

ENERGROUP HOLDINGS CORP
Form 10-K
March 31, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-28806

ENERGROUP HOLDINGS CORPORATION
(Exact name of registrant as specified in its charter)

Nevada
(State of Incorporation)

87-0420774
(I.R.S. Employer Identification No.)

No. 9, Xin Yi Street, Ganjingzi District
Dalian City, Liaoning Province, PRC 116039
(Address of principal executive offices, including zip code)

+86 411 867 166 96
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.001 per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark whether the registrant is required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer Accelerated Filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of March 15, 2010, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$29.01 million based on a closing price of \$4.75 per share of common stock as reported on the Over-the Counter Bulletin Board on such date. On December 31, 2009, we had 21,136,392 shares of our common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

ENERGROUP HOLDINGS CORPORATION

FORM 10-K

For the Year Ended December 31, 2009

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PART I

Item 1. BUSINESS

This document contains certain statements of a forward-looking nature. Such forward-looking statements, including but not limited to growth and strategies, future operating and financial results, financial expectations and current business indicators are based upon current information and expectations and are subject to change based on factors beyond our control. Forward-looking statements typically are identified by the use of terms such as “look,” “may,” “will,” “should,” “might,” “believe,” “plan,” “expect,” “anticipate,” “estimate” and similar words, although some forward-looking statements are expressed differently. The accuracy of such statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including but not limited to:

- our ability to timely and accurately complete orders products;
- our dependence on a limited number of major customers;
- political and economic conditions within the PRC;
- our ability to expand and grow our distribution channels;
- general economic conditions which affect consumer demand for our products;
- the effect of terrorist acts, or the threat thereof, on consumer confidence and spending;
- acceptance in the marketplace of our new products and changes in consumer preferences;
- foreign currency exchange rate fluctuations;
- our ability to identify and successfully execute cost control initiatives;
- other risks outlined above and in our other public filings.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. We undertake no obligation to update this forward-looking information.

While our management fully intends to make concerted efforts to manage these risks, we cannot assure you that we will be able to do so successfully. See “Risk Factors” beginning on page 24 of this report.

Overview

We produce, pack, sell, market and distribute fresh pork and processed meat products to customers in the People’s Republic of China (“China” or the “PRC”).

We own three PRC operating subsidiaries (collectively, the “Chuming Operating Subsidiaries”):

- 1.

Dalian Chuming Slaughter and Packaging Pork Company Ltd. (the “Meat Company”), whose primary business activity is acquiring, slaughtering and packaging of pork;

2. Dalian Chuming Processed Foods Company Ltd. (the “Food Company”), whose primary business activity is the processing of raw and cooked meat products; and
3. Dalian Chuming Sales Company Ltd. (the “Sales Company”), which is responsible for our sales, marketing and distribution activities.

The three operating subsidiaries are spun off constituents of a former parent company, Dalian Chuming Group Co., Ltd. (the “Group”). Our company is separate and independent from the Group, which operates a different business and has different operations from ours. We took over ownership and control of the three Chuming Operating Subsidiaries from the Group in September 2007 following our corporate reorganization. We are headquartered in the City of Dalian, Liaoning Province of China.

Company Background and History

Corporate Reorganization

PRC law currently limits foreign ownership of certain companies based in the PRC. In order for us to raise equity capital from investors outside of China, we established an offshore holding company by the name of Precious Sheen Investments Limited (“PSI”) in the British Virgin Islands in May 2007. On September 26, 2007, Dalian Precious Sheen Investments Consulting Co., Ltd. (“Chuming WFOE”) entered into share transfer agreements with the Group, under which the Group agreed to transfer ownership of the Chuming Operating Subsidiaries to Chuming WFOE. On October 23, 2007, Chuming WFOE completed all required registrations to complete the share transfer, and became the 100% owner of the Chuming Operating Subsidiaries. On November 14, 2007 the Dalian Commerce Bureau approved the transfer of the Group’s 68% interest in Chuming WFOE to PSI, and upon this transfer, Chuming WFOE became a wholly foreign owned enterprise, with PSI as the 100% owner of Chuming WFOE (including its subsidiaries). On December 13, 2007, the PRC government authorities issued Chuming WFOE a business license formally recognizing it as a wholly foreign owned enterprise, of which PSI is the sole shareholder.

Following this corporate restructuring, PSI became the 100% owner and parent company of Chuming WFOE, which in turn owns 100% of the Chuming Operating Subsidiaries: the Meat Company, the Food Company and the Sales Company.

Throughout this prospectus, PSI, Chuming WFOE and the Chuming Operating Subsidiaries are sometimes collectively referred to as “Chuming.”

Share Exchange Transaction

On December 31, 2007, we acquired all of the outstanding shares of PSI in exchange for the issuance of 16,850,000 restricted shares of our common stock to the shareholders of PSI, which represented approximately 97.55% of then-issued and outstanding common stock (excluding the shares issued in our December 31, 2007 financing transaction). As a result of that transaction, PSI became our wholly owned subsidiary and we acquired the business and operations of Chuming.

Prior to the share exchange transaction, Energroup was a public reporting “shell” company with nominal assets whose sole business was to identify, evaluate and investigate various companies with the intent that, if such investigation warrants, a reverse merger transaction be negotiated and completed pursuant to which Energroup would acquire a target company with an operating business with the intent of continuing the acquired company’s business as a publicly held entity.

As a result of the share exchange transaction, PSI (and its subsidiaries) became the 100% owned subsidiary of Energroup Holdings Corporation, and we acquired the business and operations of Chuming which now comprise the principal business and operations, and we became a U.S. public reporting company incorporated in the State of Nevada. Through our holding companies, we own the Chuming Operating Subsidiaries that continue to operate in the city of Dalian, in Liaoning Province, China. Our common stock is quoted on the OTC Bulletin Board under the symbol "ENHD"

Concurrently with the closing of the reverse take-over transaction, on December 31, 2007 we closed our \$17 million private placement financing involving the issuance of our common stock to 15 accredited investors. The financing yielded net proceeds to us of approximately \$14.7 million.

Operating Business Overview

Our business originated from the founding in 1999 of Dalian Chuming Group Co., Ltd. (the “Group”), the former parent of Chuming. The Group began as a processor and supplier of fresh and frozen meat and meat products. Among industrialized farming corporations in northeastern China, the Group pursued distinction in the Chinese food industry by maintaining high quality management standards and international safety certifications.

