)	47,225	10,059	8,401	1,331	3,082	105	1,464

Fair values of ordinary share were estimated by the directors with reference to valuations carried out by an independent firm of professional valuers.

Expected volatility: the selected volatility was estimated based on average historical stock price volatility of comparable listed companies over a period commensurate with the contractual option life.

Risk-free interest rate: The risk-free interest rate of the 4th option type was estimated based on the yield of 10-year Hong Kong Sovereign Bond as at the grant date. For all the other options, the risk-free interest rate was estimated based on the yield of 10-year China Sovereign Bond as at the grant date.

Dividend yield: the selected dividend yield was estimated with consideration of the Company's expected dividend policy and analysis of historical trend of share price-to-earnings ratio of comparable listed companies.

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Company's board of directors approved in August 2010 a cancellation of one-sixth of all the pre-IPO share options granted in May and June of 2010 to the Group's employees, directors and consultant on a pro-rata basis, totaling 23,986,000 share options (after a 120-for-one share subdivision). This resulted in an acceleration of vesting, and therefore the Company recognised immediately a share-based compensation expense of approximately RMB9,659,000.

The Group recognised a total expense of RMB36,643,000 for the year ended 31 December 2010 in relation to share options granted by the Company.

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34. Capital Risk Management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of business. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which include bank borrowings disclosed in note 25, redeemable convertible preferred shares disclosed in note 30, bank balance and cash, and equity attributable to equity holders of the Company, comprising capital, reserves and accumulated profits.

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of redeemable convertible preferred shares to strategic investors or the redemption of the existing debt.

35. Financial Instruments

Categories of financial instruments

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,327,295**	266,971
Financial liabilities		
Liabilities measured at amortised cost	**39,093**	77,999
FVTPL – Redeemable convertible preferred shares	**–**	135,921
	39,093	213,920

Financial liabilities designated as FVTPL – Redeemable convertible preferred shares

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Changes in fair value attributable to changes in credit risk recognised during the year (Note)	**–**	–
Carrying amount	**–**	135,921
Amount payable at maturity	**–**	204,844
Difference between carrying amount and maturity amount	**–**	68,923

Note: The entire redeemable convertible preferred shares of the Company are designated as a financial liability at FVTPL on initial recognition. The change in fair value was mainly due to the change in market risk factors. The fair value attributable to change in its credit risk is considered immaterial.

35. Financial Instruments *(Continued)*

Financial risk management objectives

The Group's major financial instruments include trade and notes receivables, other receivables, amounts due from related parties, bank balances and cash, pledged bank deposits, amount due to a related party, trade payables, other payables, redeemable convertible preferred shares and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The management of the Group monitors and manages the financial risks relating to the operations of the Group through their degree of magnitude of risks. These risks include market risk, (currency risk and interest rate risk), credit risk and liquidity risk.

Market risk

Currency risk

Several subsidiaries of the Company and the Company have bank balances, amount due from a related company, and redeemable convertible preferred shares which are denominated in foreign currencies. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of reporting period are as follows:

	At 31 December	
	2010	2009
	RMB'000	RMB'000
US dollars		
Assets	**150,069**	95,161
Liabilities	**–**	135,921
HK dollars		
Assets	**115,755**	–

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35. Financial Instruments *(Continued)*

Sensitivity analysis

The Group is mainly exposed to US dollars and HK dollars. The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi against US dollars and HK dollars. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end of reporting period for 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in Profit before taxation where Renminbi strengthens 5% against US dollars and HK dollars. For a 5% weakening of Renminbi against US dollars and HK dollars, there would be an equal and opposite impact on the profit.

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Profit for the year (USD)	**(7,503)**	2,038
Profit for the year (HKD)	**(5,788)**	–

Interest rate risk management

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of benchmark interest rate from the People's Bank of China arising from the Group's bank borrowings. The management considers that the change in interest rate has no significant impact on profit and loss on the Group as the finance cost incurred would be partly capitalised to the eligible assets.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group has adopted procedures in monitoring its credit risk.

The Group's current credit practices include assessment and evaluation of customer's credit reliability and periodic review of their financial status to determine credit limit to be granted. The Group's maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at end of reporting period in relation to each class of recognised financial assets is the carrying amount of those financial assets as stated in the consolidated statements of financial position.

