

## INDUSTRY OVERVIEW

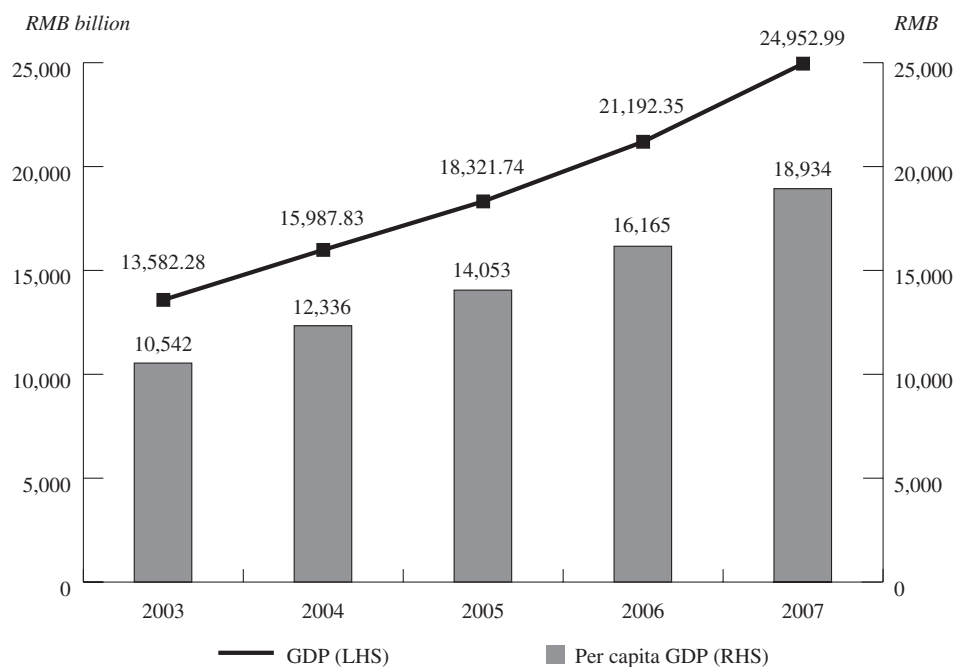
*This section contains information and statistics relating to the PRC economy and the industry in which we operate. The information and statistics in this section have been extracted and derived, in part, from various official government publications, the Access Asia Report, the Zhongjing Zongheng Report and information published by the China Sausage Casing Net and the China Meat Association. While reasonable care has been taken in the extraction, compilation and reproduction of such information and statistics and we have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading, neither our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, or the Underwriters, nor any of their respective affiliates or advisers, nor any party involved in the Global Offering have independently verified such information and statistics, and such parties do not make any representation as to their correctness, accuracy, completeness or fairness. The information and statistics in this section may not be consistent with other information and statistics compiled within or outside the PRC.*

### THE ECONOMY OF THE PRC

#### Economic growth of the PRC

The PRC is one of the world's fastest growing economies. According to the National Bureau of Statistics of China (中華人民共和國國家統計局), in 2007, the GDP of the PRC was approximately RMB24,953 billion, representing a CAGR of approximately 16.42% as compared to the GDP of the PRC of approximately RMB13,582 billion in 2003. From 2003 to 2007, the per capita GDP also increased from approximately RMB10,542 per annum to approximately RMB18,934 per annum, representing a CAGR of approximately 15.77%. The following chart sets forth the nominal GDP and per capita GDP of the PRC from 2003 to 2007:

**Nominal GDP and per capita GDP of the PRC (2003–2007)**



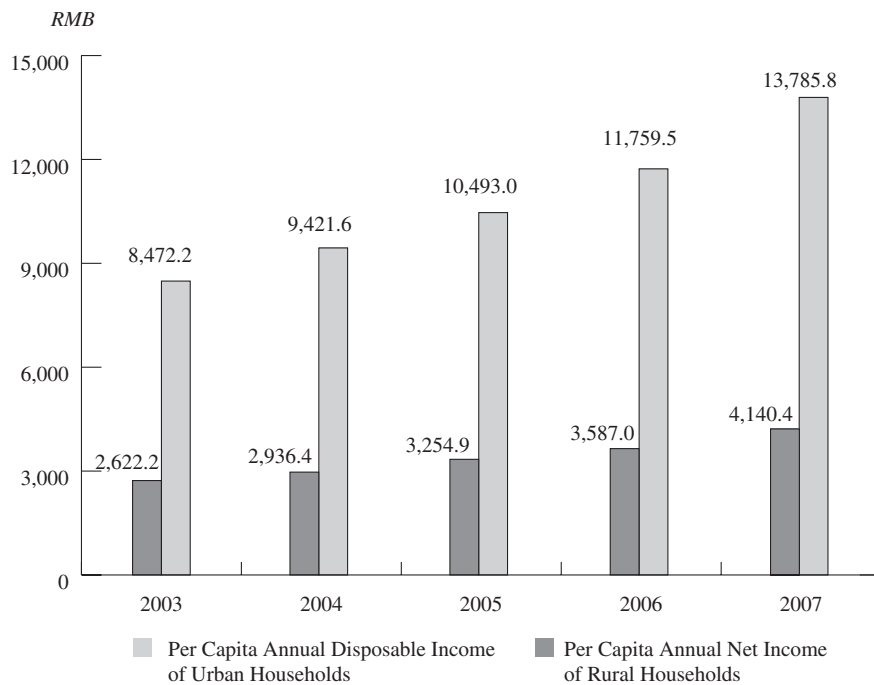
Source: National Bureau of Statistics of China (中華人民共和國國家統計局)

## INDUSTRY OVERVIEW

### Growth in disposable income of urban and rural households in the PRC

Personal disposable income from urban and rural households in the PRC has been increasing together with economic growth. According to the National Bureau of Statistics of China (中華人民共和國國家統計局), from 2003 to 2007, the per capita annual disposable income of urban households in the PRC increased from approximately RMB8,472 to approximately RMB13,786, representing a CAGR of approximately 12.94%. The per capita annual net income of rural households in the PRC increased from approximately RMB2,622 in 2003 to approximately RMB4,140 in 2007, representing a CAGR of approximately 12.10%. The following chart sets forth the per capita annual disposable income of urban households and the per capita annual net income of rural households in the PRC from 2003 to 2007:

**Per capita annual income of urban and rural households in the PRC (2003–2007)**



Source: National Bureau of Statistics of China (中華人民共和國國家統計局)

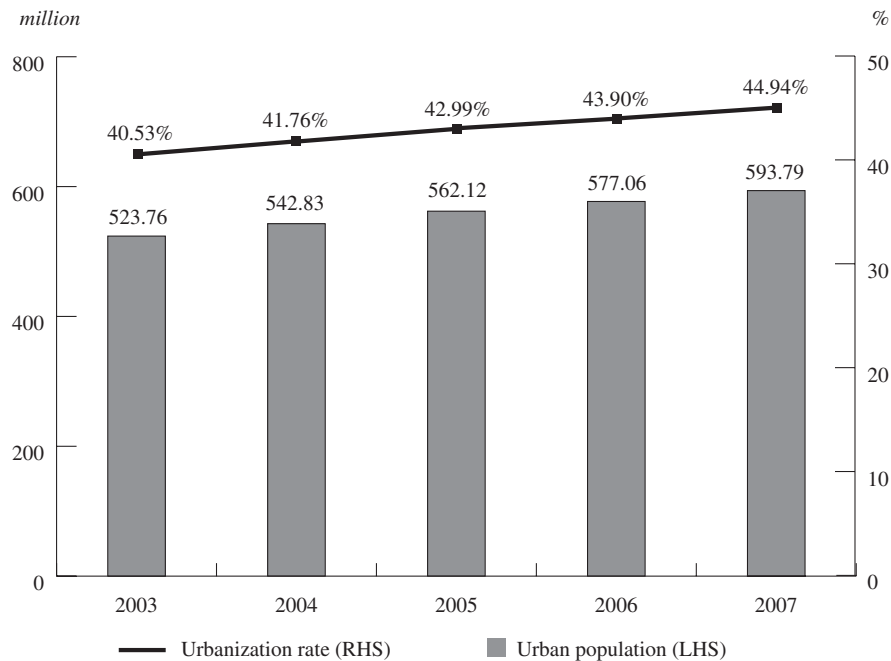
## INDUSTRY OVERVIEW

### Urbanization in the PRC

The PRC's economic growth has led to the urbanization of the country in recent years. According to the National Bureau of Statistics of China (中華人民共和國國家統計局), the urbanization rate of the PRC, defined as the urban population as a percentage of the total population, increased from approximately 40.5% in 2003 to approximately 44.9% in 2007. We believe that this trend of urbanization will lead to increased consumer spending as per capita disposable income is higher in cities than rural areas in the PRC. We expect that this trend will have a positive impact on our business.