In 2004, the Group formed the Chuming Operating Subsidiaries, which now form the core of our business, and these companies began producing and supplying fresh and processed meats under the Chuming brand name. Since then we have rapidly become a significant producer and supplier in China’s meat industry, and have achieved consistent profitability and growth since inception. In the last three years of operation, our sales have grown at an average rate of 31% per annum, and our net income from 2006 to 2007 has grown at a rate of 31%. We sell our products to consumers in northeastern China, which has a population of approximately 108 million. In particular, our current customers are concentrated in the Liaoning Province (which has a population of approximately 42 million), and we are the largest pork producer in Dalian City, which has a population of approximately 3 million, or 6 million including the greater metropolitan area. At present, all of our sales are within China, which is the largest pork-consuming nation in the world, with a total of 54 million metric tons consumed in 2006. Due to the rapid development of the Chinese economy, urbanization and strong income growth, we have observed that pork consumption patterns are changing and consumption levels are continuing to increase.

Our major products are:

- Fresh meat - pork that is processed in a controlled environmental chamber with closely monitored temperatures to ensure quality and safety standards during processing right up to the time of delivery to the consumer.
- Frozen fresh meat - butchered pigs that are processed and immediately frozen, which includes such products as smoked pork, ham and roasts.
- Frozen fresh byproducts - pork byproducts including pig’s liver, stomach, intestine, head and hoof.

We are part of an established pork production cycle that culminates in sales of fresh and frozen pork. This cycle includes feedstuff production, pig breeding, slaughtering, processing, packaging and distribution. We are involved in the slaughtering, processing, packaging and distribution aspects of the pork production cycle.

We are the first pork producer in China to receive “Green Food” certification from China’s Ministry of Agriculture. Green Food is an innovative certification program unique to China that is awarded to food processors who produce using environmentally sustainable methods and meet certain high technical standards of quality control, safety, and product quality, and generate low levels of pollution. Under strict supervision, control and regulation in production, processing, packing, storage and transportation, Green Food-certified companies must apply these quality control standards from field to customer and regulate the application of inputs, including pesticide, fertilizer, veterinary drug and additives to minimize environmental pollution and prevent toxic and harmful substances from entering the food supply chain. The Green Food certification is based on standards defined by the Codex Alimentarius Commission (“CAC”), a joint body of the United Nations Food and Agriculture Organization and the World Health Organization.

Industry Overview

The following overview in certain instances cites to materials that are publicly available without charge. If no citation is provided with respect to certain information presented in this “Industry Overview” section, that information is attributed to our own research regarding the world pork market and China’s pork industry.

World Pork Market

According to a November 2007 report of the United States Department of Agriculture (USDA), China is the largest pork producer and consumer in the world. China is the leading producer among other countries in the world by a wide margin, and produces and consumes more than half of the world’s pork. Preliminary numbers for 2007 worldwide production of pork was 94.7 million metric tons (MMT, carcass weight equivalent) and consumption was 93.8 MMT. The USDA forecast for 2008 is that both the production and the consumption in China are expected to expand by more than 2% over 2007 levels.

Pork Production (1,000 Metric Tons, Carcass Weight Equivalent), 2003-2008 (Estimated)

	2003	2004	2005	2006	2007	2008 November
China	45,186	47,016	50,106	51,972	47,000	48,000
EU-27	21,712	21,753	21,676	21,677	22,040	21,910
United States	9,056	9,312	9,392	9,559	9,877	10,108
Brazil	2,560	2,600	2,710	2,830	2,980	3,095
Russian Federation	1,710	1,725	1,735	1,805	1,880	2,000
Canada	1,882	1,936	1,920	1,898	1,850	1,790
Japan	1,260	1,272	1,245	1,247	1,260	1,255
Mexico	1,100	1,150	1,195	1,200	1,200	1,250
Korea, Republic of	1,149	1,100	1,036	1,000	1,065	1,095
Taiwan	893	898	911	905	910	910
Ukraine	630	558	493	485	530	540
Others	3,350	3,481	3,720	3,926	4,086	1,039
Total	90,488	92,801	96,136	98,504	94,678	92,992

Sources: USDA report, Livestock and Poultry: World Markets and Trade, November 2007.

Note: 2007 data is preliminary and 2008 is forecast.

Pork Consumption (1,000 Metric Tons, Carcass Weight Equivalent), 2003-2007 (Estimated)

	2003	2004	2005	2006	2007	2008 November
China	45,054	46,648	49,703	51,467	46,690	47,700
EU-27	20,683	20,528	20,632	20,518	20,790	20,800
United States	8,816	8,817	8,670	8,640	8,939	9,129
Russian Federation	2,417	2,338	2,486	2,639	2,734	2,874
Japan	2,331	2,529	2,482	2,458	2,500	2,490
Brazil	1,957	1,979	1,949	2,191	2,265	2,320
Mexico	1,423	1,556	1,556	1,580	1,565	1,580
Korea, Republic of	1,286	1,336	1,311	1,420	1,518	1,550
Canada	1,003	1,068	967	971	970	930
Taiwan	934	948	944	928	927	928

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Ukraine	623	606	544	544	609	619
Others	3,621	3,697	3,906	4,158	4,332	1,249
	90,148	92,050	95,150	97,514	93,839	92,169

Sources: USDA report, Livestock and Poultry: World Markets and Trade, November 2007.

Note: 2007 data is preliminary and 2008 is forecast.

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China's Pork Industry

According to China's National Bureau of Statistics, China's US\$176 billion animal husbandry sector is the second largest in the country's basket of agricultural related industries including farming, forestry and fishery. The present size of the pork and processed meat market in China is an estimated US\$32 billion.

Our research indicates that China's per capita meat consumption was just over 55 kilograms by 2000, which is significantly smaller than the consumption level of over 100 kg per year by western standards. Based on what is known about Chinese culinary culture and habits, however, our management believes that the Chinese population is expected to consume more meat as their disposable income increases. For example, our research indicates that Hong Kong residents, who have a significantly higher per capita income, consumed on average 124 kg of meat in 2000.

The manner in which meat sales are conducted has changed as a result of new hygiene and food safety regulations that were introduced by the Chinese government in 1995. Historically, the great majority of meat sales in China had taken place in open-air markets or on streets, i.e. in free wet markets. These markets provided a location through which the consumer could buy live poultry or freshly slaughtered meat produced direct from local farmers. As a result of the new regulations, however, governmental agencies recently have encouraged the replacement of open-air markets by supermarkets and convenience stores, and the market share of open-air markets has continued to decline. Even with these new regulations, however, the open-air markets still currently represent 80% of the overall meat-processing sector in China.

The meat industry in China is characterized by fragmentation, sanitation and hygiene issues, as well as social demographic trends. Supply is extremely localized with limited distribution capability. China's vast geography and 'in-development' transport infrastructure have made it difficult to create national or even regional level competition in the industry. Our management believes that the trend towards greater sales through formal supermarkets and chain stores, coupled with the expansion of our sales and distribution network, will continue to favorably impact our business.

