碧生源控股有限公司
Besunyen Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 926

Annual Report 2011

涵養萬物

生生不息

Sustaining Health from Nature's Nourishing

Corporate Profile

Besunyen Holdings Company Limited (the "Company") and its subsidiaries (collectively the "Group") are the 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.

In 2011, 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), 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 2011, with a market share of 28.1% and 35.7% respectively.

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.

As of December 31, 2011, products of the Group are sold in nearly 130,000 retail outlets all over China, of which approximately 96% are retail pharmacies. The distribution network of the Group covers 420 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

REGISTERED OFFICE IN CAYMAN ISLANDS

Portcullis TrustNet (Cayman) Ltd.
The Grand Pavilion Commercial Centre
Oleander Way, 802 West Bay Road
P.O. Box 32052
Grand Cayman KY1-1208
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN PRC

No. 1 Qiushi Industry Park, Doudian Town
Fangshan District, Beijing 102433, PRC

PLACE OF BUSINESS IN HONG KONG

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6-8 Harbour Road, Wanchai
Hong Kong

WEBSITE OF THE COMPANY

http://ir.besunyen.com

INVESTOR RELATIONS

ir@besunyen.com

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

MaplesFS Limited*
P.O. Box 1093, Queensgate House
Grand Cayman, KY1-1102
Cayman Islands

* Change of name from Maples Finance Limited

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

LEGAL ADVISORS

As to Hong Kong:
O'Melveny & Myers
31/F, AIA Central
1 Connaught Road, Central
Hong Kong

As to PRC Law:
Global Law Office
15/F, Tower 1, China Central Place
81 Jianguo Road, Chaoyang District
Beijing 100025
PRC

COMPLIANCE ADVISOR

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 2011 RMB'000	2010 RMB'000	Growth
Turnover	**840,409**	874,216	(3.9%)
Gross profit	**737,639**	783,081	(5.8%)
Operating profit	**8,598**	230,867	(96.3%)
Impairment loss on goodwill	**(15,480)**	–	–
Change in fair value on redeemable convertible preferred shares	**–**	(121,361)	–
(Loss) profit before taxation	**(6,882)**	101,146	(106.8%)
(Loss) profit and total comprehensive (expenses) income for the year	**(40,876)**	59,655	(168.5%)
EBITDA	**27,322**	250,659	(89.1%)
(Loss) earnings per share (RMB)			
Basic	**(0.02)**	0.05	(140.0%)
Diluted	**(0.02)**	0.05	(140.0%)

Profitability and Operation Efficiency

	Year ended 31 December 2011	2010	Change
Gross profit margin	**87.8%**	89.6%	(1.8%) pts
Operating profit margin	**1.0%**	26.4%	(25.4%) pts
Pretax (loss) profit margin	**(0.8%)**	11.6%	(12.4%) pts
Net (loss) profit margin	**(4.9%)**	6.8%	(11.7%) pts
Selling and marketing expenses ratio(1)	**(73.7%)**	(48.4%)	25.3% pts
– Advertising expenses ratio(1)	**(40.9%)**	(28.6%)	12.3% pts
Administrative expenses ratio(1)	**(13.1%)**	(10.1%)	3.0% pts
Research and development costs ratio(1) (2)	**(2.3%)**	(0.9%)	1.4% pts
Change in fair value on redeemable convertible preferred shares ratio(1)	**–**	(13.9%)	13.9% pts
Finance cost ratio(1)	**–**	(1.0%)	1.0% pts

Working Capital Efficiency and Investment Return

	Year ended 31 December		
	2011	2010	Change
Inventory turnover days	**25**	25	–
Trade and notes receivables days	**78**	52	26
Trade receivable days	**33**	37	(4)
Trade payable days	**26**	36	(10)
Return on assets(3)	**(2.2%)**	4.9%	(7.1%) pts
Return on equity(4)	**(2.4%)**	5.9%	(8.3%) pts

Financial Strength

	At 31 December		
	2011	2010	Change
Current ratio	**4.9x**	11.4x	(6.5x)
Debt/total asset ratio(5)	**net cash**	net cash	N/A

(1) As percentage of turnover

(2) Included the research and development cost on production quality management

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

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

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

拓展

EXPANDING

STRIVING FOR A DEEPER MARKET PENETRATION

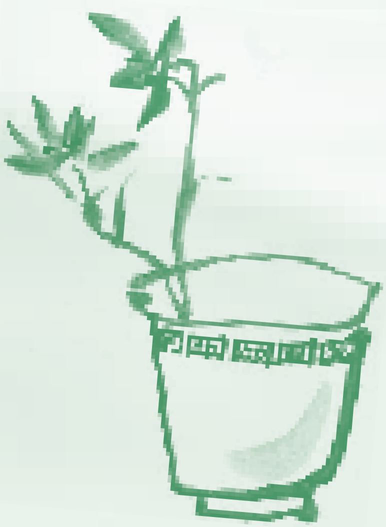
The Group has continued to expand the sales network to include all provinces, autonomous regions and centrally administered municipalities in Mainland China, covering approximately 130,000 retail outlets as at 31 December 2011 (including about 124,500 retail pharmacies and about 5,500 supermarkets, hypermarkets and chain stores).

Covering approximately

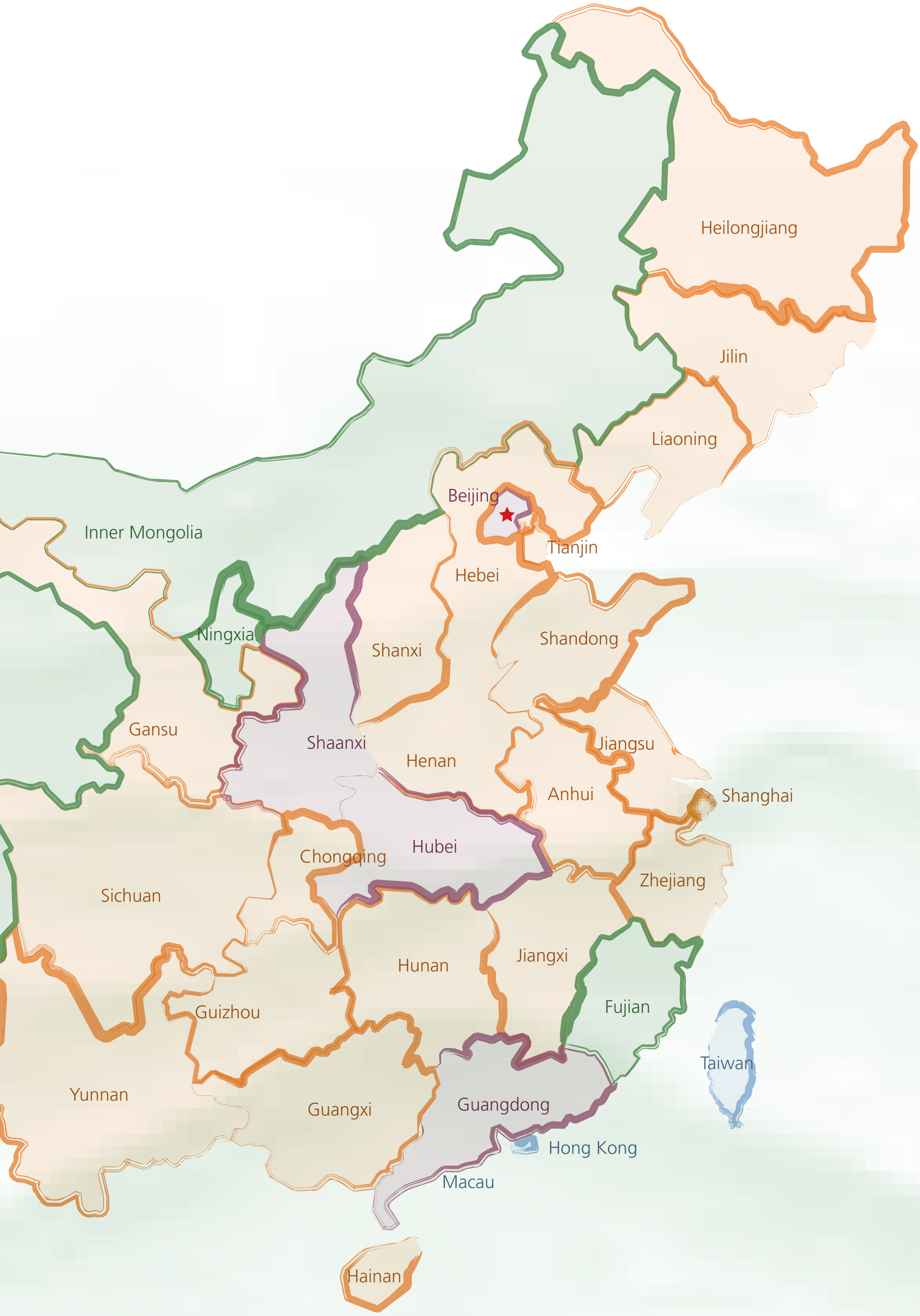
130,000 retail outlets

as at 31 December 2011

Sales Network



(1) Defined as number of years for which our sales teams have covered relevant market, as of December 31, 2011.


Heilongjiang
Jilin
Liaoning
Inner Mongolia
Beijing
Tianjin
Hebei
Shandong
Ningxia
Shanxi
Gansu
Shaanxi
Henan
Jiangsu
Anhui
Shanghai
Hubei
Chongqing
Sichuan
Zhejiang
Hunan
Jiangxi
Guizhou
Fujian
Taiwan
Yunnan
Guangxi
Guangdong
Hong Kong
Macau
Hainan

天然

NATURAL

INGREDIENTS FROM NATURE FOR ENJOYMENT OF A GREENER LIFESTYLE

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.

Chairman and CEO's Report

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 2012 around the fundamental objectives for satisfying consumers' demand for pursuing health and healthy life-styles.

ZHAO Yihong
Chairman and CEO

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 2011.

2011 was a year of uncertainties with the euro-zone sovereign debt crisis and US recession plaguing the world economy. China was, however, able to maintain the momentum of economic growth. According to the National Bureau of Statistics of China, China's 2011 GDP increased by 9.2% to RMB47.2 trillion. The total retail sales of consumer goods increased by 17.1% to RMB18.1 trillion, a growth rate slightly lower than that of 2010, but still 2.1% higher than the average of the ten consecutive years since 2001.

Though China's economy is relatively in better shape than most other countries, the 8.9% GDP growth of the fourth quarter of 2011 year-on-year marked a steady slowdown from the growth of the three previous quarters in 2011 (9.7% growth of the first quarter, 9.5% of the second quarter and 9.1% of the third quarter). Inflation remained stubbornly high with 2011's CPI up by 5.4% year-on-year despite a series of interest rate increases and tightening of monetary policies, which have made it difficult for small and medium enterprises to secure bank borrowings to meet working capital needs.

Under such sophisticated circumstances, turnover of the Group in 2011 was RMB840.4 million, representing a decrease of 3.9% as compared to the turnover of RMB874.2 million in 2010. Gross profit decreased from RMB783.1 million to RMB737.6 million, down 5.8%. Meanwhile, the gross profit margin slightly decreased from 89.6% in 2010 to 87.8% in 2011. On the other hand, the total operating expenses (include selling and marketing expenses, administrative expenses, research and development cost) of the Group in 2011 were RMB749.5 million, representing an increase of 44.1% as compared to RMB520.1 million in 2010. In addition, there was an impairment loss of RMB15.5 million in 2011 (2010: Nil) in relation to goodwill of a subsidiary company. Due to the slight decrease in turnover and gross profit but a substantial increase in total operating expenses and impairment loss on goodwill of a subsidiary company, the Group recorded a net loss of RMB40.9 million in 2011 as compared to the net profit of RMB59.7 million in 2010. The deterioration in the financial performance of the Group in 2011 was mainly attributable to the following reasons:

(i) Most of the Group's distributors were small and medium enterprises. In 2011, the slowdown of the macro-economy and tighter credit environment affected market sentiment and impacted on their business outlook, making it difficult for them to secure sufficient working capital. In such hostile market conditions and slowing trend in 2011, our distributors became more prudent in making orders and purchasing the products from the Group in the second half of 2011;

(ii) It was the continuous effort of the Group to explore the sales of existing products in new markets in the eastern cities of China and through new channels such as supermarkets and hypermarkets, but the sales generated from these efforts in 2011 did not meet our expectations;

(iii) Although the trial launch of our new product, Mei An Granules, achieved certain progress in 2011, the official launch was behind schedule; and

(iv) The Group plans its selling and marketing expenses each year according to its sales growth target and long-term brand building plan. In the first half of 2011, the Group increased its selling and marketing expenses by 46.0% as compared to the same period in 2010, which was mainly in line with the 39.0% growth in turnover in the first half of 2011 year-on-year. The spending of selling and marketing expenses in the second half of 2011 continued the trend of first half of 2011, representing an increase of 46.7% as compared to the second half of 2010. However, the Group suffered an unexpected substantial decline in sales in the second half of 2011. For long-term brand-building, the Group did not substantially cut back on selling and marketing expenses in the second half of 2011.

Although we faced strong headwinds in the second half of 2011, we believe that the long-term growth of China's economy and strong demand for health food products remain unchanged. As the leading brand and provider of therapeutic tea products in China, we will continue to maintain and enhance our competitive advantages, such as a strong national brand name, nationwide distribution and sales network as well as innovative research and development, to further strengthen our market-leading position. We will stick to our well-established business strategy and business objectives of satisfying consumers' demand for quality health food products.

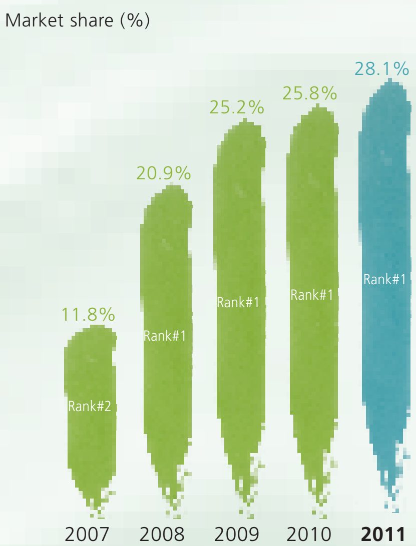
Industry, Market and Competition

The growth in the market for health food products with laxative or slimming functions is in line with the increase in the number of people suffering from constipation or with weight problems. According to a study conducted by Euromonitor International Plc. ("Euromonitor") in July, 2010 commissioned by the Group, sales of health food products with laxative function are expected to increase to RMB8.5 billion in 2014, representing a 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 billion in 2014, representing a compound annual growth rate of 10.6% from 2009 to 2014.