The Group is exposed to some concentration of credit risk. As at 31 December 2010, the five largest debtors accounted for approximately 37% (2009: 31%) of the Group's total trade receivables. The Group has explored new markets and new customers and launched new products in order to minimise the concentration of credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

35. Financial Instruments *(Continued)*

Liquidity risk management

The Group manages liquidity risk by maintaining adequate bank deposits and cash, monitoring forecast and actual cash flows.

The Group's financial liabilities (including trade payables, other payables, amount due to a related party, bank borrowings and redeemable convertible preferred shares) are due within five years from the reporting date.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest rates are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted average effective interest %	1-3 months RMB'000	3 months to 1 year RMB'000	1-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non derivative financial liabilities						
Trade payables	–	10,512	–	–	10,512	10,512
Other payables	–	2,487	–	–	2,487	2,487
Bank borrowings	5.9	30,800	21,073	15,199	67,072	65,000
At 31 December 2009		43,799	21,073	15,199	80,071	77,999
FVTPL						
Redeemable convertible preferred shares at 31 December 2009	23	–	–	204,844	204,844	135,921
Non derivative financial liabilities						
Trade payables	–	7,342	–	–	7,342	7,342
Other payables	–	19,446	11,305	–	30,751	30,751
Amount due to a related party	–	1,000	–	–	1,000	1,000
At 31 December 2010		**27,788**	**11,305**	**–**	**39,093**	**39,093**

Fair value of financial instruments

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

35. Financial Instruments *(Continued)*

Fair value of financial instruments *(Continued)*

Fair value measurements recognised in the statements of financial position

Financial instruments that are measured subsequent to initial recognition at fair value, are grouped in to Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2009			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities at FVTPL				
Redeemable convertible preferred shares	–	–	135,921	135,921

Details of reconciliation from the beginning balance to the ending balance of Level 3 fair value measurements of financial liability regarding the redeemable convertible preferred shares are set out in note 30.

The consolidated financial statements include redeemable convertible preferred shares which are measured at fair value. Fair value is estimated using a discounted cash flow model and option pricing model, which included some assumptions that are not supportable by observable market prices or rates. In determining the fair value, probability of automatic conversion of 80% and a WACC of 23% were used as at 31 December 2009. If probability of automatic conversion was 5% higher/lower while all the other variables were held constant, the carrying amount of the redeemable convertible preferred shares would decrease/increase by approximately RMB5,838,000 as at 31 December 2009.

If WACC was 1% higher/lower while all the other variables were held constant, the carrying amount of the redeemable convertible preferred shares would increase/decrease by approximately RMB4,165,000 as of 31 December 2009.

36. Operating Leases

Minimum lease payments paid under operating leases during the year ended 31 December 2010:

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Premises	**7,700**	7,832

At the end of the reporting period, the Group's commitments for future minimum lease payments under non-cancellable operating leases fall due as follows:

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Within one year	**4,602**	3,349
In the second to fifth year inclusive	**2,999**	714
	7,601	4,063

Operating lease payments represent rental payable by the Group for certain of its office and staff quarters. Rentals are fixed for an average of 1.5 years.

37. Capital Commitments

	At 31 December	
	2010	2009
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of		
– property, plant and equipment	**16,057**	70,034
– intangible assets	**–**	2,665
	16,057	72,699

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

38. Related Party Transactions and Balances

Details of the amounts due from/to related parties, which are controlled by Mr. Zhao Yihong, Ms. Gao Yan and her related party, are as follows:

Name of related party	Amounts due from related parties At 31 December 2010 RMB'000	2009 RMB'000
Foreshore Holding Group Limited (i)	–	6
Booming International Group Ltd. (i)	–	1
Tea-care Limited (i)	–	13
	–	20

Name of related party	Maximum amount outstanding during the year ended 31 December 2010 RMB'000	2009 RMB'000
Besunyen Investment Co., Ltd. (i)	**6,500**	43,050
Guangzhou Benefit Trading Co., Ltd. (i)	–	10,622
Chengdu Benefit Biology Technology Co., Ltd. (i)	–	250
Mr. Zhao Yihong	–	10,000
Mr. Zhao Yixing (ii)	–	880
Foreshore Holding Group Limited (i)	**6**	6
Booming International Group Ltd (i)	**1**	1
Tea-care Limited (i)	**13**	13
	6,520	64,822