Pork is China's most important source of meat and is consumed at a much higher rate than other categories of meat. The following 2007 USDA Report shows that pork is consumed in China with five times greater volume than poultry or "broiler meat" and almost seven times more than beef:

	Kg Per Person	Relative %
Beef	5.6	11%
Broiler Meat	7.9	15%
Pork	39.4	74%
Total:	52.9	100%

Sources: USDA report, Livestock and Poultry: World Markets and Trade, April 2007.

In addition to a greater general preference for pork, urbanization and rapid income growth are working in parallel to create more demand for pork and processed pork products. An emerging middle class of relatively high-income consumers is forming in certain Chinese cities. As household incomes rise, these high-income residents consume more of all categories of foods on a per capita basis. According to the Urban Household Survey conducted in 2000 by China's National Bureau of Statistics, pork consumption by low-income residents was 13.4 kg whereas it was 19.6 kg for high-income residents. These residents not only demand a greater quantity of food, but also higher quality (e.g. better cuts of meat, foods that are safer or healthier) and convenience (processed foods). Reports of food poisoning and dangerous chemical residues have given rise to strong demand for "green" foods for which we are certified. We believe that affluent consumers would be willing to pay premium prices for foods which have safety-related certifications, foods with purported health benefits or foods with other desirable attributes. We offer a wide range of food products that appeal to demands for safety, convenience, quality and health attributes demanded by high-income urban consumers.

Our management expects China's meat industry, which includes the meat processing business, to grow due to key driving forces including food safety concerns that we believe will accelerate the transition from the traditional wet market to the modern dry market; rising modern retail channels; government mandates and supports of agricultural and meat processing companies; and consolidating forces.

- Transitioning from "wet-market" to "dry-market"

We believe that food safety is a top concern of Chinese consumers who purchase meat products, and that this will eventually compel modernization of China's meat processing industry. Consumer surveys showed that food safety, nutritional value and taste are the top three concerns of consumers, while price was ranked fourth. Furthermore, surveys showed that 60% of the consumers have a low degree of confidence in meat products in general. There are a number of food safety concerns facing the Chinese pork industry, including swine streptococcus and Foot and Mouth Disease, the use of antibiotics and illegal feed additives such as Clenbutero, pork injected with water and illegal slaughterhouses. China's meat industry traditionally has been dominated by small and family-operated butcher shops that would slaughter the livestock in the open-air marketplaces and without the necessary safety and sterilized equipment. These unsanitary operations create what is commonly known as the "wet market," which currently represents 80% of the overall meat-processing sector. However, the industry is changing rapidly. Along with the prevalent use of refrigerators in urban households, health conscious consumers are demanding more sanitary quality meat products which can only be processed and delivered in a temperature controlled cold chain environment. This presents significant opportunities to meat processors with advanced processing plants and refrigerated transportation capabilities.

- Government quality control

Frequent occurrences of food safety scares have hastened the Chinese government's effort in regulating food safety and quality. For example, in 2006 pork containing Clenbutero were found to be sold in several wet markets in Shanghai that resulted in over 330 people being poisoned, and an outbreak of swine Streptococcus in Sichuan Province led to

the death of 17 people. A number of Chinese organizations are involved in an effort to bring the Chinese meat industry's safety, hygiene and sanitation standards to an international level, including the Ministry of Agriculture, Ministry of Health, State Administration of Quality Supervision, Inspection, and Quarantine, State Food and Drug Administration, and the Ministry of Commerce. Tougher quality standards set for the meat processing industry represent barriers to newcomers while forcing operationally inadequate and financially unsound companies to shut down. Our management anticipates that companies such as ours, with quality meat processing and modern logistics systems, will benefit as they capture market share and build consumer brand loyalty.

- Government's strong support of meat processing industry

The main theme of China's 11th Five Year Plan is the development of China's rural economy. With the widening wealth gap between the rich and poor or between urban and rural regions, China's central government has shifted its focus from urban industrial growth to rural agricultural development aimed at improving the standard of living in the poorer regions. Many preferential policies were enacted to help the farming communities including subsidized livestock insurance and interest free loans. Scaled meat processors are considered active agents in galvanizing the rural economies by providing jobs, injecting capital, and introducing new technology and management expertise to the local economies. The Five Year Plans are a series of economic development initiatives promulgated by the Chinese government, however, they do not constitute binding or substantive policies or regulations. The Chinese economy has been shaped primarily through the plenary sessions of the Central Committee and National Congress. The Five Year Plan serves, in part, as a mapping strategy for economic development, setting growth targets, and launching reforms. The plan usually includes detailed economic development guidelines for all its regions and the nation as a whole. As China has transitioned from a centrally-planned economy to market economy, the name for the 11th Five-Year Plan has been characterized as a "guideline" rather than a strict "plan". The 11th Five-Year Plan covers the period from 2006 to 2011.

- National retailers provide platform for growth

The increasingly widespread use of refrigerators in urban Chinese households has attracted many retailers to carry more frozen food products, making available a wide variety of frozen products to consumers. Major domestic retailers, including LianHua, have made an impact in introducing more brands of frozen food products in their retail stores. Even more significantly going forward will be the rapid expansion of international hypermarkets in China, including France's Carrefour, the U.S.'s Walmart, and Germany's Metro. These retailers with national reach will significantly change the retail industry landscape as they provide the platform for the large branded food companies to efficiently and rapidly distribute their products to large and untapped markets. These international retail chains can also provide excellent export opportunities to scaled, quality meat processing companies.

- Industry consolidation benefits scaled players

In the more mature U.S. meat market, the top three producers represent about 50% of the meat industry there. But in China the meat-processing industry is very fragmented, with over 3,000 meat-processors most of which are small operators. The top three producers represent less than 5% of the overall market. Pig farms in China are also very fragmented, with over 90% of the farms possessing fewer than 10 pigs. As smaller players experience pressure from margin compression and stricter government regulations, we believe scaled meat processors will make attractive acquisitions in order to capture market share, gain scale, secure raw material, and move closer to clients. The combination of stricter hygiene regulations, increasing competition from well-financed players, struggling meat suppliers, and increasing international competition from companies like Hormel will induce major industry shakeout and consolidation in the coming years.

Macro and Demographic Trends

It is widely believed that a middle class is rapidly emerging in China. China's GDP has been growing at over 9% per year for the past 10 years and has created millions of new consumers. Management believes that these trends will translate into higher demand for pork products:

- China's middle class - citizens making at least 60,000 Yuan (US\$8,785) - are expected to double by 2010 to 25% of the country's population, fueling domestic consumption.