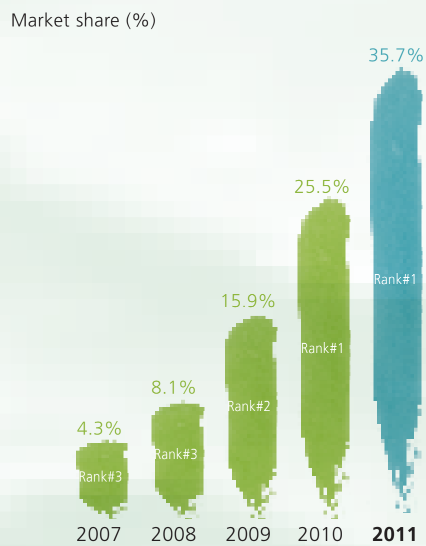
The aging population, the sub-health condition of young people and the middle-aged due to work-related stress, and the growing popularity of slimming products have fuelled the demand for the Group's products, which target urban health problems such as constipation and obesity. Consumers' growing awareness for food safety, green and herbal products also make Besunyen products the preferred choice since its products are purely made of herbal-based Chinese medicine and tea leaves.

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 Group-commissioned study of China Southern Medicine Economy Research Institute ("SMERI") released in February, 2012, the Group continued to be the No. 1 leading provider of laxative products sold through retail pharmacies in 2011 in terms of retail sales value, enjoying a market share of 28.1%. In the market for slimming products sold through retail pharmacies, the Group also continued to be the No. 1 leading provider of slimming products sold through retail pharmacies in 2011 in terms of retail sales value, having a market share of 35.7%. Despite the decrease in purchase orders from the Group's distributors in the second half of 2011, the study demonstrated that the Group's products still has a strong demand at the retail level.

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)



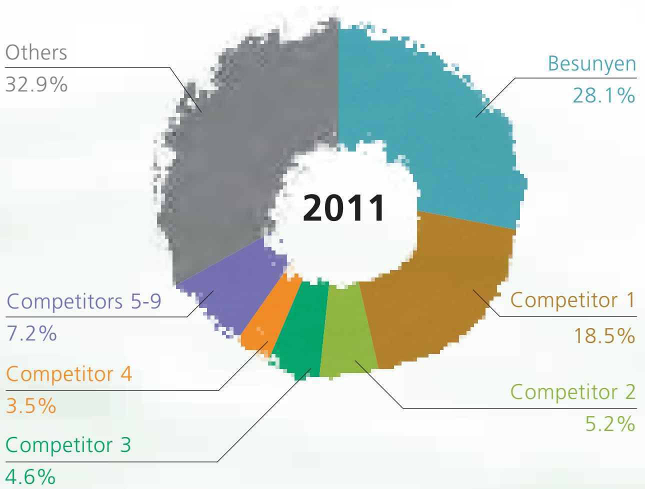
Market share and ranking of Besunyen Slimming Tea among slimming products sold through retail pharmacies in the China market(Note) (calculated based on retail sales value)

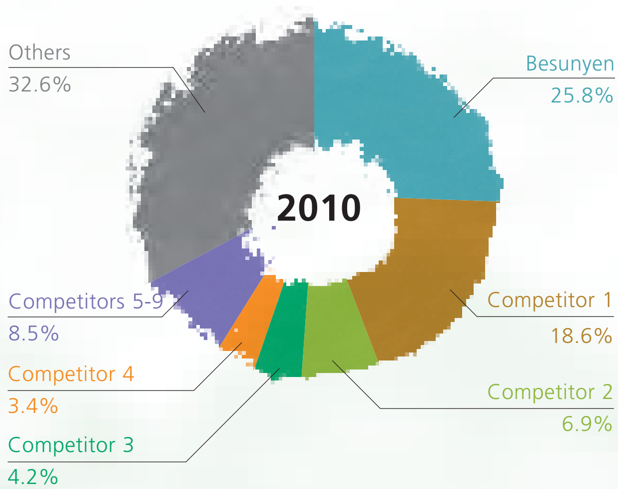


Note: China market refers to the Chinese market excluding Hong Kong, Macau and Taiwan.

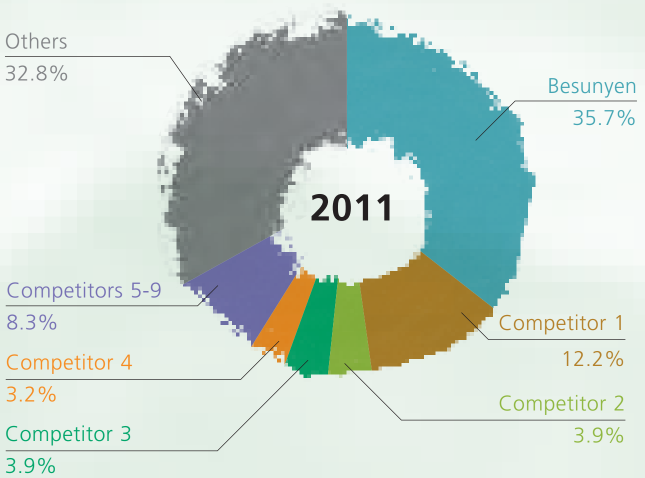
Source: SMERI, February 2012.

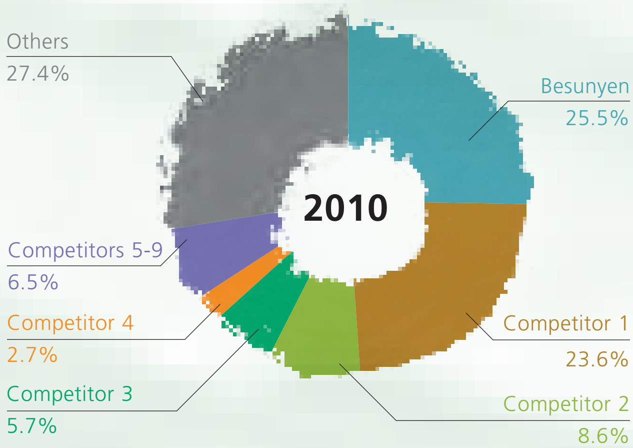
Market share and ranking of Besunyen Detox Tea among laxative products sold through retail pharmacies in the China market(Note) (calculated based on retail sales value)





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, February 2012.

ACNielsen, an international market research company, issued a quantitative research report in September, 2011 on the slimming products market in China. It conducted an online survey of first-tier mainland cities, including Beijing, Shanghai, Guangzhou and Chengdu, to analyze the market landscape and understand consumers' knowledge and usage level of different brands of slimming products.

According to ACNielsen's survey results, the Brand Equity Index (BEI) of Besunyen Slimming Tea reached 4.7, which was well above the average value of 2.3 for fast-moving consumer products. Among 1,442 respondents of the survey aged between 18 and 40 years old, the brand recognition level for Besunyen Slimming Tea was 92%, and 66% of the 500 respondents aged between 30 and 34 years old have used Besunyen Slimming Tea in the past year. Both numbers indicated much stronger brand recognition and higher usage than other comparative products. In addition, 61% of the 1,324 respondents, who were aware of Besunyen Slimming Tea, were able to identify the "detox" function of the product, 73% the "laxative" function, and 56% the "natural herbal" nature of the product, again indicating strong brand image of the product.

Business Review

Although the Group faced serious challenges in 2011, it still maintained its leading position in the therapeutic tea market and achieved the following in the year:

Extending the Sales Network into Low Tier Cities and Optimizing the Management of Distribution Channels

Since 2010, the Group has continued to expand the sales network to include all provinces, autonomous regions and centrally administered municipalities in Mainland China. From the Group's solid market position in first- and second-tier cities, it has been proactively deepening market penetration to expand its network to lower tier cities. In 2011, the Group adopted measures to streamline the distribution system by selecting large-scale distributors, to clarify channel segmentation and remove under-performing distributors from our list. As a result, the number of distributors dropped from 462 as at 31 December 2010 to 420 as at 31 December 2011. Despite the decrease in the number of distributors, the number of retail outlets covered by our distributors increased to approximately 130,000 as at 31 December 2011 (including about 124,500 retail pharmacies and about 5,500 supermarkets, hypermarkets and chain stores), compared with approximately 119,000 retail outlets as at 31 December 2010.

The traditional developed markets of the Group are southern China (eg Guangdong province) and north-western China (eg Shaanxi province). The highly urbanized eastern region (eg Zhejiang province and Jiangsu province) is relatively new market for the Group with huge potential. In addition, retail pharmacies are long-established sales channel of the Group while supermarkets, hypermarkets and chain stores are new channels developed by the Group only in recent years. It is the long-term strategy of the Group to achieve a higher growth in sales of existing products in new markets and through new channels. However, the business environment and practices in the new markets and new channels are quite different from the traditional ones. In 2011, the sales growth in the new markets and new channels did not meet our expectations mainly due to inappropriate set up of new sales organization and team. We learned a good lesson in 2011 and we will adjust our internal sales organization and deploy our sales teams accordingly in developing new markets and using new sales channels.

The Group continued to strengthen the management of our sales teams in 2011. We initiated a system that we could manage our sales teams across China through specified software in their cell phones, enhancing the efficiency of our sales teams.

Leveraging the trend of shopping online by urban residents and accommodating the demand from customers in remote areas, the Group had begun development of its e-commerce channel since end-2010. Apart from the Group's own e-commerce website www.7cha.com, it also supplied other popular e-commerce platforms, such as Taobao, 360buy, Dangdang, Amazon etc with its products. The sales volume in Tmall.com increased dramatically by approximately 300% in 2011 compared to that of 2010, unrivalled by other internet therapeutic tea stores. In October 2011, the sales of Besunyen products ranked No. 2 among thousands of healthcare brands in Tmall.com.

Enhancing Brand Image and Implementing Various Marketing Programs

In 2011, the Group rationally planned and applied its marketing resources according to its long-term brand building strategy. The Group increased its advertisement coverage on popular satellite TV channels and programs in Mainland China. The Group also actively participated in sponsorships and obtained naming rights with some top-tier TV programs including the third season of "Dancing Carnival" (舞動嘉年華) on Chengdu TV, "Compendium of MateriaMedica" (本草綱目) on Hubei Satellite TV and "the More Smart Talk, the More Happiness" (越策越開心) on Hunan Economic TV. We attended the Ninth University Advertisement Art Show Academy Award (第九屆大學生廣告藝術(學院獎)活動) and collected creative works from college students for our new product Besunyen Mei An Granules, aiming at building the Besunyen brand among younger consumers and promoting our business concepts.

To enhance its brand image, the Group engaged celebrities as spokespersons for its two core products: The Group engaged Ms. Xu Jinglei, a famous movie director and actress, as the spokesperson for Besunyen Slimming Tea in the first half of 2011. Ms. Xu, with her fame, popularity and healthy image, appealed to the young office ladies' market. Meanwhile, the Group also engaged Mr. Guo Donglin and Ms. Niu Li, a pair of famous comedians popular with family appeal, as the spokespersons of Besunyen Detox Tea, achieving great marketing success.

In the second half of 2011, the Group achieved a new milestone that sales of Besunyen Detox Tea reached an accumulated volume of 1.37 billion teabags in the past 11 years. This equals one Besunyen detox tea bag for each person in China and reinforces the Group's position in the therapeutic herbal teas market. A series of marketing campaign were launched accordingly to enhance the recognition of the "Besunyen" brand and credibility of the Group's products.

Striving for New Products Launch

Mei An Granules

Since the second quarter of 2011, the Group had focused on the trial sales of Mei An Granules at Jiangyin City and Changshu City, Jiangsu Province, supported by marketing campaign with the theme of "Looking for Urban Sleeping Beauties"(尋找都市睡美人) along with TV commercials in these pilot cities. The main purpose of trial sales in pilot cities was to collect data from end-users to determine the positioning of Mei An Granules in the marketing campaign (including package design, selling price and marketing plan) to prepare for the nationwide launch.

Mei An Granules has been shown to improve sleep quality based on the findings on efficacy of our products to the random samples of customers in two pilot markets, Jiangyin City and Changshu City, Jiangsu Province. It can attain potency rate of 56% and 75.6% if one takes for two weeks and three weeks respectively. However, its function is very different from our other existing products and the use of this kind of product to improve sleep quality is a relatively new concept to the public. Thus, we spent more time than expected to educate the end-users in the pilot cities and obtain their feedback. Positioning of Mei An Granules was finalized at early 2012 and the product has been launched across the country in March 2012.

Maishuping

The Group is also speeding up its pace in the launch of its OTC medicine teabag product named Maishuping, which helps to stabilize blood pressure. Maishuping already obtained the approvals from the State Food and Drug Administration of China ("SFDA") in November 2011. A clinical trial undertaken in four large hospitals in China showed that the overall efficacy rate on blood pressure control reached 96% among 300 people who took the medicine.

As a final step before product launch, the Group is now in the process of applying for the GMP certificate for Maishuping's teabag production and targets to obtain the certificate by the third quarter of 2012. Both the positioning and marketing strategies for Maishuping are in place. Once the Group obtains the GMP certificate, the Group will commence the production and sale of Maishuping immediately.

Robust New Product Pipeline under Research and Development and Strictly Controlling Product Quality

The Group has developed a number of new product pipelines with the dedicated work of its own Research and Development Center. The Group focuses on developing products with significant market potential and consumer demand, proven health efficacy as well as a relatively high technical entry barrier. A product designated to alleviate physical fatigue and assist in improving memory has already passed the relevant tests on safety, efficacy and quality reliability by the SFDA and is waiting for the final approval. Another product aiming to enhance skin condition and repair ageing skin has passed the tests on product safety, efficacy, quality reliability and is now undergoing clinical trials.

Furthermore, the development of new products for the throat, eyes and digestion are well under way.

The Group set up its Product Safety and Quality Assurance Center early this year. The center conducts analysis and tests on the quality and safety of raw materials, semi-finished products and final products. The advanced equipment and well-trained professionals in the center are capable of carrying out safety tests on raw materials and products in a timely, efficient and accurate manner, which ensures the compliance with higher national quality and safety standards in China.