The following chart sets forth the growth of the urban population and the urbanization rate in China from 2003 to 2007:

**Urbanization in the PRC (2003–2007)**



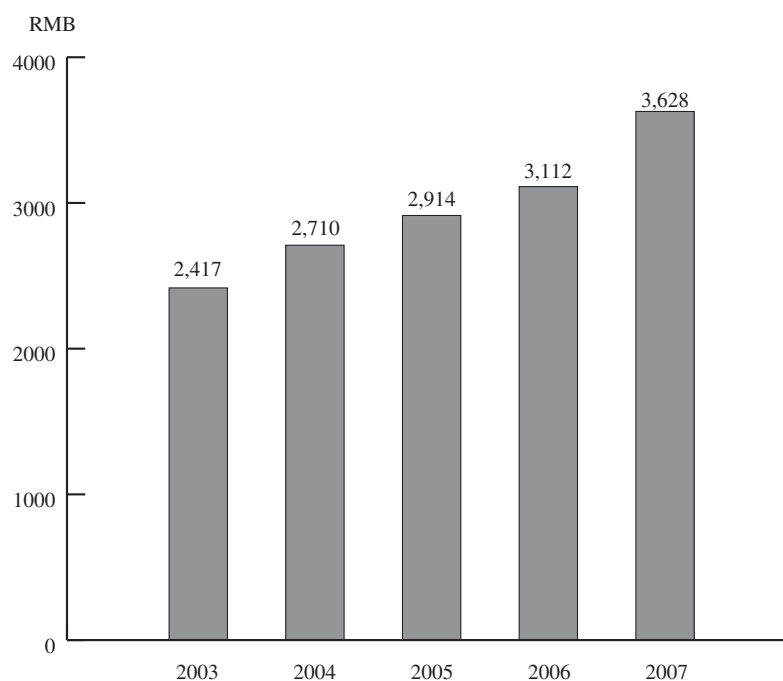
Source: National Bureau of Statistics of China (中華人民共和國國家統計局)

## INDUSTRY OVERVIEW

### Growth in food consumption of urban households in the PRC

Rising disposable income of urban households has contributed to the growth in per capita food consumption in the PRC. According to the National Bureau of Statistics of China (中華人民共和國國家統計局), from 2003 to 2007, the annual per capita food consumption expenditures of urban households increased from approximately RMB2,417 in 2003 to approximately RMB3,628 in 2007, representing a CAGR of approximately 10.7%. The chart below sets forth the annual per capita food consumption expenditure of urban households in the PRC from 2003 to 2007:

**Annual per capita food consumption expenditure of urban households in the PRC (2003–2007)**



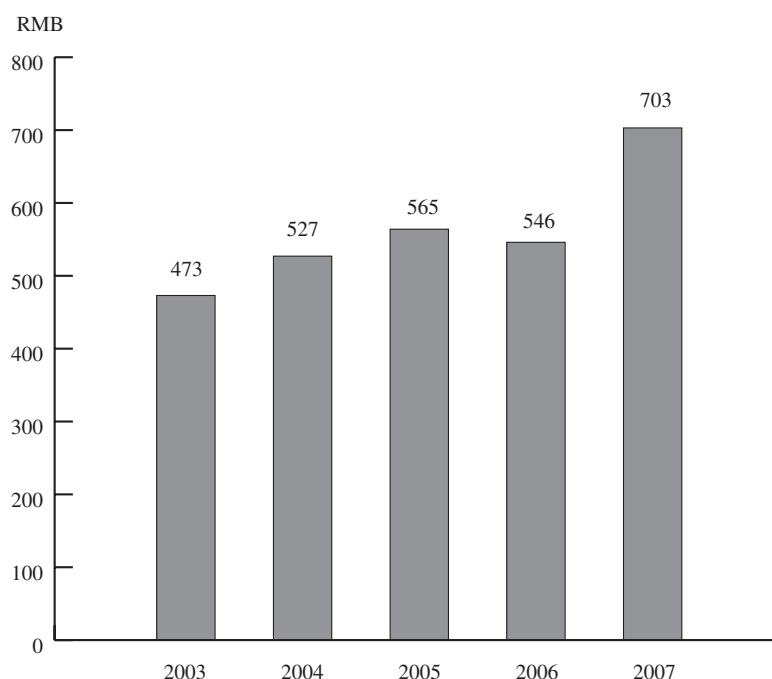
Source: National Bureau of Statistics of China (中華人民共和國國家統計局)