- While overall income grew rapidly, urban per capita disposable income grew even faster at 9.8% from 2008 to 2009, compared to 8.5% for per capita rural income during the same period. Urban per capita consumption of meat is twice that of the national average.
- Due to the increasing rural migration to urban cities, China expects to double its major cities by 2010 creating new waves of Chinese urban meat consumers. The number of Chinese cities with over 1 million people is projected to reach 125 by 2010 according to the Chinese Academy of Sciences, and cities with over 2 million people are projected to reach 300 by 2020.
- Domestic demand for meat products in China is expected to grow to a projected 100 million metric tons in 2010 from an actual 72.4 million metric tons in 2004 according to Access Asia, an independent research firm. Total production value of meat products are expected to increase to a projected US\$120 billion from an actual US\$84 billion and per capita meat consumption is expected to increase from an actual 49 kg to a projected 75 kg during the same period. Pork represents the bulk of meat products consumed in China.

With higher standards of living and more a demanding working lifestyle, urban Chinese consumers are purchasing more processed meat products and spending more on dining on meat products outside of the home. Our research indicates that:

- Currently less than an estimated 10% of the meat consumed in China is processed. Meat consumption out of the home has surpassed in-home meat consumption in 11 Chinese provinces, especially in more economically developed regional markets such as Shanghai, Beijing, and Shenzhen, according to the National Bureau of Statistics.
- Chinese consumers have become more conscious of food safety and quality, fueling demand for branded foods. This has become more evident after the occurrence of a series of disease outbreaks across Asia including SARS and the avian flu. With changing lifestyles and food quality awareness, Chinese consumers are seeking more name brands to ensure the quality in processed meat that they purchase.
- The new health-conscious consumer group has become more educated and concerned with the freshness and nutritional value of various meat products. For example, LTMP (low temperature meat product) pork has become more popular recently as urban consumers become aware that LTMP has better nutritional value and fresher taste than the longer-shelf-life HTMP (high temperature meat product) pork products.

Processing of Meat Products in China

In the PRC, regulations relating to the processing of meat products are set forth in the PRC Law of Food Hygiene and the Administrative Measures for the Hygiene of Meat and Meat Products. A PRC food processing company is required to obtain a hygiene permit from the Hygiene Bureau of the relevant districts before it is permitted to apply to

the Ministry of Industry and Commerce for a business license.

A food processing company may not purchase or use meat that has not been inspected and approved by the Animal Supervision Authority. Even if the meat has been so inspected, it must still satisfy other hygiene requirements. Each food processing company must have facilities to conduct regular laboratory testing of its products to ensure food safety requirements are met. For instance, sometimes traceable levels of contaminants and radioactive substances are found in meat products, and these must not exceed certain established national standards.

Food processing companies are required to possess hygienic cold storage facilities, and proper management of such cold storage facilities must be set out. All storage equipment and packing materials must also comply with hygienic standards. All meat products which are packed must be labeled, specifying requisite information such as name of the product, place of manufacture, manufacture date, lot number or code, final consumption date and ingredients. Any meat product to be exported shall be inspected by the Animal and Plant Quarantine Authority when passing through customs. Only meat products which have passed such inspections may be exported.

Business

We are principally engaged in the production, processing, sale and distribution of fresh and prepared meat products in China. Our products are classified as fresh and frozen pork, and prepared foods, which includes prepared pork, seafood and by-products.

Our production facilities are located in Dalian, a coastal city with a population of 3 million (6 million including the greater metropolitan area). Referred to as the “Boston of China” due to its Northeast proximity and port orientation, Dalian is the most affluent city in the Liaoning Province, with a population of 42 million. Dalian serves as a finance and export trade center of Northeast China, and is also the center of the “Buo Sea Economical Zone” (“BSEZ”). According to China’s National Bureau of Statistics, the BSEZ covers 12% of the territory and 20% of the population in China, and is the most important economic center in Northern China. The National Bureau of Statistics also projects that these two areas may generate a more rapid growth rate than the overall GDP growth of China in next 10 years. Our facilities include 5 production lines with the slaughtering capacity of 123,318 metric tons and prepared food capacity of 16,000 metric tons. Our prepared food facilities are the largest in Liaoning Province.

Our production lines are imported from international manufacturing automation leader Stork™ of the Netherlands, with the state-of-the-art technology and specialized for their in-process testing and quality controls. Our production facilities are certified under ISO9001 and HACCP. Our pork products are qualified “Green Food” by the National Green Food Development Center and qualified as one of 14 “National Safe Foods” by the National Slaughtering Authentication Center.

Our products are sold under the brand name of “Chuming™.” We target consumers who desire high quality pork products. We distribute our products through dealers and agents to more than 500 supermarkets, including Carrefour, Walmart, Metro, New-mart, Hymall and others. We also distribute our products to over 5,000 schools, hospitals, factory canteens and restaurants, and more than 900 “Chuming” branded showcase stores or specialty counters in wet markets. These showcase stores and specialty counters are operated by resellers of our products with whom we have arrangements to sell our product under the Chuming brand name (the principal difference between showcase stores and specialty counters being location within a supermarket for the former, and location in a wet market for the latter).

Our business activities are the slaughter, processing, packing and distribution of meat products for sale to clients throughout the PRC. We have a 250,000 square meter campus which houses an international standards-based meat processing plant located in the city of Dalian in Liaoning Province, PRC. We have a total of five production lines and an aggregate capacity to slaughter approximately 1.5 million pigs per year. We purchase hogs from more than 3,000 farms in Liaoning Province and nearby areas, in addition to having an exclusive contract with farms owned and operated by the Group to supply us with 750,000 live hogs in 2008, 800,000 in 2009, and 800,000 in 2010, at local market prices. The Group provides breeding pigs, animal feed, vaccination, veterinary services and technology support to our subcontractor pig farmers, resulting in more favorable relations with these small independent suppliers.

Principal Products

We produce, distribute and sell fresh meat and prepared food products under the brand name “Chuming™,” through our dealership distribution network, our own sales force and resellers in the PRC.

We produce two main types of Processed Meat Products - High Temperature Meat Products (HTMPs) and Low Temperature Meat Products (LTMPs).

High Temperature Meat Products. HTMPs are cooked at a temperature of approximately 121°C and at approximately 2.5 times atmospheric pressure. These meat products can be stored at room temperature and have a shelf life of approximately six months from the date of production. However, the permitted shelf life of these products is 120 days from the date of production, even though the actual shelf life of these products is six months. HTMPs are generally priced lower than LTMP and do not require refrigeration. Therefore, they are affordable and accessible to the average PRC consumer.