Prospects

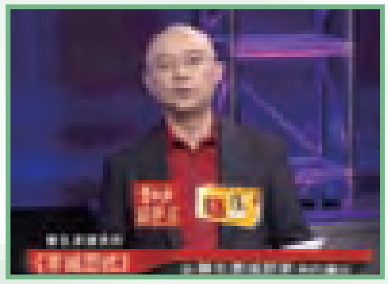
Since 2011, China has taken various measures to boost domestic consumption to achieve restructuring of its economy. Per capita annual disposable income of urban residents' income in 2011 reached RMB21,810 with a year-on-year increase ratio as 8.4%. The Chinese government also endeavored to monitor inflation and implement macro-economic control measures. All the above factors will be positive for China's long-term retail market.

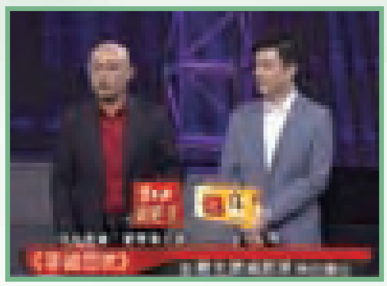
Over the long term, the Group will continue to benefit from China's economy especially in view of stronger domestic consumption. Substantial consumer demand on health and healthy life-style gives rise to tremendous long-term market potential for detox and slimming products. The Group will focus on selling, producing and developing products that combine the modern way of tea brewing in teabags with the self-cure functionality of traditional Chinese herbs. This will make the Group unique among its competitors.

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 2012 around the fundamental objectives for satisfying consumers' demand for pursuing health and healthy life-styles. It will also work hard to further enhance its sales network and distribution channels, to further improve the "Besunyen" brand, to strengthen its new product launch, and to improve its overall operation efficiency so as to maximize the enterprise value of the Group. Specifically, for 2012, the Group will focus its efforts on the following:

- The Group will further develop its sales network and distribution channels, including expanding the OTC distribution channels in low-tier cities, sales in supermarkets and hypermarkets, and developing the e-commerce platform. Meanwhile, the Group will adopt new incentive measures for sales staff, and monitor the retail terminals more closely.

- The Group will integrate marketing activities and make every penny count. The Group has sponsored the popular TV series "If You are the One" (非誠勿擾) on Jiangsu Satellite TV since the beginning of this year. The program is one of the hottest TV shows in recent years and attracts a wide audience across China. In association with it, the Group will carry out on-site marketing activities such as university academy award to impose more brand influence on different groups. The Group has extended its advertising activities from product-oriented in satellite TV channels to corporate image and community-oriented in CCTV channels in 2012 as well.





- The Group has unveiled the new package for Mei An Granules and launched the nationwide sales in March 2012. There are two forms in the new packaging: 7 teabags and 21 teabags, offering choices to end-users. The data collected in Eastern China have further affirmed Mei An Granules' efficacy, reinforcing our marketing campaign that quality sleep also improves skin tone and boosts one's over-all well-being.

- The Group will accelerate the launch of new product Maishuping. The OTC blood pressure reduction tea is now completing the GMP certificate for production, quality assurance, sales, etc. and will be ready for sale in the second half of 2012 once the certificate is obtained. The Group's existing sales network in OTC pharmacies offered a perfect platform for the sale of Maishuping. An experienced sales team was set up with the task of promoting this new product.

- Although the Group plans its selling and marketing expenses each year according to its sales growth target and long-term brand building plan, 2011 taught us that an unexpected volatility on turnover with an unadjusted expenditure plan could have huge impact on our profitability. In 2012, the Group will closely monitor and control the expenses-to-turnover ratio. We will adopt a more flexible approach in optimizing the effectiveness of selling by keeping a lid on marketing expenses, to ensure a stable operating margin.

In early 2012, the Group increased the recommended retail price of Besunyen Slimming Tea from RMB39.8 per box to RMB45.0 per box, representing a 13.1% increase. The Group received tremendous feedback and orders from our distributors near the year-end of 2011. Advance payments of these orders amounted to around RMB105.4 million as at the end of 2011,which will be booked as turnover once the products were delivered at early 2012. This demonstrated our distributors continued to have confidence in our products.

The Chinese government recently announced the GDP growth target of 2012 to be 7.5%, which is less than the actual 9.2% achieved in 2011[note]. This may indicate further slowdown in China's economic growth which will somehow affect consumers' sentiments. Meanwhile the overall health food market in China is competitive and rapidly evolving. The volatile economic backdrop and keen market competition will bring challenges to the Group. Nevertheless, facing the fragmented health food markets in China, 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 regulatory requirements for health food products, create strong barriers to entry in our markets. We are aiming to build the Besunyen brand as a Chinese household brand, to promote its function in curing ailments of our customers and instill the enjoyment of a green lifestyle among them.

Note: Actual economic data of China's GDP, CPI, the total retail sales of consumer goods, per capita annual disposable income of urban resident sources from National Bureau of Statistics of China. GDP growth target of 2012 sources from the government work report delivered by Premier Wen Jiabao at the parliament's annual session on 5 March 2012.

Acknowledgement

On behalf of the Board of Directors, I would like to extend my sincere gratitude to the strong support from many parties, including our customers, distributors, suppliers, media and other partners, shareholders and investors. In particular, I would like to thank all the staff of our Group for their dedicated work in 2011!

Chairman and CEO
Zhao Yihong

Hong Kong, 16 March 2012

領先

LEADING

LEADING PROVIDER OF THERAPEUTIC TEA

The Group continued to be the No. 1 leading provider of laxative products sold through retail pharmacies in 2011 in terms of retail sales value, enjoying a market share of 28.1%. In the market for slimming products sold through retail pharmacies, the Group also continued to be the No. 1 leading provider of slimming products sold through retail pharmacies in 2011 in terms of retail sales value, having a market share of 35.7%.

Rank

No.1

in market for both
laxative and slimming
products sold through
retail pharmacies

Management Discussion and Analysis

Operational Results

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

	For the years ended 31 December	
	2011	2010
	RMB'000	RMB'000
Turnover	**840,409**	874,216
Cost of Sales	**(102,770)**	(91,135)
Gross profit	**737,639**	783,081
Other income (expenses)	**20,453**	(32,090)
Selling and marketing expenses	**(619,744)**	(423,314)
Administrative expenses	**(110,299)**	(88,625)
Research and development costs	**(19,451)**	(8,185)
Finance costs	**–**	(8,360)
Impairment loss on goodwill	**(15,480)**	–
Changes in the fair value of the convertible redeemable Series A Preferred Shares	**–**	(121,361)
(Loss) profit before taxation	**(6,882)**	101,146
Taxation	**(33,994)**	(41,491)
(Loss) profit and total comprehensive (expense) income for the year attributable to owners of the Company	**(40,876)**	59,655
(Loss) earnings per share		
Basic (RMB)	**(0.02)**	0.05
Diluted (RMB)	**(0.02)**	0.05

Turnover

	For the years ended 31 December			
	2011		2010	
	RMB'000	**Percentage of the total**	RMB'000	Percentage of the total
Turnover:				
Besunyen detox tea	**417,847**	**49.7%**	566,222	64.8%
Besunyen slimming tea	**414,232**	**49.3%**	304,186	34.8%
Other products	**8,330**	**1.0%**	3,808	0.4%
Total	**840,409**	**100.0%**	874,216	100.0%

The turnover of the Group decreased by 3.9% from RMB874.2 million for the year ended 31 December 2010 to RMB840.4 million for the year ended 31 December 2011.

The turnover of Besunyen Detox Tea decreased by 26.2% from RMB566.2 million in 2010 to RMB417.8 million in 2011, mainly due to the decrease of sales volume from 371.0 million tea bags to 271.6 million tea bags. The peak season for the sales of Besunyen Detox Tea is traditionally the second half of the year, owing to the slowdown of the macro-economy and the tighter credit environment in the second half of 2011, the Group's distributors have substantially reduced their purchase during the peak season in 2011 as compared to 2010.

The turnover of Besunyen Slimming Tea increased by 36.2%, from RMB304.2 million in 2010 to RMB414.2 million in 2011, mainly due to the increase in sales volume from 292.9 million tea bags to 406.7 million tea bags. The growth of sales volume was mainly due to the shift of customers from our main competitor whose products have been removed from shelves since late 2010. The peak sales season of Besunyen Slimming Tea is in the first half of the year, thus the impact of unfavourable macro-economic condition in the second half of 2011 on its sales was comparatively insignificant.

In 2011, the average selling price ("ASP") of Besunyen Detox Tea and Besunyen Slimming Tea (turnover divided by sales volume) remained fairly stable, despite the significant volatility in the sales volume of these two products. During 2011, the ASP of Besunyen Detox Tea and Besunyen Slimming Tea was RMB1.54 per bag and RMB1.02 per bag respectively (compared to RMB1.53 per bag and RMB1.04 per bag respectively in 2010).

Cost of Sales and Gross Profit

	For the years ended 31 December			
	2011		2010	
	RMB'000	**Percentage of turnover**	RMB'000	Percentage of turnover
Total cost of sales	**102,770**	**12.2%**	91,135	10.4%
Gross profit	**737,639**	**87.8%**	783,081	89.6%

The cost of sales of the Group increased by 12.8%, from RMB91.1 million in 2010 to RMB102.8 million in 2011. The cost of sales as a percentage of turnover increased from 10.4% in 2010 to 12.2% in 2011.

The market price of the major raw materials for the Group increased. In addition, the new Italy-made automated tea bag packaging machines required higher quality packing material, the packaging materials costs increased accordingly. The new machines also caused more energy consumption and asset depreciation, which drove the increase in manufacturing overhead. Besides, the average salary of factory labour increased resulting in a higher labor cost.

As a result of the decrease in turnover by 3.9% but increase in cost of sales by 12.8% in 2011 compared to 2010, the gross profit of the Group decreased 5.8% from RMB783.1 million in 2010 to RMB737.6 million in 2011. The gross profit margin of the Group was down from 89.6% in 2010 to 87.8% in 2011.

Other Income (Expenses)

Other income in 2011 of RMB20.5 million mainly comprised bank interest income amounting to RMB11.2 million, and exchange loss of RMB8.0 million deriving from appreciation of Renminbi against foreign currencies such as US dollar and Hong Kong dollar, plus a government grant of RMB16.5 million provided by the Chinese government to support the Group's operations and business in Fangshan District, Beijing.

Other expenses in 2010 of RMB32.1 million comprised IPO related expenses amounting to RMB33.5 million, exchange loss of RMB11.7 million derived from appreciation of Chinese Renminbi against foreign currencies such as US Dollar and Hong Kong Dollar, and offset by a government grant of RMB12.0 million provided by the Chinese government to support the Group's operations and business in Fangshan District, Beijing.

Selling and Marketing Expenses

	For the years ended 31 December			
	2011		2010	
	RMB'000	**Percentage of turnover**	RMB'000	Percentage of turnover
Advertising expenses	**343,370**	**40.9%**	250,105	28.6%
Other marketing and promotional expenses	**93,855**	**11.2%**	60,256	6.9%
Staff costs(1)	**132,850**	**15.8%**	83,512	9.6%
Others	**49,669**	**5.9%**	29,441	3.3%
Total	**619,744**	**73.8%**	423,314	48.4%

(1) Includes share-based compensation expenses of RMB2.1 million and RMB4.3 million for the year ended 31 December 2011 and 2010 respectively.

The selling and marketing expenses of the Group increased 46.4% from RMB423.3 million in 2010 to RMB619.7 million in 2011. Advertising expenses, other marketing and promotional expenses and staff costs increased by 37.3%, 55.8% and 59.1% respectively in 2011 as compared with 2010.

The increase in advertising expenses was mainly due to the increased spending on television and other commercials, brand sponsorship activities and engagement of brand spokespersons. The increase in other marketing and promotional expenses (including point-of-sale terminals expenses, promotional expenses and expenses in gifts, etc.) was mainly attributable to the expansion of the point-of-sale terminals sales network and increased point-of-sale terminals sales activities conducted by the Group. The increase in staff costs in relation to selling and marketing of the Group was mainly attributable to the increase in both the number of sales and marketing staff of the Group and sales labour costs per head. The average number of sales and marketing staff (excluding promotion staff employed through agencies) increased by roughly more than 40% in 2011 as compared with 2010. The number of sales and marketing staff of the Group as of 31 December 2011 was 2,600 (including 826 promotion staff employed through agencies).

The Group plans its selling and marketing expenses each year according to its sales growth target and long-term brand building plan. For long-term brand building, the Group did not substantially cut back on selling and marketing expenses in the second half of 2011, when there was an unexpected substantial decline in sales. As a result, the selling and marketing expenses as a percentage of sales substantially increased from 48.4% in 2010 to 73.8% in 2011.

Administrative Expenses

	For the years ended 31 December			
	2011		2010	
	RMB'000	**Percentage of turnover**	RMB'000	Percentage of turnover
Staff costs[1]	**55,834**	**6.6%**	57,895	6.6%
Office expenses	**16,860**	**2.0%**	11,917	1.4%
Professional fees	**10,362**	**1.2%**	4,942	0.6%
Travel and entertainment expenses	**11,357**	**1.4%**	6,640	0.8%
Others	**15,886**	**1.9%**	7,231	0.8%
Total	**110,299**	**13.1%**	88,625	10.2%

(1) Includes share-based compensation expenses of RMB12.7 million and RMB32.4 million for the year ended 31 December 2011 and 2010 respectively.

The administrative expenses of the Group increased 24.5% from RMB88.6 million in 2010 to RMB110.3 million in 2011. The staff costs in relation to administrative function decreased 3.6% from RMB57.9 million in 2010 to RMB55.8 million. This was mainly due to non-cash employee share option expenses decreased from RMB32.4 million in 2010 to RMB12.7 million in 2011. Excluding the non-cash employee share option expenses, the staff costs in relation to administrative function actually increased 69.2% and it was mainly driven by the employment of some experienced senior managers across various divisions to cope with the rapid growth of the Group's future business development. The increase of professional fees was mainly due to more such kind of fees incurred in 2011 after the company's listing in late 2010. On the other hand, the Group's office expenses as well as travel and entertainment expenses increased primarily due to business development.

Research and Development Costs

	For the years ended 31 December			
	2011		2010	
	RMB'000	**Percentage of turnover**	RMB'000	Percentage of turnover
Research and development costs	**19,451**	**2.3%**	8,185	0.9%

The Group's research and development costs increased by 137.8% from RMB8.2 million in 2010 to RMB19.5 million in 2011 due to the Group's efforts in improving production quality and enhancing research and development capabilities.

Finance Costs

There were no finance costs of the Group in 2011, compared to finance costs of RMB8.4 million in 2010, as there were no bank loans, bank financing or any financing activities of the Group in the year.