## INDUSTRY OVERVIEW

### Growth in consumption of meat, poultry and processed products of urban households in the PRC

According to the National Bureau of Statistics of China (中華人民共和國國家統計局), from 2003 to 2007, the annual per capita expenditure of urban households in the PRC on meat, poultry and processed products increased from approximately RMB473 to approximately RMB703, representing a CAGR of approximately 10.41%. The following chart sets forth the annual per capita expenditure of urban households in the PRC on meat, poultry and processed products expenditure from 2003 to 2007:

#### Annual per capita expenditure of urban households in the PRC on meat, poultry and processed products (2003-2007)



Source: National Bureau of Statistics of China (中華人民共和國國家統計局)

### INTRODUCTION OF SAUSAGE CASINGS AND COLLAGEN SAUSAGE CASINGS

#### Introduction of sausage casings

Sausage casings are raw materials which contain the filling of sausages. They may be edible or inedible. In terms of raw materials used, sausage casings may be broadly classified into natural sausage casings and artificial sausage casings. Natural sausage casings are made from layers of intestines of livestock such as pig, sheep and cow. Artificial sausage casings are made from collagen, cellulose or polyvinyl chloride, of which only collagen sausage casings are edible.

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According to China Sausage Casing Net (中國腸衣網), in terms of raw materials used, edible sausage casings may be classified into the following categories:

	Types	Raw materials
Natural sausage casings	Salted sausage casings	Livestock intestines
	Dried sausage casings	Livestock intestines
Artificial sausage casings	Collagen sausage casings	Cattle's inner skins

### Functions of sausage casings

Sausage casings serve as packaging materials for sausages. According to China Sausage Casing Net (中國腸衣網), sausage casings can perform the following functions:

- (i) to prevent sausages from being damaged during the manufacturing processes;
- (ii) to form and standardize the shape of sausages; and
- (iii) to prolong the shelf life of sausages.

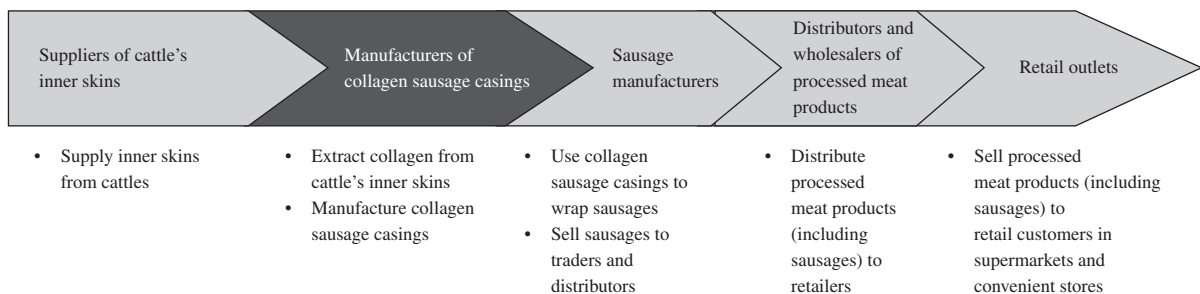
During the production process of sausages, processed meat is stuffed into the casings. Sausages are then further packed for subsequent storage and delivery.

### Introduction of collagen sausage casings

Collagen is a kind of long, fibrous structural protein, and is the main colloid in connective tissues in animal skins and the main protein in mammal skins. Tough bundles of collagen are a major component of most tissues. Collagen has great tensile strength and provides skin strength and elasticity, and plays a role in tissue development.

Collagen sausage casings are similar to natural sausage casings in certain attributes, such as being elastic, and able to endure heat during cooking due to their high tensile strength. Accordingly, collagen sausage casings are used by many sausage manufacturers.

The following sets forth the position of collagen sausage casing manufacturers in the industrial chain of the sausage industry in the PRC:



## INDUSTRY OVERVIEW

As the demand for sausages in the PRC has increased, the demand for sausage casings has grown accordingly. However, the requirements for the production technologies and product quality of sausage casings are becoming increasingly stringent. The manufacturers of sausage casings have been looking for other types of sausage casings to substitute for natural sausage casings. Collagen sausage casings, which can provide consistent quality as well as flexible size, thickness and length, are well suited to automated production of sausages and thus are being widely adopted by more and more medium to large scale sausage manufacturers in the PRC.