Low Temperature Meat Products. LTMPs are cooked at lower temperatures ranging from 65 to 85°C, under 1 atmospheric pressure. These meat products have a shelf life of three months from the date of production if they are stored at a temperature of 0°C. In 2003, we introduced our LTMPs to the PRC market. The Group's R&D studies have shown that LTMPs generally taste better than HTMPs because they are cooked at lower temperatures and thus are able to preserve the taste and nutrients found in the ingredients. The LTMPs generally cater to the taste of consumers in PRC cities who have higher purchasing power.

Currently, we have two main series of products for both HTMP and LTMP: the "Ham" series and the "Sausage" series. The Ham series has chunkier pieces of meat and thus has a meatier texture. It also has a corresponding higher percentage of meat content. The Sausage series has a lower percentage of meat content and has a smoother texture. The range of products we offer includes more than 300 varieties of hams and sausages.

The following is a summary of some of the types of Fresh and Processed Meat Products that we manufacture and how they are categorized:

Fresh Pork

Chinese people generally perceive that fresh meat retains a better flavor as compared with frozen meat. As such, the price of fresh pork meat is approximately 20% higher than frozen pork meat. The other producers of fresh pork meat in the PRC are generally farm-based suppliers, which supply the areas around the farms. The key difference between our fresh pork and that of farm-based suppliers is that our fresh pork is produced and packed in a highly controlled sanitized environment in our own facilities. Therefore, consumers have added assurance that our fresh pork meat is safe for consumption.

In order for the pork to remain fresh, at our facilities the pigs are slaughtered and then processed within 30 minutes. The meat is then cooled but not frozen at a temperature between 32° F (0° C) and 39.2° F (4° C) for about 20 hours. Following this cooling process, fresh pork is cut into various parts in a sterilized room with the constant temperature of 12° C. This reduces the risk of exposure to germs and bacterial contamination. Before delivery, the fresh pork is kept in our storage room at a controlled temperature of 0 to 4° C. The meat is stored in airtight sterilizing rooms filled with ozone, which acts as a sterilizing agent, killing remaining germs and bacteria in the meat.

With our own temperature-controlled vans and trucks, we deliver the fresh pork to our customers including dealers, supermarkets and our resellers' stores. The entire process of cold production, cold storage and cold delivery is what we refer to as the "cold chain system." This cold chain system ensures the freshness and quality of our product. Our fresh pork products have an average shelf life of 7 days from the date of production.

Frozen Pork

In the production of our frozen pork, the meat is frozen at -31° F (-35° C) to -40° F (-40° C) for 48 hours. It is then stored or transported at a constant temperature of between -0.4° F (-18° C) to -13° F (-25° C). Since frozen pork can be preserved for longer periods of time, our frozen meat products are ideal for distribution across longer distances to Northeast and North China as well as potentially to international markets such as Korea, Russia and Japan. These products have an average shelf life of 180 days from the date of production. We also sell our frozen pork to

restaurants, supermarkets and fresh food markets.

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Prepared Food Products

Our prepared food products include prepared pork, seafood and pig by-products, which accounted for 11.57% of our 2008 revenues.

Prepared Pork Products. Our prepared pork products are mainly LTMPs, which are cooked at lower temperatures ranging from 65° C to 85° C and under atmospheric pressure. These meat products generally have a shelf life of 30 days from the date of production if they are stored at a temperature ranging from 0° C to 4° C. For LTMPs, we currently have two series and more than 300 products. These foods are all made from the fresh pork that we produce. The following is a description of the types of prepared pork products we offer:

Ham

- Chuming Cumin Ham
- Cooked Ham
- Roast Ham
- Premium Ham
- Sandwich Ham
- Square Ham
- Chunky Ham
- Baby Ham
- Salted Loin
- Smoked Ham

Sausage

- Dairy Sausage
- Garlic Sausage
- Spicy Sausage
- Chinese Sausage
- Taiwan Sausage
- Baby Sausage

Seafood Products. Our prepared seafood products are made from fish, shrimp and other varieties of seafood. With our techniques of prepared food production, we prepare seafood products such as fish sausage and shellfish sausage. Seafood products accounted for approximately 5.8% of our revenue in 2009. Due to the abundance of seafood in Dalian, located on the Northern coast of China, as well as relatively high profit margins for these products, we plan to expand our seafood output in the future. The following is a description of the varieties of seafood products we offer:

Seafood sausage

- Baked Fish Sausage
- Barbequed Prawn Sausage
- Crab Sausage

- Scallop Sausage
- Squid Sausage

Pig By-Products. In China, virtually all parts of the pig are valued for consumption and are used in local cuisine. Pig “by-products” that are not typically used or sold in other parts of the world are prepared and sold in the Chinese market. This includes pig innards, pig skin, pig tails, lard and pig heads. Pig liver, stomach, intestine, head and hoofs are commonly used in Chinese cuisine and are sold to a ready market.

We produce our products through two of the Chuming Operating Subsidiaries: (i) the Meat Company in Wangfangdian, and (ii) the Food Company in Dalian.

Our fresh and frozen pork is produced by our subsidiary Meat Company. The Meat Company’s facilities cover 150,000 square meters and utilize state-of-art slaughtering and cutting lines imported from Stork Co. of the Netherlands. The Meat Company has a slaughtering capacity of 250 pigs per hour, which is 1,500,000 pigs per year at full capacity. Our cutting line has a capacity of 30,132 metric tons per year. Our cold and freezing storage facilities can store up to 6,000 metric tons of fresh product. The fresh pork and frozen pork produced by the Meat Company are typically sold either in whole carcass form or in cuts.

The prepared foods are produced by our subsidiary Food Company, located in the Ganjingzi District of Dalian. The Food Company includes a 10,000 square meter processing facility. There are three prepared food production lines including one pork processing line with the capacity of 10,000 metric tons, one seafood sausage production line with the capacity of 4,500 metric tons and one deli by-product production line with the capacity of 1,500 metric tons. All of the Food Company’s production line equipment is imported from Germany and features state-of-the-art technology. Based on our own market research on our competitors, management believes that the Food Company is now the largest prepared food production plant in the Liaoning Province.