Name of related party	Amount due to related party At 31 December 2010 RMB'000	2009 RMB'000
Mr. Zhao Yihong	**1,000**	–

38. Related Party Transactions and Balances *(Continued)*

The Group has the following significant transactions with related parties:

Name of related party	Nature of transactions	For the year ended 31 December 2010 RMB'000	2009 RMB'000
Guangzhou Benefit Trading Co., Ltd. (i)	Sales	–	5,409
Besunyen Investment Co., Ltd. (i)	Interest income	**120**	1,424
Besunyen Investment Co., Ltd. (i)	Rental expense	**1,200**	1,200

(i) Mr. Zhao Yihong or Ms. Gao Yan has a beneficial interest in these entities.

(ii) Mr. Zhao Yixing is closely related family members of Mr. Zhao Yihong or Ms. Gao Yan.

During the year ended 31 December 2010, the Group provided a short-term loan of RMB6,500,000 (2009: RMB60,700,000) to Besunyen Investment Co., Ltd., a company controlled by Mr. Zhao Yihong. The loan was unsecured, interest bearing at 5.94% per annum (2009: 5.8%), and fully settled during the year ended 31 December 2010. As advised by the Company's PRC legal advisor, these interest bearing loan transactions were not in compliance with the relevant laws and regulations in the PRC; however, such non-compliance does not have a significant risk on the Group because these loans were fully settled and there was no administrative penalty from the relevant government authorities. As such, the Company's directors do not consider these transactions will have a significant impact on the Group's results or financial position.

During the year ended 31 December 2010, the Group made sales of RMB718,000 to and received rental income of RMB66,000 from Beijing Pincha Company Limited, in which Mr. Zhao Yihong has a beneficial interest.

The amounts due from/to related parties were unsecured and interest free. The amount due from a related party was settled subsequent to 31 December 2010.

The details of remuneration of key management personnel, representing emoluments of directors of the Company paid during the year ended 31 December 2010, are set out in note 10.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

39. Business Combinations

(a) Acquisition of Zhuhai Qi Jia

On 19 January 2010, the Group entered into an equity acquisition agreement to acquire a 100% beneficial equity interest in Zhuhai Qi Jia, a PRC company which is engaged in the manufacture and sale of therapeutic tea products in the PRC, for a consideration of RMB2,000,000. The acquisition was valued by Marsh (Beijing) Risk Consulting Co., Ltd., an independent firm of professional valuers as at 31 January 2010 and was accounted for using the purchase method. The consideration for the acquisition was independently and mutually negotiated between two parties with reference to the financial position and future earnings capacity. The amount of goodwill arising as a result of the acquisition was RMB5,305,000.

The net assets acquired in the transactions, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net assets acquired			
Bank balances and cash	18	–	18
Other receivables	12	–	12
Inventories	314	–	314
Intangible assets			
– Patent	–	4,620	4,620
Property, plant and equipment	7,132	(163)	6,969
Prepaid lease payments	642	4,028	4,670
Payable to former shareholders	(17,050)	–	(17,050)
Other payables	(237)	–	(237)
Amount due to a related party	(500)	–	(500)
Deferred tax liabilities	–	(2,121)	(2,121)
	(9,669)	6,364	(3,305)
Goodwill arising on acquisition			5,305
Total consideration, included in other payables and accrued expenses as at 31 December 2010			2,000
Cashflow arising on acquisition:			
Bank balances and cash acquired			18

A deposit of RMB2,000,000 was made as at 31 December 2009 (see note 16). During the year ended 31 December 2010, such deposit was refunded to the Group.

39. Business Combinations *(Continued)*

(a) Acquisition of Zhuhai Qi Jia *(Continued)*

Pursuant to the equity acquisition agreement, the Group is committed to pay by 3 installments with total amount of RMB19,050,000, of which RMB17,050,000 is a capital injection to Zhuhai Qi Jia and RMB2,000,000 is a purchase consideration.