Impairment Loss on Goodwill

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 2011, the Directors recognised an impairment loss of RMB15.5 million (2010: Nil) in relation to goodwill arising on acquisition of Jian Shi Xing Biotech Research and Development (Shanghai) Co., Ltd., ("Jian Shi Xing") given that the recoverable amount was less than the carrying amount of the cash generating unit.

Changes in the Fair Value of the Redeemable Convertible Preferred Shares

Owing to the conversion of the existing redeemable convertible preferred shares, before the IPO last year, into ordinary shares of the Company, which then became part of the shareholders' equities of the Company, the redeemable convertible preferred shares were no longer liabilities of the Company after the conversion. Thus, the Group no longer had any changes in the fair value of the redeemable convertible Series A preferred shares in 2011 (2010: RMB121.4 million).

Taxation

Taxation expenses of the Group decreased by 18.0% from RMB41.5 million in 2010 to RMB34.0 million in 2011. This was mainly due to the decreased taxable income of the Group.

(Loss) profit and Total Comprehensive (Expense) Income of the Group for the Year

Due to the aforementioned factors, the profit and total comprehensive income of the Group declined from profit of RMB59.7 million in 2010 to loss of RMB40.9 million in 2011.

Use of the Net Proceeds from the IPO

The net proceeds from the IPO amounted to RMB1,033.2 million. The use of proceeds has been consistent with the disclosure in the Prospectus, and the respective use of the net proceeds until 31 December 2011 is as follows:

	Net Amount from IPO		
	Available RMB'000	**Used** RMB'000	**Unused** RMB'000
Acquisition of new production equipment and building new production facilities	364,913	122,579	242,334
Setup of the East China Headquarters	150,000	75,145	74,855
Beijing new office building	123,664	123,664	–
Extension of sales and distribution network, channels and brand building	73,092	73,092	–
Design, R&D of new products	146,185	33,737	112,448
Improvement of ERP and overall IT system	43,855	4,107	39,748
Loan repayment	73,000	73,000	–
Working capital	58,474	58,474	–
Total	1,033,183	563,798	469,385

Cash Flow and Capital Resources

In 2011, funds and capital expenditure required in the operation of the Group mainly came from cash flow generated from its internal operations as well as the proceeds from the IPO last year.

Cash Flow

The following table summarises the net cash flow of the Group for the years ended 31 December as indicated:

	For the years ended 31 December	
	2011	2010
	RMB'000	RMB'000
Net cash (used in) from operating activities	**(64,092)**	181,302
Net cash used in investing activities	**(457,345)**	(142,681)
Net cash (used in) from financing activities	**(38,455)**	975,795
Effect of foreign exchange rate changes	**(8,036)**	(12,724)
(Decrease) increase in cash and cash equivalents	**(567,928)**	1,001,692
Cash and cash equivalents at year-end	**602,541**	1,170,469

In 2011, net cash used in operating activities of the Group was RMB64.1 million (2010: RMB181.3 million cash inflow) and net loss was RMB40.9 million. The difference was mainly caused by an increase in trade receivables and notes receivables amounting to RMB149.3 million, and an increase in deposits, prepayments and other receivables amounting to RMB26.6 million, but offset by an increase in other payables and accrued expenses amounting to RMB90.5 million. Net cash used in investing activities of the Group was RMB457.3 million (2010: RMB142.6 million), and it was mainly due to purchases of office buildings for new headquarters in Beijing and East China headquarters in Shanghai totalling RMB380.6 million. Net cash used in financing activities of the Group was RMB38.5 million (2010: RMB975.8 million cash inflow). It was mainly due to the dividend paid in 2011 amounting to RMB41.6 million, and offset by proceeds from issue of shares upon exercise of share options amounting to RMB4.2 million. The huge cash inflow from financing activities in 2010 was mainly due to the proceeds raised from the IPO in late 2010.

Cash and Bank Loans

As of 31 December 2011, the bank balance and cash totalled RMB602.5 million (as at 31 December 2010: RMB1,170.5 million), representing a decrease of RMB567.9 million as compared to the previous year. Over 74.7% of the bank balance and cash of the Group was in Renminbi. In addition, as at 31 December 2011, the Group did not have any bank borrowings (as at 31 December 2010: Nil) and any unused bank credit lines (as at 31 December 2010: Nil).

Capital Expenditure

In 2011, capital expenditure of the Group was RMB452.8 million (2010: RMB152.3 million), which mainly included purchases of properties, plants and production equipment. The Group purchased new office buildings for new headquarters in Beijing and East China headquarters in Shanghai totalling RMB380.6 million as well as some production equipments to enhance production capability. The following table sets forth capital expenditure by the Group for the years ended 31 December as indicated:

	For the years ended 31 December	
	2011	2010
	RMB'000	RMB'000
Property, plant and equipment	**451,848**	139,499
Intangible assets	**913**	1,255
Land-use rights	**–**	13,546
Deposit refunded for acquisition of a subsidiary	**–**	(2,000)
Total	**452,761**	152,300

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	
	2011	2010
	RMB'000	RMB'000
Raw materials and packing materials	**3,687**	4,159
Work in progress	**2,962**	1,354
Finished goods	**1,850**	156
Total inventories	**8,499**	5,669

The turnover days of the Group's inventories in 2011 (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 during the period) remained unchanged at 25 days (2010: 25 days). 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 trends, so as to better estimate inventories requirements.

Trade 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 favourable payment and settlement terms. For example, if these distributors 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, the Group deems such acceptance bills as low risk and regards the payment as settled, the Group would deliver the products. The Group usually provides a credit period of 60 days or a maximum of six months to a limited number of distributors. These are mainly reliable and reputable distributors providing wholesale services to supermarkets and convenience store chains (general industry practice allows credit sales). For distributors not enjoying a credit period in the sales contract, they may apply for credit on an individual basis, and the Group would grant approval on a case by 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	
	2011	2010
	RMB'000	RMB'000
Trade receivables	**19,176**	135,117
Notes receivables[(1)]	**282,963**	17,686
Less: allowance for doubtful debts	**(111)**	–
Total	**302,028**	152,803

(1) As at 31 December 2011, the Group received advance payments from distributors amounting to RMB94.3 million, in the form of acceptance bills and therefore included in the balance of notes receivables.

The following table sets forth the turnover days 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 during the period):

	For the years ended 31 December	
	2011	2010
Trade and notes receivables turnover days[(1)]	**78**	52
Of which, trade receivables turnover days	**33**	37

(1) Since the advance payment from distributors amounting to RMB94.3 million in the form of notes receivables as at 31 December 2011 will be recognised as turnover only when the products are made and shipped to the distributors after 31 December 2011, the amount was deducted from the year end balance of notes receivables in calculation of the turnover period.

Trade and notes receivables turnover days of the Group increased from 52 days in 2010 to 78 days in 2011. The main reason was the increase in notes receivables. In 2011, the Group allowed its distributors to make their payments to the Group by bank acceptance bills due to the tight credit environment, which was more flexible to the distributors and safer for the Group, as a result the amount of notes receivables of the Group increased. As bank acceptance bills are issued by banks and secured by bank credit, the risk of having bad debts is rather low. Meanwhile, the Group has also adopted a more prudent credit policy and the trade receivables turnover days decreased from 37 days in 2010 to 33 days in 2011.

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

	As of 31 December	
	2011	2010
	RMB'000	RMB'000
0-90 days	**300,115**	149,392
91-180 days	**1,597**	3,411
181-365 days	**316**	–
Total	**302,028**	152,803

Included in the Group's trade and notes receivables are debtors with an aggregate carrying amount of approximately RMB316,000 (2010: Nil) which are past due at 31 December 2011, for which the Group has not provided for an impairment loss. The Group does not hold any collateral over these balances.

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 favourable 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	
	2011	2010
	RMB'000	RMB'000
Trade payables	**7,248**	7,342

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 during the period):

	For the years ended 31 December	
	2011	2010
Trade payables turnover days	**26**	36

Trade payables turnover days decreased from 36 days in 2010 to 26 days for the year ended 2011. Because of the increase in raw materials and packaging materials prices. In order to stabilise procurement cost, the Group reduced the credit period for its suppliers.

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

	As of 31 December	
	2011	2010
	RMB'000	RMB'000
0-90 days	**6,924**	7,342
91-180 days	**324**	–
Total	**7,248**	7,342

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	
	2011	2010
	RMB'000	RMB'000
Prepaid advertising	**103,964**	89,933
Other prepayments	**14,467**	6,165
Prepayments to suppliers	**4,703**	980
Other receivables	**4,614**	4,023
Prepaid lease payments	**1,447**	1,447
Total	**129,195**	102,548

Increase in the Group's prepaid advertising as of 31 December 2011 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 prices. The Group normally sets up agreements on prepaid advertising expenses 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 provides an analysis of the Group's other payables and accrued expenses as of the dates indicated:

	As of 31 December	
	2011	2010
	RMB'000	RMB'000
Prepayments from customers	**105,448**	9,911
Accrued sales rebate	**32,375**	18,851
Accrued payroll	**24,955**	15,268
Payables for land-use right	**11,210**	11,210
Payable to former shareholders of Zhuhai Qi Jia Medical Industry Co., Ltd. ("Zhuhai Qi Jia")	**4,199**	4,550
Other tax payables	**4,178**	23,444
Other payables	**3,185**	12,691
Accrued expenses	**2,624**	1,493
Payable for acquisition of a subsidiary	**2,000**	2,000
Deferred government grant	**786**	786
Advertising expenses payable	**–**	300
	190,960	100,504

Increase in the Group's other payables and accrued expenses as of 31 December 2011 was mainly due to increase in prepayments from customers. At early 2012, the Group increased the recommended retail price of Besunyen Slimming Tea and received tremendous pre-orders from its distributors near 2011 year-end. The Group received advance payment from distributors of around RMB105.4 million as at 31 December 2011 (31 December 2010: RMB9.9 million).

Risks in Foreign Exchange

The majority of sales income, costs and expenses of sales, as well as administrative expenses of the Group are calculated in 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 2011, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools (2010: Nil).

Pledge of Assets

As of 31 December 2011, the Group had no pledge of assets (31 December 2010: Nil).

Contingent Liabilities and Guarantees

As of 31 December 2011, the Group had no material contingent liabilities or guarantees (31 December 2010: Nil).

Off-Balance Sheet Commitments and Arrangements

As of 31 December 2011, the Group had no off-balance sheet commitments or arrangements (31 December 2010: Nil).

Capital Commitment

As of 31 December 2011, the Group had a total capital commitment of RMB67.8 million (31 December 2010: RMB16.1 million), mainly used in building new manufacturing facilitates, acquiring manufacturing and other equipments and expansion of the Research and Development Centre.

Human Resources Management

The Group regards high quality employees as its most important resources. As at 31 December 2011, the Group had about 3,153 employees in mainland China and Hong Kong (including 826 promotional staff employed by employment agents) (2010: 2,711 staff members (including 751 promotional staff employed by employment agents)). For the year ended 31 December 2011, the total labour costs (including Directors' remunerations and non-cash share-based compensation) was approximately RMB202.8 million (2010: RMB148.6 million). Staff remuneration 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 places emphasis in 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 work hard to enhance the value and foster better long-term development of the Group. In November 2011, the Company has also adopted a restricted share award scheme to grant restricted shares to eligible employees.

The Group invests sufficient efforts into continuous education and training for its staff members, so as to keep enhancing 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.

Directors and Senior Management Profile

Directors

Executive Directors

Mr. ZHAO Yihong, aged 45, 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 and the legal representative of various subsidiaries of the Group. 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 22 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 currently a council member and an adjunct professor of Shandong University of Science and Technology. Mr. Zhao is the spouse of Ms. Gao Yan, our Vice Chairman and executive Director.

Ms. GAO Yan, aged 43, 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 various subsidiaries of the Group. 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 60, was appointed as a non-executive Director of the Company in October 2009. Mr. Zhuo is also a director of various subsidiaries of the Group. Mr. Zhuo has more than 31 years of experience in the field of enterprise 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 director of Focus Media Holding Limited (a company listed on NASDAQ, stock code: FMCN), an independent non-executive director of Shenyin Wanguo (H.K.) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 218) and SRE Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1207) and a director of Daqo New Energy Corp. (a company listed on the New York Stock Exchange, stock code: DQ). 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.

Mr. WANG Bing, aged 43, was appointed as a non-executive Director of the Company in May 2010. Mr. Wang has more than 21 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), and an independent director of Tongwei Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600438) and 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), and an independent director of Huayi Brothers Media Corporation (a company listed on the Shenzhen Stock Exchange, stock code: 300027) and Beijing Vantone Real Estate Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600246). 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 54, 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. Between 2005 and August 2011, Mr. Huang was a managing director of Bain Capital, a private investment firm. Since September 2011, Mr. Huang has been serving as a partner of TPG Capital, a private equity firm. Mr. Huang has served as an independent director of Shanda Interactive Entertainment Limited (a company listed on NASDAQ, stock code: SNDA), and a non-executive director of 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 52, was appointed as an independent non-executive Director of the Company in July 2010. Mr. Wong has more than 26 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 is currently an independent director of VisionChina Media Inc. (a company listed on NASDAQ, stock code: VISN). 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 48, 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 16 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. WONG Chi Keung, aged 45, is our Chief Financial Officer. Mr. Wong joined our Group in September 2011 and has nearly 20 years of experience in accounting, auditing and finance. Between 1989 and 1999, Mr. Wong worked for PricewaterhouseCoopers, an international public accounting firm, in Hong Kong and lastly as an audit manager. Between 2002 and 2006, Mr. Wong worked at various operating entities of China Netcom Group, including serving as a senior finance manager of China Netcom Group Corporation (Hong Kong) Limited (a company previously listed on the Hong Kong Stock Exchange, former stock code: 906, and subsequently merged, in 2008, with China Unicom (Hong Kong) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 762). Between 2006 and August 2011, Mr. Wong served as chief financial officer for a number of sino-foreign joint venture and Hong Kong and US listed companies, including China Dongxiang (Group) Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 3818). Mr. Wong graduated from Chinese University of Hong Kong in 1989 with a bachelor degree in business administration. He obtained a master degree in business administration from the Australian Graduate School of Management in 2001. He is also a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

Mr. YU Hongjiang, aged 47, 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 21 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.