Supply of Pigs

We do not rear pigs, but instead purchase them from our former parent company, the Group, and from other suppliers who aggregate supply from local pig farms. We purchase live pigs from the Group and third party suppliers on a cash-on-delivery basis. While the Group’s breeding operations are well developed and large scale, most of the pig farming in the PRC is generally not well commercialized. Our third party suppliers aggregate supplies from hundreds of small pig farms, which are typically operated as independent family-owned farms. One advantage of decentralized supply is that we obtain competitive market pricing for our supply of pigs. Another advantage is that any outbreak of livestock disease is likely to be confined to a one or more of these farms and would not affect our entire supply. Potential disadvantages from a decentralized supply of pigs include variations in quality of stock, and potential variation in quantity and timing of the supply of hogs to our plant for processing. However, because all pig farmers who supply pigs to us are all located within the greater Dalian City metropolitan area (within a two hour radius by truck), the logistical issues have so far not interfered with our ability to secure a steady supply of hogs. Since we have around 6,000 local pig farmers who will supply hogs to us, we ordinarily are able to obtain a reasonably stable supply of hogs, even when some farms cannot meet our requests for any reason. Also, because our former parent company, the Group, acquires pigs directly from independent farmers then sell pigs to us in lots (under our Hog Procurement Agreement), to some extent we have minimized the potential disadvantages discussed above.

Our pig suppliers supply us with regular quantities of pigs based on the current prevailing market price of pigs on the day of delivery. We typically order a certain number of pigs per day from each of the farms that supply us pigs. For instance, if we expect to order 80,000 pigs per annum from a supplier, that supplier will supply somewhere between 240 and 260 pigs per day.

In order to ensure a consistent supply of fresh pork to our customers, we have made agreements with approximately 6,000 pig farms in the Dalian, to supplement our usual supply of live pigs. These pig farms agreed to supply us approximately 650,000 pigs in 2009. Our suppliers have an aggregate capacity to supply us with approximately 1,100 pigs per day.

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We normally pay a higher than average price per pig, which is typically RMB 1.25 per kg above the average market price for live pigs, in order to acquire what we believe to be a higher quality supply of pigs. Although we pay a premium for a higher quality supply of pigs, our management believes that the benefits of this strategy outweigh the costs because of the goodwill that results from providing a consistently high-quality product to our customers.

We pay different “market prices” for live pigs depending on quality and weight. Incoming live pigs are graded by our quality control personnel based on a number of criteria (including fat content, health of the animal, absence of injuries, the net weight), into several categories including “Grades 1- 4” and “below-grade,” with Grade 1 being the highest quality (and accordingly the highest price per kilogram). We then determine prevailing market prices for live pigs for these various grades based on market data drawn from the local marketplace, which fluctuates daily. Approximately 80% of the live pigs purchased by us are in the Grade 1 and Grade 2 categories. For example, for the first quarter of 2009, approximately 76% of the live pigs purchased by us were Grade 1 and 2, with the remainder in Grade 3 and 4. Since we generally select higher-quality pigs (Grades 1 and 2) among all live pigs available for purchase in the marketplace, as a result we pay a higher than average price per kilogram for our overall supply of live pigs.

In 2007, 2008 and 2009, we paid a total of \$110.4 million, \$125.6 million and \$144.1 million, respectively, for our total supply of live pigs. We paid the Group an aggregate of \$61.7 million and \$72.7 million and \$64.7 million for live pigs during the full years of 2007, 2008 and 2009, respectively, and the amounts paid were determined as described above.

Under our Long-Term Hog Procurement Agreement between the Group and the Meat Company, the Group agreed to supply no less than 800,000 live hogs in 2009, 2010 and 2011 and the price for the hogs is set at the fair market price at the time of delivery.

Due to a shortage in supply, live hog prices rose significantly in 2008. Retail pork prices are an important component of China’s Consumer Price Index (CPI), a key inflation indicator. In order to moderate increases in the CPI and maintain the living standard of its lower-income population, the Chinese government (as it pertains to the pork industry) has implemented a number of policies to encourage pork production. The average pork price has declined somewhat from the first quarter of 2009, mainly because of perceptions arising from the appearance of swine flu in late April and early May. In June 2009, the Chinese government purchased and placed in storage large quantities of pork products in order to adjust the pork price in an effort to cause it to rebound to a reasonable level. As a result of this action, the prices of pork have been rising since July 2009, and have risen to a level higher than the prices seen during the first quarter of 2009. The prices are continuing to trend higher. We processed approximately 1.2 million live pigs through December 31, 2009, the amount of which met our target for fiscal year 2009.

We participate in a breeding program with local farmers - under this program, after a careful selection process, every participating breeder must have a pig farmer provide a guarantee of supply, who must be responsible for making up any differences between the agreed amount and actual number of pigs supplied to us. This program has been in existence since 1998. Management believes that since our breeding program has successfully increased farmer income and tax revenue in our region, our local government has welcomed these programs.

Among our suppliers, Zheng Baojiang, Zhang Zhiying, Wang Fuzhi, Ge Hongqi, and Chen Lianhe are the most successful pig farmers in our supply chain, and they supplied an aggregate of 15,603, 13,165, 12,056, 11,956 and 19,866 hogs respectively through each of the 12 months of 2009, contributing to 6.26% of our total supply.

In addition to the quality of our suppliers' stock, and their health and safety controls, we have a quality control system of our own to ensure that pigs supplied to us are healthy and fit for human consumption. We require that pigs supplied to us be accompanied by required health certificates, and each must weigh at least between 90kg and 100kg. If the pigs meet the above criteria, we are then obligated to accept delivery of the pigs. (A pig that weighs between 90 and 100 kg, has more saleable meat per kilogram. If it is below this weight range, the ratio of meat to innards would be lower, resulting in less saleable meat per kilogram).

Customers and Distribution Methods

Customers

We have three primary types of customers for our products, which are (1) city and town households, (2) canteens and restaurants, and (3) food processing companies.

We have found that Chinese households prefer fresh pork to frozen pork. Consumers typically buy fresh pork in small quantities, in frequent visits to markets where it is sold. Households usually choose the supermarkets, the wet market, or Chuming™ branded showcase stores to buy the fresh pork based on convenience. This type of customer accounted for 89% of our revenues in 2009.

Canteens include the cafeterias of government agencies, schools, factories and hospitals. These customers, including restaurants, often purchase our pork from Chuming™ branded showcase stores or directly from agents or wholesalers of the Company. This customer segment accounted for 7% of our revenues in 2009.

In addition to the above two types of customers, we also provide branded food processing companies with fresh and frozen pork. However, this customer segment accounted for less than 4% of our revenue in 2009. Since our sourced pigs are of good breed and have strict quality control in the production process, these food processors regularly rely on our pork as an ingredient in their products. Our clients in this segment include Taiwan Dachan, a feed supplier and food processor in Taiwan. These food processing companies typically get access to our products from Chuming agents or wholesalers.