In January 2010, the Group made the first payment of RMB10,000,000 as a capital injection to Zhuhai Qi Jia to increase its registered capital from RMB2,000,000 to RMB12,000,000.

The Group is required to make a second payment of RMB6,550,000 as a further capital injection to Zhuhai Qi Jia after obtaining the building ownership certificate of Zhuhai Qi Jia's factory and satisfying other customary closing conditions. Zhuhai Qi Jia's had obtained the building ownership certificate in September 2010. The Group made the partial second payment of RMB2,500,000 during the year ended 31 December 2010. Pursuant to the revised equity acquisition agreement, the Group agrees to pay the balance of second payment of RMB4,050,000 after the completion in transferring the production license from Zhuhai Qi Jia to a new subsidiary established in Beijing.

The Group is required to make a third payment of RMB2,500,000, of which RMB500,000 is a capital injection to Zhuhai Qi Jia and RMB2,000,000 is a purchase consideration, six months after the second payment. The third payment had not been made at 31 December 2010.

The goodwill mainly represents synergies and economic benefits that Zhuhai Qi Jia will bring to the Group in the future by enriching product portfolio, increasing market penetration of existing products and broadening the Group's presence in the therapeutic tea market. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Zhuhai Qi Jia contributed the revenue of RMB799,000 and a loss of RMB2,923,000 to the Group's profit for the period between the date of acquisition and 31 December 2010.

If the acquisition had been completed on 1 January 2010, total group revenue for the year ended 31 December 2010 would have been RMB874,227,000, and profit for the year ended 31 December 2010 would have been RMB59,449,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

The Group recognised the acquisition related cost of RMB175,000 for the year ended 31 December 2010 in relation to the acquisition of Zhuhai Qi Jia and included in other expenses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

39. Business Combinations *(Continued)*

(b) Acquisition of Ever Assure

Pursuant to a share exchange agreement dated 21 May 2010, the Group acquired 100% of the issued share capital of Ever Assure for a consideration of 217,313 ordinary shares of the Company with a fair value of RMB30,850,000. Ever Assure owns a 100% equity interest in Jian Shi Xing, a company established in the PRC which is engaged in the research and development of tea and Chinese medicinal herbal products. The primary purpose of the acquisition was to enhance the in-house research and product development capability of the Group. The acquisition was valued by Marsh (Beijing) Risk Consulting Co., Ltd., an independent firm of professional valuers as at 31 May 2010 and was accounted for using the purchase method. The consideration for the acquisition was independently and mutually negotiated between two parties with reference to the financial position and future earnings capacity. The amount of goodwill arising as a result of the acquisition was RMB15,480,000.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net assets acquired			
Bank balances and cash	1,104	–	1,104
Other receivables	2,714	–	2,714
Property, plant and equipment	2,090	–	2,090
Other payables	(1,263)	–	(1,263)
Intangible assets			
– Patent	–	9,410	9,410
– Contract backlog	–	200	200
– Customers base	–	2,430	2,430
– Non-compete agreement	–	2,260	2,260
Deferred tax liabilities	–	(3,575)	(3,575)
	4,645	10,725	15,370
Goodwill arising on acquisition			15,480
Total consideration, satisfied by: shares issued (Note)			30,850
Cash inflow arising on acquisition:			
Bank balances and cash acquired			1,104

Note: 217,313 ordinary shares of the Company with par value of US$0.001 each were issued as consideration. The fair value of the ordinary shares of the Company, estimated by the directors with reference to valuations carried out by an independent firm of professional valuers, amounted to RMB30,850,000.

39. Business Combinations *(Continued)*

(b) Acquisition of Ever Assure *(Continued)*

Goodwill mainly represents synergies and economic benefits that Ever Assure and Jian Shi Xing will bring to the Group in the future by providing access to potential improvement of existing products and accelerating research of new products. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Ever Assure and Jian Shi Xing contributed the revenue of RMB4,275,000 and the loss of RMB5,355,000 to the Group's profit for the period between the date of acquisition and 31 December 2010.

If the acquisition had been completed on 1 January 2010, total group revenue for the year ended 31 December 2010 would have been RMB876,440,000, and profit for the year ended 31 December 2010 would have been RMB59,415,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2010, nor is it intended to be a projection of future results.