Mr. YANG Ming, aged 39, is our Vice President principally in charge of our sales. Mr. Yang joined our Group in 2000 and has more than 10 years of experience in sales and marketing. From 1996 to 2000, Mr. Yang served in Beijing Green World Nutrition Health Products Co., Ltd., a health food manufacturer, as a sales manager responsible for regional sales. He held various senior positions in our Group, including assistant to the Chairman and director of North Region. Mr. Yang graduated from Xi'an Geological Institute in 1994 with a bachelor's degree in engineering survey.

Mr. CAI Ya, aged 54, 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 26 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. ZHU Hongjun, aged 44, is our Vice President principally in charge of our human resources and information technology. Mr. Zhu joined our Group in January 2012 and has more than 18 years of experience in human resources and executive management. Between 1991 and 2000, Mr. Zhu held various positions at Jiangsu Textile Co., Ltd., Suzhou Jiutai Department Store and RT Mart Suzhou Store, and was responsible for employee relationship, administration and business development. Between 2000 and 2008, he worked at Amax IT Co., Ltd. as a HR general manager. Between 2009 and 2010, Mr. Zhu served as the Greater China HR head of Freeborders Co., Ltd., a software outsourcing company. Between 2010 and 2011, he worked at Founder International Software Co., Ltd. as a vice president of human resources. Between 2011 and 2012, Mr. Zhu served as the Greater China HR director of Summergate Fine Wine Company Limited. Mr. Zhu graduated from CEIBS in 2009 with an EMBA's degree.

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, of the CG Code during the year ended 31 December 2011.

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 as set out in the Model Code during the year ended 31 December 2011.

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 40 to 43.

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 22 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 is the spouse of Ms. Gao. Save as disclosed in this annual report, to the knowledge of the Company, there is no financial, business, family or other material or relevant relationships among members of the Board.

The executive Directors have the overall responsibility for formulating the business strategies and development plans of the Group and the senior management are responsible for supervising and executing the plans of the Group.

Under code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Mr. Wong Lap Tat Arthur and Ms. Xin Katherine Rong, independent non-executive Directors, are appointed for a term of 3 years. Mr. Zhuo Fumin and Mr. Wang Bing, non-executive Directors, and Mr. Huang Jingsheng, an independent non-executive Director, are not appointed for a specific term during the year ended 31 December 2011. 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. Nevertheless, to promote good corporate governance practice, the Company entered into an appointment letter with each of Mr. Zhuo, Mr. Wang and Mr. Huang for a term of 3 years since March 2012.

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.

All 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 Company has received an annual written confirmation from each of the independent non-executive Directors of his/her 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 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.

Four regular Board meetings were held in 2011 and the attendance is set out in the following table:

Members of the Board	Number of meetings attended
Executive Directors	
Mr. ZHAO Yihong	4
Ms. GAO Yan	4
Non-executive Directors	
Mr. ZHUO Fumin	4
Mr. WANG Bing	4
Independent non-executive Directors	
Mr. HUANG Jingsheng	4
Mr. WONG Lap Tat Arthur	4
Ms. XIN Katherine Rong	4

BOARD COMMITTEES

Audit Committee

The audit committee of the Company (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 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.

Four Audit Committee meetings were held in 2011 and the attendance is set out in the following table:

Members of Audit Committee	Number of meetings attended
Mr. WONG Lap Tat Arthur	4
Mr. HUANG Jingsheng	4
Ms. XIN Katherine Rong	4

In the Audit Committee meetings held in 2011, the following works, inter alia, 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 years ended 31 December 2010 and 2011;

(ii) reviewed and approved the audit fees;

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

(iv) reviewed and approved the 2010 annual report and audited financial statements, the 2010 annual results announcement, the 2011 interim report and the 2011 interim results announcement;

(v) reviewed and approved 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 2011, approximately RMB2,680,000 has been paid to Deloitte Touche Tohmatsu for audit services and no non-audit service has been provided by Deloitte Touche Tohmatsu.

Remuneration Committee

The remuneration committee of the Company (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.

Two Remuneration Committee meetings were held in 2011 and the attendance is set out in the following table:

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

In the Remuneration Committee meetings held in 2011, the following works, inter alia, were performed by the Remuneration Committee:

(i) reviewed share-based remuneration arrangements and approved a restricted share award scheme;

(ii) reviewed the performance of the executive Directors; and

(iii) reviewed the remuneration package of the Directors and senior management.

Nomination Committee

The nomination committee of the Company (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. A candidate's qualifications, ability, experience, and potential contribution to the Group are to be taken into account in nomination.

No meeting was held by the Nomination Committee in 2011.

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.

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 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 results of operations and cash flows of the Group. In preparing the financial statements for the year ended 31 December 2011, 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 61 and 62 of this annual report.

Directors' Report

The Board hereby presents its report and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the manufacture and sales of therapeutic tea products. The particulars of the Company's subsidiaries are set out in note 39 of the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the Consolidated Statement of Comprehensive Income on page 63 of this annual report.

The Board resolved not to recommend the payment of a final dividend for the year ended 31 December 2011.

FINANCIAL SUMMARY

A summary of the consolidated results and of the assets and liabilities of the Group for the last five financial years is set out on page 119.

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 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2011 amounted to RMB1,191.0 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 65 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2011:

(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 40.7% of the purchases of the Group;

(c) the purchases attributable to the largest supplier of the Group accounted for 16.5% 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

Independent non-executive Directors

Mr. HUANG Jingsheng
Mr. Wong Lap Tat Arthur
Ms. XIN Katherine Rong

The Company has received from each of its independent non-executive Directors an annual confirmation of his/her 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.

In accordance with article 16.18 of the articles of association of the Company, Mr. Zhao Yihong, Ms. Gao Yan and Mr. Zhuo Fumin will retire by rotation at the forthcoming annual general meeting, and being eligible, will offer themselves for re-election.

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 and a restricted share award 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 29 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 2011, 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:

Name of Director/ Chief Executive	Nature of interest	Number of Shares(9)	Number of Shares 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, founder of a discretionary trust and interest of corporation controlled by the Director(1)(3)	1,073,364,600(1)(L)	36,000,000(1)(L)	63.71%
Ms. GAO Yan	Beneficial owner and interest of her spouse(2)(3)	1,073,364,600(2)(L)	36,000,000(2)(L)	63.71%
Mr. ZHUO Fumin	Beneficial owner and interest of his spouse	536,000(4)(L)	400,000(4)(L)	0.03%
Mr. WANG Bing	Beneficial owner and interest of corporation controlled by the Director	9,809,400(5)(L)	400,000(5)(L)	0.58%
Mr. HUANG Jingsheng	Beneficial owner	500,000(6)(L)	500,000(6)(L)	0.03%
Mr. WONG Lap Tat Arthur	Beneficial owner	700,000(7)(L)	500,000(7)(L)	0.04%
Ms. XIN Katherine Rong	Beneficial owner	500,000(8)(L)	500,000(8)(L)	0.03%

(1) Mr. Zhao Yihong, 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 and 1,726,000 Shares directly. 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;

(ii) 4,460,000 Shares which are beneficially owned by Better Day Holdings Limited, a company which is controlled by Mr. Zhao; and

(iii) 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, 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) 1,726,000 Shares beneficially owned by Mr. Zhao Yihong, Ms. Gao's spouse:

(ii) 1,031,178,600 Shares which are deemed to be beneficially owned by Mr. Zhao, as controlling shareholder of Foreshore Holding Group Limited;

(iii) 4,460,000 Shares which are deemed to be beneficially owned by Mr. Zhao as controlling shareholder of Better Day Holdings Limited; and

(iv) 24,000,000 Shares which are beneficially owned by Mr. Zhao, 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 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.

(4) Mr. Zhuo Fumin, 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 136,000 Shares beneficially owned by his wife for the purposes of the SFO.

(5) Mr. Wang Bing, 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 9,409,400 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 9,409,400 Shares.

(6) Mr. Huang Jingsheng, 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, 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 and 200,000 Shares directly.

(8) Ms. Xin Katherine Rong, 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 1,684,728,820 Shares, being the number of Shares in issue as at 31 December 2011. 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 Shares.

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 2011 are set out in note 30 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 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 2011 and there were no outstanding share options under the Share Option Scheme as at 31 December 2011.

RESTRICTED SHARE AWARD SCHEME

The Company adopted a restricted share award scheme (the "Restricted Share Award Scheme") on 11 November 2011.

The purpose of the Restricted Share Award Scheme is to attract, motivate and retain the eligible participants who shall receive offers of restricted shares as designated by the administration committee (the "Selected Participants") and to increase the degree to which the Selected Participants' remuneration and interests are tied to the financial performance of the Company and fortunes of the shareholders of the Company. This scheme will provide the eligible participants, which includes any director, employee, consultant, executive or officer of the Company or any of its subsidiaries, to have a personal stake in the Company.

The total number of restricted shares which may be granted under the Restricted Share Award Scheme shall not exceed 5% of the aggregate of the shares in issue on 2 December 2011; and the total number of restricted shares which may be granted under the Restricted Share Award Scheme to an individual Selected Participant shall not exceed 1.5% of the aggregate of the shares in issue on 2 December 2011.

During the year, no restricted shares were granted under the Restricted Share Award Scheme.

Save as disclosed above, during the year ended 31 December 2011, neither the Company nor any of its subsidiaries is a party to any arrangement to enable the Directors 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' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2011, so far as known to any Director or chief executive of the Company, persons (other than a Director or chief executive of the Company) who had an interest 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 of Shares*	Approximate percentage of interest of total issued Shares (%)[4]
Foreshore Holding Group Limited[1]	1,031,178,600[L]	61.21%
KCS Trust Limited[1]	1,031,178,600[L]	61.21%
Sea Network Holdings Limited[1]	1,031,178,600[L]	61.21%
GGV III Entrepreneurs Fund L.P.[2]	102,788,640[L]	6.10%
Granite Global Ventures III L.L.C.[2]	102,788,640[L]	6.10%
Granite Global Ventures III L.P.[2]	102,788,640[L]	6.10%
FIL Limited[3]	100,766,000[L]	5.98%

(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 1,684,728,820 Shares, being the number of Shares in issue as at 31 December 2011.

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

Other than as disclosed above, as at 31 December 2011, 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

(a) 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.

As disclosed in the Prospectus, the annual cap of the fee payable for the financial year ended 31 December 2011 is RMB1.2 million. The aggregate fee paid under the BSYI Lease Agreements for the year ended 31 December 2011 was RMB1.2 million.

(b) On 30 September 2010, Beijing Outsell and Beijing Pincha Online E-Commerce Co., Ltd. ("Pincha"), which is wholly owned by Mr. Zhao Yihong, entered into a distribution agreement (the "Distribution Agreement"). Pursuant to the Distribution Agreement, Beijing Outsell agreed to sell products to Pincha for distribution. On the same date, Beijing Outsell also entered into a lease agreement (the "Lease Agreement") with Pincha and agreed to lease the Haidian Properties to Pincha for office use.

During the periods from 30 September 2010 to 31 December 2010 and from 1 January 2011 to 28 March 2011 (i.e. the date of the first announcement made), the respective aggregate amount of the transactions between Beijing Outsell and Pincha under the Distribution Agreement and the Lease Agreement was below HK$1,000,000 and the applicable percentage ratios relating thereto were less than 5%. As such, the transactions were classified as *de minimis* transactions under Rule 14A.33(3) of the Listing Rules and were exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Due to a continuing increase of the sales volumes by Pincha, the Directors decided it was necessary for Beijing Outsell to establish and formalize the Group's e-commerce platform with Pincha. In view of this, Beijing Outsell and Pincha entered into an exclusive business cooperation agreement, an equity interests pledge agreement, an exclusive purchase agreement and a power of attorney (collectively, the "Structure Contracts"), a supplemental distribution agreement (the "Supplemental Distribution Agreement") and extended the term under the Lease Agreement by entering into the supplemental lease agreement (the "Supplemental Lease Agreement") on 28 March 2011.

Due to the better than expected fast growing e-commerce business of Pincha for the period from 1 January 2011 to 31 August 2011, the Board expected that the annual transaction amounts for the Structure Contracts and the Distribution Agreements between Beijing Outsell and Pincha would be increased significantly for the three years ending 31 December 2011, 2012 and 2013. On 27 September 2011, the Board approved the revision of the aggregate annual caps for the transactions contemplated under the Distribution Agreement, the Supplemental Distribution Agreement, the Lease Agreement, the Supplemental Lease Agreement and the Structure Contracts for the three years from RMB9,603,000 to RMB14,584,500, RMB20,694,782 to RMB30,463,782 and RMB31,014,096 to RMB41,439,596 respectively. During the year ended 31 December 2011, the annual transaction amounts were RMB13,561,000.

The Board, including the independent non-executive Directors, has reviewed and confirmed that the continuing connected transactions for the year ended 31 December 2011 were entered into:

(i) in the ordinary and usual 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 2011:

(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 amounts for the financial year ended 31 December 2011.

Save as disclosed above, there is no related party transaction or continuing related party transaction as set out in note 36 to the consolidated financial statements that falls under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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

Save as disclosed under the section headed "NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS" in this report of the Directors:

(i) 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; and

(ii) 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 44 of this annual report.

CORPORATE GOVERNANCE PRACTICE

For details of the corporate governance practice, please refer to the Corporate Governance Report from pages 44 to 49 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 2011.

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 32 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the Directors' knowledge at the date of this annual report, the Company has maintained sufficient public float during the year and up to the date of this annual report.

AUDITOR

The Company has appointed Messrs. Deloitte Touche Tohmatsu as auditor of the Company for the year ended 31 December 2011. 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 9 May 2012 to 11 May 2012, both days inclusive. During such period, no transfer of shares of the Company will be registered. The record date for determining the eligibility to attend the forthcoming annual general meeting of the Company (the "AGM") will be on 11 May 2012. In order to be eligible for attending the AGM, 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 4:30 p.m. on 8 May 2012.

On behalf of the Board
ZHAO Yihong
Chairman

Hong Kong, 16 March 2012

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 63 to 118, which comprise the consolidated statements of financial position as at 31 December 2011, 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 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. 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.