Our largest customer accounted for approximately 8.8%, 9% and 8.4% respectively of our total turnover for the years ended December 31, 2007, 2008 and 2009. Our top five customers together accounted for approximately 45%, 37.5% and 39.3% of our total turnover for the years ended December 31, 2007, 2008 and 2009 respectively. None of our directors, their associates or any significant shareholder of the Company has any interest in any of our five largest customers.

Distribution Network

Our distribution network is organized and divided by geographic markets and sales regions, including: Dalian Metropolitan, Eastern Liaoning, Western Liaoning, Jilin, Heilongjiang and Hebei markets. In each market, we have a team led by a sales officer whose objective is to expand the Chuming sales network by developing potential dealers, agents and wholesalers, and to maintain the existing network by assisting our sellers. Our Sales Company works with dealers, agents and wholesalers, who then submit orders directly to us.

Sales by Region for the Year Ended December 31, 2008

Dalian	62%
Shenyang	22%
East Liaoning	6%
North Liaoning	4%

West Liaoning	4%
Others	2%

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Retail Strategy

To differentiate ourselves, we have a unique retail strategy to complement our wholesale operations. We sell our product to “showcase stores” which are owned and operated by independent operators. These specialty boutique-type stores must have the same design and physical layout and must follow our operating methodologies. These storefronts are highly visible with the Chuming™ brand name. We also set merchandising and pricing policies and all employees must undergo a mandatory training program. There are currently over 500 such boutique stores in Liaoning Province, providing high brand recognition and communicating a message of quality that will benefit all channels. These boutique stores target the new middle class that desire and can afford high quality goods and services. They provide particular convenience to a typical busy two-income, middle-class family which shops frequently after work. Most of these boutique shops are located in Dalian and the major cities of Liaoning Province. Each store has a minimum monthly sales requirement depending on the city and store.

Dealers, agents and wholesalers who we work with serve their own diverse distribution channels. Our affiliated dealers organize their sales to stores and supermarkets, such as Carrefour, Walmart, Hymall, New-mart and Metro. Our affiliated agents assist in identifying locations and opening Chuming™ branded showcase stores in their region, important to the expanding our revenues. Our affiliated wholesalers typically organize the sales to canteens and restaurants as well as food processing companies. In some regions, our affiliated agents will also directly contact local canteens and restaurants.

Chuming's Distribution Network

We have our Chuming™ branded counters in large stores and supermarkets, which are the most important and highly visible locations to enhance our brand and image. Since large supermarkets such as Carrefour and Walmart have strict requirements to approve any suppliers, having Chuming™ counters in these megaretailers' flagship stores reinforces the consumer confidence in our products. We have Chuming™ counters in more than 581 large supermarkets located in Northeast China.

Our most popular product, fresh pork, is sold primarily through our Chuming™ branded showcase stores. Chuming™ branded showcase stores are usually located in high-density, urban residential areas easily accessible by our customers. The Chuming™ branded showcase stores also save time compared to long lines sometimes found at large supermarkets. Chuming™ branded showcase stores are all equipped with refrigerators to keep the pork fresh. We have established more than 942 Chuming™ branded showcase stores as of December 31, 2009 now operating in Dalian and throughout the Liaoning Province. In the next few years, we aim to increase the number of our Chuming™ branded showcase stores to more than 1,000 outlets.

We provide operators of showcase stores and specialty counters with equipment (refrigerated showcases, signage, uniforms, heating equipment for processed food and other equipment), labels and packaging, technical assistance, and permission to sell our products under the Chuming brand name. These operators pay us an equipment deposit (to cover the cost of equipment), a trademark usage guarantee deposit, a uniform fee (for the cost of employee uniforms), a one-time start-up fee to cover the costs of certain materials, and an ongoing fee of approximately 0.5% of the total purchase amount of the products these operators purchase from us. Operators agree to sell our products exclusively, and may sell other products only with our consent. Operators are responsible for payment of their own taxes and government fees, leasing expenses, and other operating costs. If an operator is terminated, we will refund the equipment deposit upon return of the equipment, and the trademark deposit if the operator has complied with the trademark usage guidelines we provide to them. We generally reward high-volume operators with discounts and incentives on a case-by-case basis. We do not collect any material "franchise fees" from these resellers.

Delivery

In China, one of the main obstacles to expanding market share and developing national brands has been logistical management during processing. We address this issue by equipping our processing plant with modern technologically advanced, state-of-the art equipment and production lines. Our advanced logistical infrastructure includes the use of bar coding and electronic interchange to enhance the speed and accuracy of data flow. Over the years, we have built an extensive logistical system that includes 21 contracted refrigerated container trucks that allow us to better preserve the meat and to expand our market scope by delivering food to farther retail points. As a result, we have been able to make deliveries within a 500km radius of our Dalian processing plant. Furthermore, our modern information technology system adds additional competitive advantage as it provides us real time market and production data which in turn enables us to capitalize on the timely information regarding market pricing, inventory levels, and changes in demand.

After orders are gathered and processed at the Sales Company, our products are delivered utilizing our transportation fleet and through pick-up by certain accounts at our facilities. The quality of our fresh pork is highly dependent on the storage room and delivery vehicles once they leave the chill room. We currently operates 43 temperature-controlled vehicles, which we employ in our operations to help guarantee the freshness of pork at the point of delivery to customer locations in our primary market which is within a two-hour radius of Dalian.

Quality Control

We maintain all required licenses and certificates from the relevant central and local government authorities with regard to our pork production business. In 2005, we were awarded ISO 9001:2000 certification that covers our production, research and development and sales activities. ISO 9001 certification indicates that our abattoirs and pork production operations comply with international standards of quality assurance established by the International Standards Organization. All of our production lines have also passed the Hazard Analysis and Critical Control Point (HACCP) test, which is certified by Moody International Certification Ltd.

We currently have 82 Quality Control (QC) personnel who run and refine our quality assurance system. This system is divided into two sections: Meat Production Supervision and Processed Meat Supervision. The 64 employees who work in our quality assurance program consist of 22 quality control engineers, and 42 staff. All members of the QC team are trained technicians with qualifications and experience in animal husbandry, quarantines and veterinary medicine. The quality control laboratory meets and exceeds all standards set by the authorities and relevant agencies in the PRC.

In addition, on average 11 government inspectors work in our slaughtering and packaging plant every shift. They examine animals before slaughter, supervise sanitation, inspect carcasses and internal organs for diseases during the slaughtering and processing procedures, and then certify carcasses and packaged products as to consumer readiness.

As discussed in the above section regarding our principal products, the pork products produced from freshly slaughtered pigs at our facilities are chilled or frozen after slaughtering to prevent deterioration of the meat caused by bacteria or chemical changes. The chilled and frozen pork are maintained within the requisite temperature ranges, during subsequent handling, transportation and distribution to retain freshness and to prevent deterioration of the meat.