The Group recognised the acquisition related cost of RMB767,000 for the year ended 31 December 2010 in relation to the acquisition of Ever Assure and Jian Shi Xing and included in other expenses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

40. Statement of Financial Position of the Company

	Notes	At 31 December 2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Investment in a subsidiary		**13,647**	9,204
Amounts due from subsidiaries	(a)	**244,973**	82,993
		258,620	92,197
CURRENT ASSETS			
Deposits prepayments and other receivables		**1,886**	–
Amounts due from related parties		**–**	20
Bank balances and cash		**984,934**	2,914
		986,820	2,934
CURRENT LIABILITIES			
Other payables and accrued expenses		**10,126**	–
Amount due to a subsidiary	(b)	**–**	875
		10,126	875
NET CURRENT ASSETS		**976,694**	2,059
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,235,314**	94,256
CAPITAL AND RESERVES			
Share capital		**95**	63
Reserves	(c)	**1,235,219**	(41,728)
		1,235,314	(41,665)
NON-CURRENT LIABILITY			
Redeemable convertible preferred shares		**–**	135,921
		–	135,921
		1,235,314	94,256

Notes:

(a) The amounts due from subsidiaries are unsecured, non-traded related and interest free. Such interest-free advances are measured at amortised cost using the effective interest method at an interest rate of 5.4% per annum.

(b) The amount due to a subsidiary was unsecured, interest-free and fully settled during the year ended 31 December 2010.

40. Statement of Financial Position of the Company *(Continued)*

Notes: *(Continued)*

(c) A movement of reserves is as follows:

	Share premium RMB'000	**Share option reserve** RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
At 5 August 2009 (date of Incorporation)	–	–	–	–
Loss and total comprehensive expenses for the period	–	–	(41,728)	(41,728)
At 31 December 2009	–	–	(41,728)	(41,728)
Loss and total comprehensive expenses for the year	–	–	(99,547)	(99,547)
Issuance of ordinary shares	1,182,675	–	–	1,182,675
Expenses incurred in connection with the issuance of ordinary shares	(51,556)	–	–	(51,556)
Conversion of redeemable convertible preferred shares	256,232	–	–	256,232
Share-based payments	–	36,643	–	36,643
Dividends	–	–	(47,500)	(47,500)
At 31 December 2010	1,387,351	36,643	(188,775)	1,235,219

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

41. Particulars of Subsidiaries

At the reporting period end, the Company had the following subsidiaries:

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group As at 31 December 2010	2009	Principal activities
Beijing Besunyen Trading Co., Ltd. (Note i) 北京碧生源商貿有限公司	25 May 2008 The PRC	RMB5,000,000	**100%**	100%	Sales of therapeutic tea products
Beijing Besunyen Food and Beverage Co., Ltd. (formerly known as Beijing Benefit Food and Beverage Co., Ltd.) (Note ii) 北京碧生源食品飲料有限公司	29 June 2007 The PRC	RMB20,000,000	**100%**	100%	Sales of therapeutic tea products
Beijing Outsell Health Product Development Co., Ltd. (Note iv) 北京澳特舒爾保健品開發有限公司	26 September 2000 The PRC	RMB322,771,969	**100%**	100%	Manufacture and sales of therapeutic tea products
Beijing Outsell Trading Co., Ltd. (Note i) 北京澳特舒爾商貿有限公司	26 May 2008 The PRC	RMB5,000,000	**100%**	100%	Sales of therapeutic tea products
Besunyen Investment (BVI) Co., Ltd. (formerly known as Tea-Care Holding Co. Universal Ltd)	11 August 2009 British Virgin Islands ("BVI")	USD1	**100%**	100%	Investment holding
Besunyen (Hong Kong) Co., Limited (formerly known as Outsell Herbal Tea Limited) 碧生源(香港)有限公司	10 June 2009 Hong Kong	HKD1	**100%**	100%	Investment holding
Ever Assure Limited	23 April 2010 Hong Kong	HKD1	**100%**	N/A	Investment holding
Foshan Benefit Trading Co., Ltd. (Note iii)	2 February 2008 The PRC	RMB100,000	**N/A**	100%	Inactive and deregistered
Guangzhou Outsell Trading Co., Ltd. ("GZ Trading") (Note i) 廣州澳特舒爾商貿有限公司	19 September 2008 The PRC	RMB5,000,000	**100%**	100%	Sales of therapeutic tea products