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 2011, and of the Group's loss and cash flows for the year ended in accordance with International Financial Reporting Standards and have been properly prepared in the accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 RMB'000	2010 RMB'000
Turnover	5	**840,409**	874,216
Cost of sales		**(102,770)**	(91,135)
Gross profit		**737,639**	783,081
Other income (expenses)	6	**20,453**	(32,090)
Selling and marketing expenses		**(619,744)**	(423,314)
Administrative expenses		**(110,299)**	(88,625)
Research and development costs		**(19,451)**	(8,185)
Finance costs	7	**–**	(8,360)
Impairment loss on goodwill	17	**(15,480)**	–
Change in fair value on redeemable convertible preferred shares	27	**–**	(121,361)
(Loss) profit before taxation	8	**(6,882)**	101,146
Taxation	9	**(33,994)**	(41,491)
(Loss) profit and total comprehensive (expense) income for the year attributable to owners of the Company		**(40,876)**	59,655
(Loss) earnings per share			
Basic (RMB)	12	**(0.02)**	0.05
Diluted (RMB)	12	**(0.02)**	0.05

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	At 31 December 2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**428,851**	272,145
Prepaid lease payments	14	**67,284**	68,767
Intangible assets	15	**17,062**	22,147
Non-current deposits	16	**324,319**	58,705
Deferred tax assets	25	**15,077**	8,408
Goodwill	17	**5,305**	20,785
		857,898	450,957
CURRENT ASSETS			
Inventories	18	**8,499**	5,669
Trade and notes receivables	19	**302,028**	152,803
Deposits, prepayments and other receivables	20	**129,195**	102,548
Restricted cash		**5,000**	–
Bank balances and cash	21	**602,541**	1,170,469
		1,047,263	1,431,489
CURRENT LIABILITIES			
Trade payables	22	**7,248**	7,342
Other payables and accrued expenses	23	**190,960**	100,504
Amount due to a related party	36	**–**	1,000
Taxation payable		**16,184**	17,142
		214,392	125,988
NET CURRENT ASSETS		**832,871**	1,305,501
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,690,769**	1,756,458
CAPITAL AND RESERVES			
Share capital	26	**95**	95
Reserves		**1,672,071**	1,735,600
		1,672,166	1,735,695
NON-CURRENT LIABILITIES			
Deferred government grant	24	**8,684**	9,459
Deferred tax liabilities	25	**9,919**	11,304
		18,603	20,763
		1,690,769	1,756,458

The consolidated financial statements on pages 63 to 118 were approved and authorised for issue by the Board of Directors on 16 March 2012 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 2011

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Statutory surplus reserve RMB'000 (Note b)	Share option reserve RMB'000	Accumulated profits RMB'000	Total equity attributable to owners of the Company RMB'000
At 1 January 2010	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)	–
Dividends	–	–	–	–	–	(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
Loss and total comprehensive expense for the year	–	–	–	–	–	(40,876)	(40,876)
Transfer	–	–	–	8,049	–	(8,049)	–
Dividends	–	(41,631)	–	–	–	–	(41,631)
Exercise of share options	–	5,995	–	–	(1,819)	–	4,176
Share-based payments	–	–	–	–	14,802	–	14,802
At 31 December 2011	**95**	**1,351,715**	**230,864**	**60,995**	**49,626**	**(21,129)**	**1,672,166**

Note a: Special reserve represents the aggregate of (i) the difference between the nominal value of the Company's share, issued upon the group reorganisation and the net assets of Beijing Outsell Health Product Development Co., Ltd. ("Beijing Outsell") and Beijing Besunyen Food and Beverage Co., Ltd. ("Besunyen Food and Beverage"), and (ii) a deemed distribution of RMB2,200,000 to the shareholders.

Note b: 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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	**(6,882)**	101,146
Adjustments for:		
Allowance for doubtful debts	**111**	–
Amortisation of intangible assets	**5,716**	4,102
Depreciation of property, plant and equipment	**28,488**	15,690
Exchange loss	**8,036**	11,680
Fair value change on redeemable convertible preferred shares	**–**	121,361
Finance costs	**–**	8,360
(Gain) loss on disposal of property, plant and equipment	**(56)**	152
Impairment loss on goodwill	**15,480**	–
Impairment loss on property, plant and equipment	**962**	1,528
Interest income	**(13,279)**	(2,209)
Release of deferred government grant	**(775)**	(336)
Release of prepaid lease payments	**1,483**	1,125
Share-based compensation	**14,802**	36,643
Operating cash flows before movements in working capital	**54,086**	299,242
(Increase) decrease in inventories	**(2,830)**	1,042
Increase in trade and notes receivables	**(149,336)**	(58,080)
Increase in deposits, prepayments and other receivables	**(26,647)**	(54,258)
Decrease in amounts due from related parties	**–**	20
Decrease in trade payables	**(94)**	(3,170)
Increase in other payables and accrued expenses	**90,456**	48,614
Cash (used in) generated from operations	**(34,365)**	233,410
Income taxes paid	**(43,006)**	(45,809)
Interest received	**13,279**	2,209
Interest paid	**–**	(8,508)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(64,092)**	181,302

For the year ended 31 December 2011

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(451,848)**	(139,499)
Purchase of short-term investment	**(100,000)**	–
Placement of restricted cash	**(5,000)**	–
Purchase of intangible assets	**(913)**	(1,255)
Proceeds on disposal of short-term investment	**100,000**	–
Proceeds from disposal of property, plant and equipment	**416**	42
Purchase of land use rights	**–**	(13,546)
Loan to a related party	**–**	(6,500)
Loan repayment from a related party	**–**	6,500
Receipt of government grant income	**–**	6,500
Refund of a deposit for acquisition of a subsidiary	**–**	2,000
Decrease in pledged bank deposits	**–**	1,955
Acquisition of subsidiaries (note 37)	**–**	1,122
NET CASH USED IN INVESTING ACTIVITIES	**(457,345)**	(142,681)
FINANCING ACTIVITIES		
Dividends paid	**(41,631)**	(47,500)
Repayment to a related party	**(1,000)**	(500)
Proceeds from issue of shares upon exercise of share options	**4,176**	–
Proceeds from issuance of ordinary shares	**–**	1,151,851
Proceeds from bank borrowings	**–**	50,000
Advances from related parties	**–**	1,000
Repayment of bank borrowings	**–**	(115,000)
Share issue cost	**–**	(51,556)
Loan repayment to an independent third party	**–**	(12,500)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(38,455)**	975,795
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(559,892)**	1,014,416
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,170,469**	168,777
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	**(8,036)**	(12,724)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR REPRESENTING BANK BALANCES AND CASH	**602,541**	1,170,469

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. General

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent company is Foreshore Holding Group Limited (incorporated in the British Virgin Islands ("BVI")). 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, PRC.

The principal activities of the Group are the manufacture and sales of therapeutic tea products. Details of principal subsidiaries are set out in note 39.

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

2. Adoption of New and Revised International Financial Reporting Standards

New and revised Standards, Interpretations and Amendments 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").

IFRSs (Amendments)	Improvements to IFRSs issued in 2010
IAS 24 (Revised in 2009)	Related Party Disclosures
IAS 32 (Amendments)	Classification of Rights Issues
IFRIC – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
IFRIC – Int 19	Extinguishing Financial Liabilities with Equity Instruments

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.

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

New and revised IFRSs issued but not effective

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.

IFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
IFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
IFRS 9	Financial Instruments[3]
IFRS 9 and IFRS 7 (Amendments)	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
IAS 19 (Revised in 2011)	Employee Benefits[2]
IAS 27 (Revised in 2011)	Separate Financial Statements[2]
IAS 28 (Revised in 2011)	Investments in Associates and Joint Ventures[2]
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

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)*

New and revised IFRSs issued but not effective *(continued)*

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at 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 reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. 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 recognition 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. Currently, 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 was presented in profit or loss.

The directors anticipate that the adoption of IFRS 9 will be applied in its financial period beginning 1 January 2015. Based on an analysis of the financial instruments on 31 December 2011, the application of IFRS 9 Financial Instruments is not expected to have any material impact on the classification and measurement of the Group's financial assets and financial liabilities.

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with IFRSs. 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.

3. Significant Accounting Policies *(Continued)*

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.

The principle accounting policies are set out below.

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 acquisition 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 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 share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree 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 acquisition 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.

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 income can be measured reliably. Interest income from a financial asset 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

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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 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.

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.

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 consultant

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

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. Significant Accounting Policies *(Continued)*

Property, plant and equipment

Property, plant and equipment (other than construction in progress) are stated in the consolidated statement of financial position 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 profit or loss on a straight-line basis over the lease terms.

Intangible assets

Intangible assets acquired separately

Intangible assets represent product trademarks, patents, 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. The estimated useful life and amortisation method are reviewed at the end of each reporting period with the effective of any changes in estimate being accounted for on a prospective basis.

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.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets 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.

3. Significant Accounting Policies *(Continued)*

Intangible assets *(continued)*

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. 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.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement 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.

Financial assets

The Group's financial assets including loans and receivables.

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.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(continued)*

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, restricted cash and 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).

Impairment of financial assets

Financial assets 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 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 financial asset's 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.

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 as either financial liabilities or as equity 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 fair value through profit or loss ("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 (including all fees or points 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liability classified as at FVTPL, of which the interest expense is included in changes in fair value.

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 and amount due to a related party 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 contractual 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.

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.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amount of goodwill is RMB5,305,000 (net of accumulated impairment loss of RMB15,480,000). Details of the recoverable amount calculation are disclosed in note 17.

4. Key Sources of Estimation Uncertainty *(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 management's estimate of the periods that the Group intends to derive future economic benefits from its intangible assets. As at 31 December 2011, the carrying amount of intangible assets was RMB17,062,000 (2010: RMB22,147,000). 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 2011, the carrying amount of trade and notes receivables was RMB302,028,000 (net of allowance for doubtful debts of RMB111,000) (2010: RMB152,803,000).

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 and sales related 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 segment information is presented other than entity-wide disclosures.

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Detox tea	**417,847**	566,222
Slimming tea	**414,232**	304,186
Other tea products	**8,330**	3,808
	840,409	874,216

5. Turnover And Segment Information *(Continued)*

Major customers

No single customer contributes over 10% or more of total revenue of the Group for the years ended 31 December 2011 and 2010.

Geographical disclosures

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

6. Other Income (Expenses)

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Government grants (Note)	**16,497**	11,977
Interest income		
– Bank interest income	**11,240**	2,089
– Interest income from a related company	**–**	120
– Interest income from short term investment	**2,039**	–
	13,279	2,209
Net foreign exchange loss	**(8,036)**	(11,680)
Others	**(3,257)**	400
Impairment loss on property, plant and equipment	**(962)**	(1,528)
Service income	**2,932**	990
Acquisition-related expenses	**–**	(942)
Listing expenses	**–**	(33,516)
	20,453	(32,090)

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 2011 also includes a government grant of RMB775,000 (2010: RMB336,000) related to the construction of the plant facilities (see note 24).

7. Finance Costs

	Year ended 31 December 2011 RMB'000	2010 RMB'000
Interest expense on bank borrowings wholly repayable within five years	–	8,508
Less: amounts capitalised	–	(148)
	–	8,360

Borrowings cost capitalised in prior year arose from borrowings specifically for the purpose of obtaining qualifying assets.

8. (Loss) Profit Before Taxation

	Year ended 31 December 2011 RMB'000	2010 RMB'000
(Loss) profit before taxation has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration		
– salaries and other allowances	**179,279**	105,461
– share-based compensation	**14,802**	36,643
– retirement benefit scheme contributions	**8,729**	6,475
Total staff costs	**202,810**	148,579
Amortisation of intangible assets (included in cost of sales and administrative expenses)	**5,716**	4,102
Auditors' remuneration	**3,815**	3,921
Cost of inventories recognised as expense	**102,770**	91,135
Depreciation of property, plant and equipment	**28,488**	15,690
(Gain) loss on disposal of property, plant and equipment	**(56)**	152
Impairment loss on property, plant and equipment (included in other expenses)	**962**	1,528
Release of prepaid lease payments	**1,483**	1,125

9. Taxation

	Year ended 31 December 2011 RMB'000	2010 RMB'000
The charge comprises		
PRC income tax	**42,048**	49,515
Deferred taxation		
– current year (note 25)	**(8,054)**	(8,024)
	33,994	41,491

9. Taxation *(Continued)*

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
(Loss) profit before taxation	**(6,882)**	101,146
Tax at PRC Enterprise Income Tax ("EIT") rate of 25% (2010: 25%)	**(1,721)**	25,286
Effect of tax exemption granted	**(16,956)**	(35,301)
Increase in opening deferred tax asset resulting from an increase in applicable tax rate	**(334)**	–
Tax effect of tax loss not recognised	**19,688**	2,426
Utilisation of tax loss previously not recognised	**(1,662)**	(1,838)
Tax effect of expenses not deductible for tax purposes	**34,979**	48,196
Withholding tax on undistributed earnings	**–**	2,722
Tax charge for the year	**33,994**	41,491

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

Beijing Outsell applied the statutory rate of 25%. 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.

Except for Beijing Outsell, the remaining PRC subsidiaries are subject to a unified Enterprise Income tax rate at 25% for the two years ended 31 December 2011.

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 tax 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 were provided at the tax rate of 5% on the expected dividend stream of 25% of profit for the year which was 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.

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 2011:

	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	**97**	**1,874**	**3,759**	**30**	**5,760**
Gao Yan	**97**	**1,438**	**1,880**	**30**	**3,445**
	194	**3,312**	**5,639**	**60**	**9,205**
Non-executive directors					
Zhuo Fumin	**97**	**–**	**61**	**–**	**158**
Wang Bing	**97**	**–**	**61**	**–**	**158**
	194	**–**	**122**	**–**	**316**
Independent non-executive directors					
Arthur Wong Lap Tat	**97**	**–**	**168**	**–**	**265**
Huang Jingsheng	**97**	**–**	**76**	**–**	**173**
Xin Katherine Rong	**97**	**–**	**168**	**–**	**265**
	291	**–**	**412**	**–**	**703**

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

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. No bonus or other related incentive payments were paid during either year.

Employees

The five highest paid individuals of the Group for the year ended 31 December 2011 included two directors (2010: two). The emoluments of the remaining three individuals for the year ended 31 December 2011 (2010: three) are as follows:

	For the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Salaries and other benefits	**5,698**	2,536
Share-based compensation	**3,344**	8,929
Retirement benefit scheme contributions	**30**	82
	9,072	11,547

The emoluments were within the following bands:

	Number of employees Year ended 31 December	
	2011	2010
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**1**	–
HK$4,000,001 to HK$4,500,000	**–**	1
HK$6,500,001 to HK$7,000,000	**1**	1

During the year ended 31 December 2011, no remuneration was paid by the Group to the directors or the 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 either year.