Competition

We are currently one of the largest meat producers in the three northeast provinces of Jilin, Liaoning and Heilongjiang. According to management's estimates, in Liaoning Province, we are the market leader for both fresh pork with 8.5% market share and for meat products with a 2.8% market share. Management estimates that in Dalian, we are the market leader for fresh pork with a 55% market share, and share the lead position for meat products with a 25% market share. As we expand geographically, we expect to encounter additional regional and local competitors. Our management believes that all food segments in China compete on the basis of price, product quality, brand identification and customer service, and that we are well positioned in all of these areas.

Major Domestic Competitors

Currently, our primary competition comes from the domestic players that operate in a very fragmented industry environment. Presently, there is no clearly dominant producer in the PRC pork industry. The three largest producers in China, Shuanghui, People's Food and China Yurun, together capture less than 5% of the total market. Most of the companies in the industry tend to focus on different product and market segments. Shuanghui has the largest market share in the HTMP pork segment, while Yurun is the leader in the LTMP space. Both companies have done well in the top tier markets. People's Food, on the one hand, tends to focus more of its distribution efforts on smaller cities, where mass distribution is more difficult, and typically does not sell through large retail channels. On the other hand, about 40% of China Yurun's sales are through supermarket and hypermarket chains. In terms of geographical focus, we believe People's Food has a strong presence in Northeastern China. China Yurun has announced plans to expand into the Northeast with plans for two new plants in Shenyang and Harbin.

New International Entrants

After China joined the WTO, many domestic industries were opened to international competition, including the meat-processing industry. Foreign companies have already entered China's major cities, mainly through the major hypermarkets such as Carrefour. So far, domestic players have an advantage in the introduction of new products based on local tastes and distribution in below super-tier cities such as Beijing and Shanghai. Tyson Foods, Inc., U.S.A. has a joint venture with Shanghai Ocean Wealth Fish Products Corporation Limited. Hormel Foods Corporation, U.S.A., has set up representative offices in China since 1995 and currently operates processing factories in Shanghai and Beijing.

Dalian Competitors - Fresh Pork

In Dalian, our key fresh pork competitors are Bangchui Island with an 20% market share and Jiuxing (Nine Stars) with a 10% market share.

Name	Market share
Chuming	50%
Bangchui Island	20%
Nine Stars	10%
Taifu	8%
Tianxin	6%
Yurun	6%

Dalian Competitors - Meat Products

In Dalian, our main meat products competitors are Chengxin with a 15% market share, Chunhe with a 12% market share, Jin Baiwei with a 18% market share, and Yurun with a 15% market share.

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Name	Market share
Chuming	25%
Chengxin	15%
Chunhe	12%
Jin Baiwei	18%
Yurun	15%
Others	15%

Advertising and Promotional Activities

Advertising and promotional expenses were \$638,904, \$2,629,853 and \$3,611,666 for the years ended December 31, 2009, 2008 and 2007, respectively. Our advertising and marketing expenditures decreased considerably from \$2,629,853 in 2008 to \$638,904, partly attributable to outsourcing some of the marketing and promotion of our products to our independent sales agents, and in return the Company gave them bigger discounts and incentives on our products. The Company believes that advertisements can be handled more effectively at a regional and local level by the sales agents individually, and at the same time it is also more cost effective for the Company. In 2009, we allocated more of our resources to increase the advertising and promotional activities aimed at higher performing regions, retailers and supermarkets.

Advertisements are principally for Processed Meat Products and Fresh Pork and are targeted at consumers in the Northeast PRC. We advertise periodically in the local media to create and maintain public awareness of our products and branding. These activities include television commercials, radio, magazine and newspaper advertisements, and exhibitions. We increase the frequency of advertisements whenever new products are launched.

Intellectual Property Rights

Through our advertising efforts and the consistent quality of its products, our management believes that consumers in the PRC have come to associate our “ChumingTM” brand name with quality meat products. Thus, our management believes that the goodwill in the “ChumingTM” branding is a valuable asset to us. The “Chuming” trademark and rights to the “Huayu” trademark application in the PRC are owned by Dalian Chuming Industry Development Co., Ltd., a subsidiary of the Group. We have been granted a perpetual fully paid up license to use both of these trademarks in connection with our business under two trademark agreements with Dalian Chuming Industry Development Co., Ltd.

We believe that the protection of our brand names is important to our marketing efforts and believe that we have taken appropriate steps to protect our brand. We have not discovered any counterfeiting or any infringements of our ChumingTM or Huayu brand names.

We require all resellers who we work with, including specialty counters and showcase store operators, to comply with our trademark usage policy, and require them to pay trademark usage guarantee deposits. We also employ approximately 29 engineers who randomly inspect the facilities of the over 942 operators we work with to ensure compliance with our policies and other guidelines. We will generally terminate our business relationship with operators found violating our policies.

Research and Development

We have two operations, a Meat Engineering Center and a Sea Products Center, focused on the development of new products to the market. In addition to meeting the taste demands of consumers, these groups focus on quality, nutrition and safety standards. These groups draw upon a 39 employee research and development staff, including three professors in the field of animal nutrition and biology, supporting the safe and rapid introduction to the market of new products, specifically in the areas of seafood and meat by-products. We currently have more than 149 products available to consumers, with the average rate of two new products ready for the market per month. We are also working on anti-freezing experiments to facilitate preservation of our meats so as to minimize or eliminate the use of chemical preservatives.

Government Approval and Regulation of Principal Products

The Chinese government is actively promulgating a plan for “safe meat” and is expected to raise the proportion of slaughtering automation to over seventy percent of all meat and actively enforce authorized slaughtering and quarantine. Government initiatives take the form of benefits ranging from special grants, subsidized financing, preferential tax policies, direct government funding and other types of subsidies aimed at encouraging the modernization of the meat industry. In addition, while it is possible that the Chinese central or provincial governments may enact more stringent regulations that raise standards for the meat processing industry, we believe that our company is currently a leader in meat processing safety standards, and would not be affected by such increased standards.

Compliance with Environmental Laws

We own two wastewater treatment plants on premises with a daily treating capacity of six hundred tons for each plant. These plants are designed to comply with the Integrated Wastewater Discharge Standard of the PRC and the Environmental Protection Regulation of Dalian City. To the knowledge of our management, we have not breached any environment protection regulations during any of the past three years.

Employees

We currently have approximately 735 employees, the composition of which is as follows:

	R&D and Engineering	Production	General and Administrative	Sales and Marketing	Quality Control	Total
Meat Company	14	171	25	52	40	