41. Particulars of Subsidiaries *(Continued)*

Name of subsidiary	Date and place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group As at 31 December 2010	2009	Principal activities
Jian Shi Xing Biotech Research and Development (Shanghai) Co., Ltd. 健士星生物技術研發（上海）有限公司	10 March 2008 The PRC	USD3,000,000	**100%**	N/A	Research and development of tea and Chinese medicinal herbal products
Nanjing Outsell Trading Co., Ltd. (Note iii)	12 January 2009 The PRC	RMB200,000	**N/A**	100%	Inactive and deregistered
Shenzhen Jundacheng Trading Co., Ltd. (Note iii)	8 January 2008 The PRC	RMB200,000	**N/A**	100%	Inactive and deregistered
Xian Benefit Trading Co., Ltd. (Note iii)	18 March 2008 The PRC	RMB200,000	**N/A**	100%	Inactive and deregistered
Zhuhai Qi Jia Medical Industry Co., Ltd. 珠海奇佳藥業有限公司	6 July 2001	RMB12,000,000	**100%**	N/A	Manufacture and sales of therapeutic tea products

(i) These companies are limited liability companies and operate in the PRC and have been wholly owned by Beijing Outsell since establishment.

(ii) Besunyen Food and Beverage was established on 29 June 2007 as a foreign-invested enterprise in the PRC. Upon the establishment, Madam Zhang Hong Li held the entire shareholding in Besunyen Food and Beverage on behalf of Mr. Zhao Yihong, who is controlling shareholder of the Group. On 5 December 2008, Madam Zhang Hong Li transferred her entire shareholding in Besunyen Food and Beverage to Besunyen Investment Co., Ltd., which is a related company controlled by Mr. Zhao Yihong. On 9 October 2009, Besunyen Investment Co., Ltd. transferred its entire shareholding in Besunyen Food and Beverage to Beijing Outsell.

(iii) These companies were limited liability companies and operated in the PRC and were wholly owned by Beijing Outsell. They had been inactive since establishment and were deregistered during 2010.

(iv) Beijing Outsell was established as a sino-foreign equity joint venture in the PRC on 26 September 2000. Beijing Outsell transferred from a sino-foreign equity joint venture to a foreign-invested enterprise in April 2005. Beijing Outsell was held by other nominees on behalf of Mr. Zhao Yihong since its establishment to 31 August 2009. On 1 September 2009, Mr Cui Shan, a nominee shareholder, transferred his entire shareholding in Beijing Outsell to Besunyen HK, and since then, Besunyen HK had held the entire shareholding in Beijing Outsell.

Four-year Financial Summary

Consolidated Statements of Comprehensive Income

	Year ended 31 December			
	2007 RMB'000	2008 RMB'000	2009 RMB'000	**2010** **RMB'000**
Turnover	163,100	358,231	646,535	**874,216**
Gross profit	115,372	298,117	578,134	**783,081**
Operating profit	47,963	123,386	219,864	**230,867**
Change in fair value on redeemable convertible preferred shares	–	–	(33,497)	**(121,361)**
Profit before taxation	47,597	122,033	177,713	**101,146**
Profit and total comprehensive income for the year	47,595	121,979	141,707	**59,655**
EBITDA	51,249	127,318	225,752	**250,659**
Earnings per share				
Basic	0.04	0.11	0.13	**0.05**
Diluted	N/A	N/A	0.13	**0.05**

Consolidated Statement of Financial Position

	At 31 December			
	2007 RMB'000	2008 RMB'000	2009 RMB'000	**2010** **RMB'000**
Non-current assets	55,450	105,993	250,130	**450,957**
Net current assets (liabilities)	(15,485)	90,951	210,449	**1,305,501**
Total assets less current liabilities	39,965	196,944	460,579	**1,756,458**
Non-current liabilities	2,000	37,000	161,065	**20,673**
Net assets	37,965	159,944	299,514	**1,735,695**
Share capital	34,721	61,994	63	**95**
Reserves	3,244	97,950	299,451	**1,735,600**
Total equity	37,965	159,944	299,514	**1,735,695**