11. Dividends

In April 2010, a special cash dividend of an aggregate amount of the US dollar equivalent of RMB47,500,000 was declared. The dividend was paid by the Company to the shareholders during the year ended 31 December 2010.

In respect of the financial year ended 31 December 2010, a final dividend of HK$0.01 per share (total dividend of RMB14,062,000) was declared on 29 April 2011 and paid to shareholders during the year ended 31 December 2011.

An interim dividend of HK$0.02 per share (total dividend of RMB27,569,000) was declared in August 2011 and paid during the year ended 31 December 2011.

No final dividend is proposed by the directors for the year ended 31 December 2011.

12. (Loss) Earnings per Share

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
(Loss) earnings attributable to owners of the Company:		
(Loss) earnings for the purpose of calculating basic and diluted (loss) earnings per share	**(40,876)**	59,655

	Year ended 31 December	
	2011	2010
	'000	'000
Numbers of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	**1,682,275**	1,276,841
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 (loss) earnings per share	**1,682,275**	1,314,071

The weighted average number of ordinary shares for the purpose of calculating the basic (loss) earnings per share for 2010 has been retrospectively adjusted for the 120-for-one share sub-division that became effective on 10 September 2010.

12. (Loss) Earnings per Share *(Continued)*

The computation of diluted earnings per share 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 for the year ended 31 December 2010.

The computation of diluted loss per share for the year ended 31 December 2011 does not assume the exercise of the Company's outstanding share options as the exercise of the share options would result in a decrease in loss 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 2010	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 through 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
Additions	97,008	61,288	3,499	706	2,838	21,177	186,516
Disposals	–	(160)	(1,207)	(62)	(53)	–	(1,482)
At 31 December 2011	**232,048**	**181,494**	**15,108**	**3,529**	**13,270**	**38,581**	**484,030**
DEPRECIATION AND IMPAIRMENT							
At 1 January 2010	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
Provided for the year	7,875	15,150	2,774	513	2,176	–	28,488
Impairment loss	–	962	–	–	–	–	962
Eliminated on disposals	–	(113)	(914)	(57)	(38)	–	(1,122)
At 31 December 2011	**13,996**	**28,548**	**6,908**	**1,771**	**3,956**	**–**	**55,179**
NET BOOK VALUES							
At 31 December 2010	128,919	107,817	7,768	1,570	8,667	17,404	272,145
At 31 December 2011	**218,052**	**152,946**	**8,200**	**1,758**	**9,314**	**38,581**	**428,851**

13. Property, Plant and Equipment *(Continued)*

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%

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

At 31 December 2011, the accumulated borrowing costs capitalised to construction in progress was nil (2010: RMB148,000).

At 31 December 2011, the Group is in the process of obtaining a property title deed of the building with a carrying value approximate to RMB76,055,000 (2010: Nil) which is located in the PRC.

During the year ended 31 December 2011, the directors conducted a review of the Group's plant and machinery for impairment with the assistance of an independent valuer and determined that a number of those assets were impaired due to physical damage and technical obsolescence. Accordingly, an impairment loss of RMB962,000 (2010: 1,528,000) has been recognised in respect of the plant and machinery.

14. Prepaid Lease Payments

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

	31 December	
	2011	2010
	RMB'000	RMB'000
Current assets (included in deposits, prepayment and other receivables)	**1,447**	1,447
Non-current assets	**67,284**	68,767
	68,731	70,214

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.

15. Intangible Assets

	Trademarks RMB'000	Patents RMB'000	Product development costs RMB'000	Contract backlog RMB'000	Customers base RMB'000	Non compete agreement RMB'000	Total RMB'000
COST							
At 1 January 2010	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
Additions	614	17	–	–	–	–	631
At 31 December 2011	**10,130**	**16,697**	**3,483**	**200**	**2,430**	**2,260**	**35,200**
AMORTISATION							
At 1 January 2010	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
Provided for the year	1,062	1,593	1,956	54	486	565	5,716
At 31 December 2011	**9,216**	**4,338**	**2,719**	**200**	**770**	**895**	**18,138**
CARRYING VALUES							
At 31 December 2010	1,362	13,935	2,720	54	2,146	1,930	22,147
At 31 December 2011	**914**	**12,359**	**764**	**–**	**1,660**	**1,365**	**17,062**

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 for the development of new tea products prior to the acquisition of Jian Shi Xing by the Group in May 2010 (see Note 37(b) for further details). Jian Shi Xing is engaged in the research and development of tea and Chinese medicinal herbal products.

16. Non-Current Deposits

	At 31 December	
	2011	2010
	RMB'000	RMB'000
Deposits for purchase of property, plant and equipment (Note a)	**322,972**	57,640
Deposits for purchase of intangible assets (Note b)	**1,347**	1,065
	324,319	58,705

Notes:

(a) Deposits for purchase of property, plant and equipment represented amounts paid for the acquisition of property, plant and equipment. Included in such deposits is a full prepayment of RMB306,000,000 related to a deposit for purchasing an office property in Beijing.

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

17. Goodwill

	RMB'000
Cost	
Arising on acquisition of subsidiaries during the year ended 31 December 2010 and balance at 31 December 2010 and 31 December 2011	20,785
Impairment	
At 1 January 2010 and 31 December 2010	–
Impairment loss recognised during the year	15,480
At 31 December 2011	15,480
Carrying values	
At 31 December 2010	20,785
At 31 December 2011	**5,305**

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 (net of accumulated impairment loss) has been allocated as follows:

	At 31 December	
	2011	2010
	RMB'000	RMB'000
CGUs:		
Zhuhai Qi Jia (note 37(a))	**5,305**	5,305
Jian Shi Xing (note 37(b))	**–**	15,480
	5,305	20,785

17. Goodwill *(Continued)*

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 2011, the directors of the Company recognised an impairment loss of RMB15,480,000 (2010: Nil) in relation to goodwill arising on acquisition of Jian Shi Xing, given that the recoverable amount was less than the carrying amount of the CGU.

The basis of the recoverable amount of the CGU Zhuhai Qi Jia and its major underlying assumptions are summarized below:

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 24% (2010: 23%). Cash flows beyond one-year period are extrapolated using a growth rate of 149.4% (2010: 149.4%) over the projected period of five years for impairment assessment purposes. 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% annual growth rate is reasonable. Other key assumptions for the value in use calculation and the budgeted gross margins, which are determined based on the CGU's past performance and management's expectations for the market development.

18. Inventories

	At 31 December	
	2011	2010
	RMB'000	RMB'000
Raw materials	**3,687**	4,159
Work in progress	**2,962**	1,354
Finished goods	**1,850**	156
	8,499	5,669

19. Trade and Notes Receivables

	At 31 December	
	2011	2010
	RMB'000	RMB'000
Trade receivables	**19,176**	135,117
Notes receivables	**282,963**	17,686
Less: allowance for doubtful debts	**(111)**	–
	302,028	152,803

19. Trade and Notes Receivables *(Continued)*

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.

	At 31 December	
	2011	2010
	RMB'000	RMB'000
0 – 90 days	**300,115**	149,392
91 – 180 days	**1,597**	3,411
181 to 365 days	**316**	–
	302,028	152,803

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 with an aggregate carrying amount of approximately RMB316,000 (2010: Nil) which are past due at 31 December 2011, 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	
	2011	2010
	RMB'000	RMB'000
181 – 365 days	**316**	–

The Group anticipates a full recovery of these amounts, and therefore no impairment has been recorded against these receivables. The credit risk on the receivables has been further discussed in note 32.

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.

20. Deposits, Prepayments and Other Receivables

	At 31 December	
	2011	2010
	RMB'000	RMB'000
Prepaid advertising	**103,964**	89,933
Other prepayments	**14,467**	6,165
Prepayment to suppliers	**4,703**	980
Other receivables	**4,614**	4,023
Prepaid lease payments	**1,447**	1,447
	129,195	102,548

21. 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 0.47% per annum as at 31 December 2011 (2010: 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	
	2011	2010
	RMB'000	RMB'000
United States Dollars	**114,424**	150,069
Hong Kong Dollars	**37,859**	115,755

22. Trade Payables

	At 31 December	
	2011	2010
	RMB'000	RMB'000
Trade payables	**7,248**	7,342

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	
	2011	2010
	RMB'000	RMB'000
0 to 90 days	**6,924**	7,342
91 to 180 days	**324**	–
	7,248	7,342

23. Other Payables and Accrued Expenses

	At 31 December	
	2011	2010
	RMB'000	RMB'000
Prepayments from customers	**105,448**	9,911
Accrued sales rebate	**32,375**	18,851
Accrued payroll	**24,955**	15,268
Payable for land use right	**11,210**	11,210
Payable to former shareholders of Zhuhai Qi Jia	**4,199**	4,550
Other tax payables	**4,178**	23,444
Other payables	**3,185**	12,691
Accrued expenses	**2,624**	1,493
Payable for acquisition of a subsidiary	**2,000**	2,000
Deferred government grant (note 24)	**786**	786
Advertising expenses payable	**–**	300
	190,960	100,504

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

24. 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. The construction of the plant facilities was completed in 2010.

	At 31 December	
	2011	2010
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current liabilities (included in other payables and accrued expenses)	**786**	786
Non-current liabilities	**8,684**	9,459
	9,470	10,245

The government grant was recorded as liabilities in the consolidated statement of financial position and 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.

25. Deferred Tax

The following are the major deferred tax (liability) asset recognised and movements thereon during the year ended 31 December 2011:

	Fair value adjustment on assets acquired through business combinations	Accrued expenses, accrued payroll and sales rebates	Prepaid advertisement expenses	Withholding tax on undistributed earnings	Deferred government grant	Trademark	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	–	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)
Credit to profit or loss during the year	1,385	5,757	132	–	60	720	8,054
At 31 December 2011	**(3,497)**	**13,233**	**277**	**(6,422)**	**847**	**720**	**5,158**

25. Deferred Tax *(Continued)*

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

	2011 RMB'000	2010 RMB'000
Deferred tax assets	**15,077**	8,408
Deferred tax liabilities	**(9,919)**	(11,304)
	5,158	(2,896)

At the end of the reporting period, the Group had unused tax losses of RMB85,189,000 (31 December 2010: RMB13,083,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of RMB85,189,000 (31 December 2010: RMB13,083,000) due to the unpredictability of future profit streams. Tax losses of RMB78,754,000 (31 December 2010: RMB9,704,000) will expire in various years before 2016 (31 December 2010: 2015). Deferred tax liabilities on the undistributed profits of the PRC subsidiaries of approximately RMB254,937,000 (2010: RMB260,617,000) which was earned after 1 January 2008, have not been recognised as of 31 December 2011, because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. There was no other significant unprovided deferred tax liability at 31 December 2011 and 2010.

26. Share Capital

	Number of shares	**Amount US$**	**Shown in the Financial Statements as RMB'000**
Authorised:			
At 1 January 2010	47,000,000	47,000	321
Share subdivision (Note c)	5,593,000,000	3,000	20
Designation and reclassification from redeemable convertible preferred shares	360,000,000	–	–
At 31 December 2010 and 31 December 2011	**6,000,000,000**	**50,000**	**341**
Issued and fully paid:			
At 1 January 2010	9,288,000	9,288	63
Shares issued in connection with acquisition of a subsidiary (Note a)	217,313	217	1
Shares issued on 31 May 2010 (Note b)	144,876	145	1
Share-subdivision (Note c)	1,148,372,491	–	–
Conversion of redeemable convertible preferred shares (Note d)	102,788,640	857	6
Issuance new shares upon listing ("Global Offering") (Note e)	420,280,000	3,502	24
At 31 December 2010	1,681,091,320	14,009	95
Exercise of Share Options (Note f)	3,637,500	31	–
At December 2011	**1,684,728,820**	**14,040**	**95**

26. Share Capital *(Continued)*

Notes:

(a) On 31 May 2010, the Company issued 217,313 ordinary shares to acquire the entire equity interest of Ever Assure Limited ("Ever Assure"), further details of which are set out in Note 37(b). These shares rank pari passu with other shares in issue in all respects.

(b) 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.

(c) 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 shares of par value of US$0.00000833333 each.

(d) On 22 September 2010, prior to the completion of the Global Offering, the holders of redeemable convertible preferred shares converted all of their 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.

(e) 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 (in total HK$1,311,274,000, equivalent to approximately RMB1,182,701,000) upon listing and the Company's shares were listed on The Stock Exchange of Hong Kong Limited on the same date.

(f) During the year ended 31 December 2011, share options to subscribe for 3,637,500 ordinary shares of US$0.00000833333 each were exercised at HK$1.4 per share (equivalent to RMB1.23 per share).

27. 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 1 January 2010	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 1 January 2010	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).

27. Redeemable Convertible Preferred Shares *(Continued)*

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 of par value of US$0.00000833333 each of the Company.

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 were prohibited for sale for 6 months after the listing date.

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

	Total RMB'000
At 1 January 2010	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	–

28. Major Non-Cash Transactions

In May 2010, the Group acquired 100% of the issued share capital of 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 amounting to RMB256,238,000.

29. 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.

30. Share-Based Payments

Share option schemes

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.

Details of specific category of options are as follows:

Options type	Date of grant	Share options granted	Vesting period	Exercise/service period	Exercise price RMB	Fair value of option 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

30. Share-Based Payments *(Continued)*

Share option schemes *(Continued)*

The following table discloses the movement of the Company's share options held by the directors, employees and consultant for the year ended 31 December 2011:

	Date of grant	Option type	Vesting period	Outstanding at 31/12/2010	Forfeited during the year	Exercised during the year	Outstanding at 31/12/2011
Executive directors							
Zhao Yihong	6.5.2010	1st	3.5 Years	24,000,000	–	–	24,000,000
Gao Yan	6.5.2010	1st	3.5 Years	12,000,000	–	–	12,000,000
				36,000,000	–	–	36,000,000
Non-executive directors							
Zhuo Fumin	6.5.2010	2nd	4 Years	400,000	–	–	400,000
Wang Bing	6.5.2010	2nd	4 Years	400,000	–	–	400,000
				800,000	–	–	800,000
Independent non-executive directors							
Arthur Wong Lap Tat	28.6.2010	7th	3.9 Years	500,000	–	–	500,000
Huang Jingsheng	6.5.2010	2nd	4 Years	500,000	–	–	500,000
Xin Katherine Rong	28.6.2010	7th	3.9 Years	500,000	–	–	500,000
				1,500,000	–	–	1,500,000
Employees and consultant							
In aggregate	6.5.2010	1st	3.5 Years	42,770,000	(300,000)	(50,000)	42,420,000
	6.5.2010	2nd	4 Years	14,160,000	(3,230,000)	(710,000)	10,220,000
	6.5.2010	3rd	3 Years	14,000,000	(9,800,000)	(2,640,000)	1,560,000
	6.5.2010	4th	4 Years	4,000,000	(3,000,000)	–	1,000,000
	31.5.2010	5th	3.9 Years	5,100,000	(262,500)	(237,500)	4,600,000
	21.6.2010	6th	3.9 Years	100,000	–	–	100,000
	28.6.2010	7th	3.9 Years	400,000	–	–	400,000
				80,530,000	(16,592,500)	(3,637,500)	60,300,000
	Total			118,830,000	(16,592,500)	(3,637,500)	98,600,000
Weighted average exercise price (RMB)				1.3	1.61	1.23	1.25
Exercisable at the end of the year							26,495,000

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$1.54.

30. Share-Based Payments *(Continued)*

Share option schemes *(Continued)*

The following table discloses the movement of the Company's share options held by the directors, employees and consultant for the year ended 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 Lap Tat	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 Katherine 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	1.23	1.3
Exercisable at the end of the year							19,692,500

There were no options exercised during the year ended 31 December 2010.

30. Share-Based Payments *(Continued)*

Share option schemes *(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.

30. Share-Based Payments *(Continued)*

Share option schemes *(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 RMB14,802,000 for the year ended 31 December, 2011 (2010: RMB36,643,000) in relation to share options granted by the Company.

30. Share-Based Payments *(Continued)*

Restricted share award scheme

The Company adopted a restricted share award scheme (the "Restricted Share Award Scheme") on 11 November 2011 for a period of 10 years. The purpose of the Restricted Share Award Scheme is to attract, motivate and retain the eligible participants (the "Eligible Participants") of the Group. The Company has set up a Restricted Share Award Scheme Trust (the "Trust"). Pursuant to the Restricted Share Award Scheme, existing shares will be purchased by the trustee from the open market using cash contributed by the Company and be held in trust for the relevant participants until such shares are vested with the relevant participants in accordance with the provisions of the Restricted Share Award Scheme. During the year ended 31 December 2011, no shares were granted under the Restricted Share Award Scheme.

31. 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 bank balance and cash and equity attributable to equity holders of the Company, comprising share 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 and new share issues.

32. Financial Instruments

Categories of financial instruments

	At 31 December 2011 RMB'000	2010 RMB'000
Financial assets		
Loans and receivables (including bank balances and cash)	**914,183**	1,327,295
Financial liabilities		
Liabilities measured at amortised cost	**27,842**	39,093

Financial risk management objectives

The Group's major financial instruments include trade and notes receivables, other receivables, bank balances and cash, amount due to a related party, trade payables and other payables. 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 denominated in foreign currencies. The carrying amounts of the Group's foreign currency denominated bank deposits at the end of reporting period are as follows:

	At 31 December 2011 RMB'000	2010 RMB'000
US dollars		
Assets	**114,424**	150,069
HK dollars		
Assets	**37,859**	115,755

32. Financial Instruments *(Continued)*

Market risk *(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 end of reporting period for a 5% change in foreign currency rates. A positive (negative) number below indicates a decrease (increase) in post-tax loss (2010: an increase (decrease) in post-tax profit) 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	
	2011	2010
	RMB'000	RMB'000
Profit for the year (USD)	**(5,721)**	(7,503)
Profit for the year (HKD)	**(1,893)**	(5,788)

Interest rate risk management

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prevailing interest rate announced by the People's Bank of China in relation to its bank balances and deposits. The management considers that the change in interest rate has no significant impact on profit and loss on the Group and therefore sensitivity analysis has not been presented.

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 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 statement of financial position.

The Group is exposed to some concentration of credit risk. As at 31 December 2011, the five largest debtors accounted for approximately 35% (2010: 42%) of the Group's total trade receivables. The Group has explored new markets and new customers and launched new products in order to minimize the concentration of credit risk.

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

The credit risk on notes receivables is limited because the counterparties are banks with high credit ratings assigned by the People's Bank of China.

32. Financial Instruments *(Continued)*

Market risk *(Continued)*

Liquidity risk management

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

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.

	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	**6,924**	**324**	**–**	**7,248**	**7,248**
Other payables	**2,146**	**18,448**	**–**	**20,594**	**20,594**
At 31 December 2011	**9,070**	**18,772**	**–**	**27,842**	**27,842**
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

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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.

33. Operating Leases

Minimum lease payments paid under operating leases during the year ended 31 December 2011:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Premises	**8,219**	7,700

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	
	2011	2010
	RMB'000	RMB'000
Within one year	**4,945**	4,602
In the second to fifth year inclusive	**823**	2,999
	5,768	7,601

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.

34. Capital Commitments

	At 31 December	
	2011	2010
	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	**67,787**	16,057

35. Event after the Reporting Period

In January 2012, the Trust purchased 61,000,000 shares of the Company from the open market at a total net consideration of HK$48,291,000 for the Restricted Share Award Scheme. These shares have not been granted to any Eligible Participants at the reporting date.

36. Related Party Transactions and Balances

Name of related party	Amount due to a related party At 31 December 2011 RMB'000	2010 RMB'000
Mr. Zhao Yihong, Executive Director	–	1,000

The Group has the following significant transactions with related parties:

Name of related party	Nature of transactions	For the year ended 31 December 2011 RMB'000	2010 RMB'000
Besunyen Investment Co., Ltd. (i)	Interest income	–	120
Besunyen Investment Co., Ltd. (i)	Rental expense	**1,200**	1,200

(i) Mr. Zhao Yihong controls the entity.

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, 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.

The details of remuneration of key management personnel, representing emoluments of the directors the Company paid during the year ended 31 December 2011, are set out in note 10.

37. 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 acquisition 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
Cash flow arising on acquisition:			
Bank balances and cash acquired			18

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

37. 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.

37. 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 acquisition 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.

37. 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.

38. Statement of Financial Position of the Company

	Notes	At 31 December 2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Investment in a subsidiary		**111,989**	13,647
Amounts due from subsidiaries	(a)	**913,978**	244,973
		1,025,967	258,620
CURRENT ASSETS			
Deposits, prepayments and other receivables		**810**	1,886
Bank balances and cash		**215,464**	984,934
		216,274	986,820
CURRENT LIABILITIES			
Other payables and accrued expenses		**1,535**	10,126
		1,535	10,126
NET CURRENT ASSETS		**214,739**	976,694
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,240,706**	1,235,314
CAPITAL AND RESERVES			
Share capital		**95**	95
Reserves	(b)	**1,240,611**	1,235,219
		1,240,706	1,235,314
		1,240,706	1,235,314

Notes:

(a) The amounts due from subsidiaries are unsecured, non-trade 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) A movement of reserves is as follows:

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2010	–	–	(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
Profit and total comprehensive income for the year	–	–	28,045	28,045
Exercise of share options	5,995	(1,819)	–	4,176
Share-based payments	–	14,802	–	14,802
Dividends	(41,631)	–	–	(41,631)
At 31 December 2011	**1,351,715**	**49,626**	**(160,730)**	**1,240,611**

39. 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 2011	2010	Principal activities
Beijing Besunyen Trading Co., Ltd. (Note i) 北京碧生源商貿有限公司	25 May 2008 The People's Republic of China (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 iii) ("Beijing Outsell") 北京澳特舒爾保健品開發有限公司	26 September 2000 The PRC	RMB829,413,849	**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 BVI	USD1	**100%**	100%	Investment holding
Besunyen (Hong Kong) Co., Limited (formerly known as Outsell Herbal Tea Limited) ("Besunyen HK") 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%**	100%	Investment holding
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
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%**	100%	Research and development of tea and Chinese medicinal herbal products

39. 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 2011	2010	Principal activities
Zhuhai Qi Jia Medical Industry Co., Ltd. 珠海奇佳藥業有限公司	6 July 2001 The PRC	RMB12,000,000	**100%**	100%	Manufacture and sales of therapeutic tea products
Beijing Pincha Online E-Commerce Co., Ltd. (Note i) 北京品茶在綫電子商務有限公司	30 June 2010 The PRC	RMB6,000,000	**100%**	N/A	Sales of therapeutic tea products wholesale and retail sales of pre-packaged products
Jiang Xi Besunyen Trading Co., Ltd. (Note i) 江西碧生源商貿有限公司	3 March 2011 The PRC	RMB2,000,000	**100%**	N/A	Sales of therapeutic tea products
Hei Longjiang Besunyen Trading Co., Ltd. (Note i) 黑龍江碧生源商貿有限公司	24 February 2011 The PRC	RMB5,000,000	**100%**	N/A	Sales of therapeutic tea products
Beijing Besunyen Pharmaceutical Co., Ltd. (Note i) 北京碧生源藥業有限公司	11 January 2011 The PRC	RMB10,000,000	**100%**	N/A	Extraction of Herbal and Medical Tea

(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) Beijing Outsell was established as a sino-foreign equity joint venture in the PRC on 26 September 2000. Beijing Outsell transformed 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.

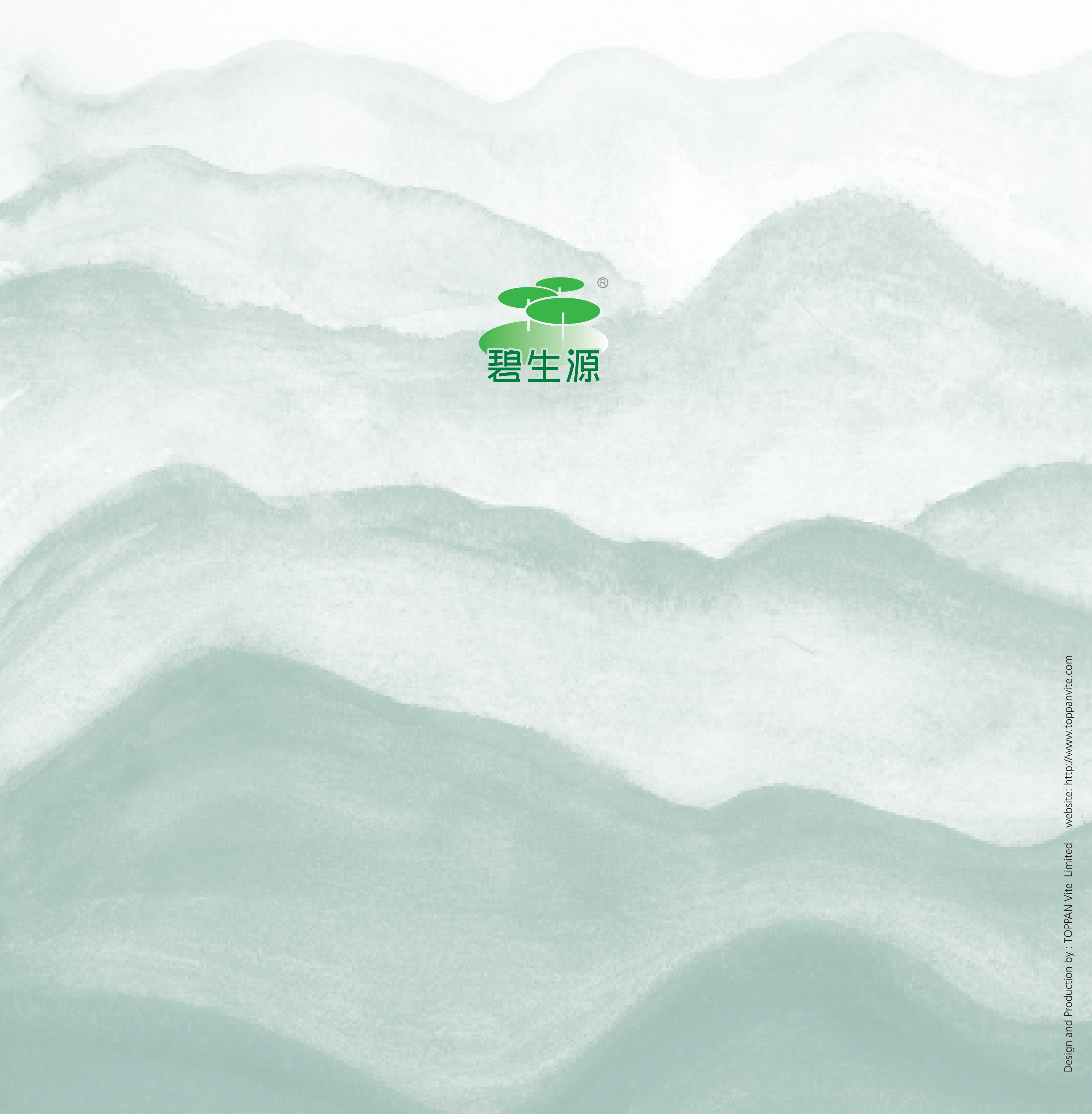
Five-year Financial Summary

Consolidated Statements of Comprehensive Income

	Year ended 31 December				
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	**2011** **RMB'000**
Turnover	163,100	358,231	646,535	874,216	**840,409**
Gross profit	115,372	298,117	578,134	783,081	**737,639**
Operating profit	47,963	123,386	219,864	230,867	**8,598**
Impairment loss on goodwill	–	–	–	–	**(15,480)**
Change in fair value on redeemable convertible preferred shares	–	–	(33,497)	(121,361)	**–**
Profit (loss) before taxation	47,597	122,033	177,713	101,146	**(6,882)**
(Loss) profit and total comprehensive (expenses) income for the year	47,595	121,979	141,707	59,655	**(40,876)**
EBITDA	51,249	127,318	225,752	250,659	**27,322**
(Loss) earnings per share					
Basic	0.04	0.11	0.13	0.05	**(0.02)**
Diluted	N/A	N/A	0.13	0.05	**(0.02)**

Consolidated Statement of Financial Position

	At 31 December				
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	**2011** **RMB'000**
Non-current assets	55,450	105,993	250,130	450,957	**857,898**
Net current assets (liabilities)	(15,485)	90,951	210,449	1,305,501	**832,871**
Total assets less current liabilities	39,965	196,944	460,579	1,756,458	**1,690,769**
Non-current liabilities	2,000	37,000	161,065	20,673	**18,603**
Net assets	37,965	159,944	299,514	1,735,695	**1,672,166**
Share capital	34,721	61,994	63	95	**95**
Reserves	3,244	97,950	299,451	1,735,600	**1,672,071**
Total equity	37,965	159,944	299,514	1,735,695	**1,672,166**



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