### **Advantages of collagen sausage casings as compared to natural sausage casings**

As compared to natural sausage casings, collagen sausage casings have the following distinct advantages:

*(i) Quality and diameter uniformity*

Collagen sausage casings: (i) have various specifications in terms of length, diameter and thickness; (ii) have unique texture; (iii) have higher strength; (iv) have unique bite; and (v) provide a high level of consistency and uniformity of product.

*(ii) Economies of scale in production*

Due to the special characteristics of collagen sausage casings, they are suitable for being used in highly automated mass production. This is favored by sausage manufacturers who focus on improving production efficiency and expanding production capacity. The supply of raw materials used in the manufacture of natural sausage casings is relatively less stable as compared with collagen sausage casings, and it is more difficult to manufacture natural sausage casings at uniform shapes. As such, the supply of natural sausage casings may not meet the demand of large scale production of sausages.

*(iii) Multi-functionality*

Apart from meat sausages, collagen sausage casings can also be used to wrap for different types of food such as fruit and vegetable products, and can be manufactured in various specifications to meet different customer needs.

*(iv) Easy to be packed, stored and transported*

Due to the even texture and high level of consistency and uniformity, collagen sausage casings can be easily compressed into tubular shape or wound into rolls when being packed. Thus, they require less space for storage and transportation compared to natural sausage casings. The tubular collagen sausage casings after compression can be further cut into segments of required length or weight and packed at different sizes. Furthermore, collagen sausage casings can be stored and transported at room temperature without special treatment (such as salting) and have a shelf life of two to three years. The characteristics of collagen sausage casings remain unchanged with the change of temperature in the environment.

We believe that collagen sausage casings, due to their distinct advantages as mentioned above, will gradually capture a larger share in the sausage casing market in the PRC.

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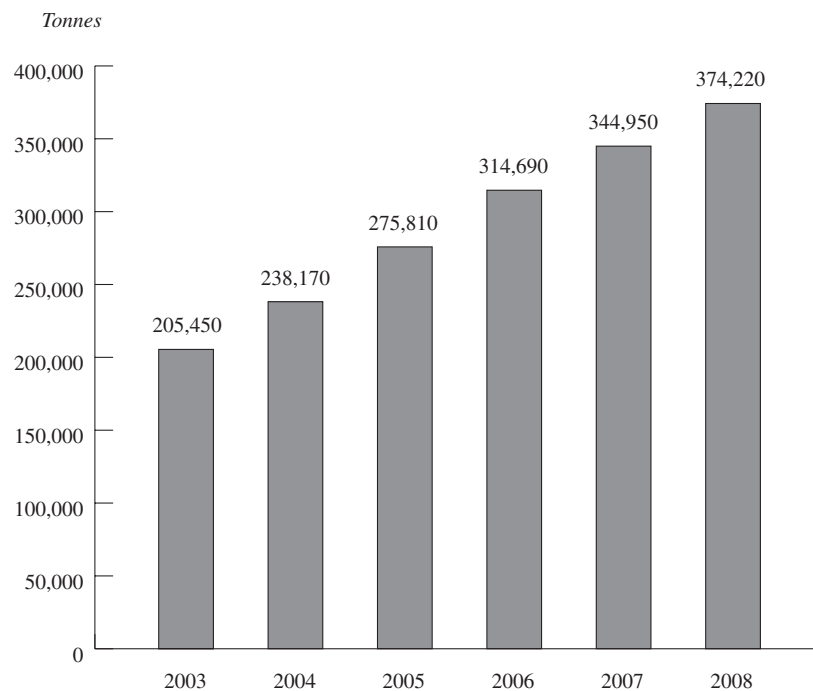
Our Group has established a long-term business relationship with our major customers, a number of which are leading manufacturers of processed meat products and/or sausages in the PRC, including Henan Shuanghui Investment & Development Co., Ltd. (河南雙匯投資發展股份有限公司), Yurun Group Co., Ltd. (南京雨潤食品有限公司), Zhongpin Inc. (河南眾品食業股份有限公司), Sichuan Gaojin Xiangda Food Co., Ltd. (四川高金翔達食品有限公司), Guangzhou Food Enterprise Group Co., Ltd. Huang Meat Processing Factory (廣州食品企業集團有限公司皇上皇肉食製品廠), Shenzhen Xi-shang-xi Food Processing Co., Ltd (深圳市喜上喜食品加工有限公司) and/or their respective associates. With the increase in the revenue of our Group from RMB178.3 million in the year ended 31 December 2006 to RMB454.1 million in the year ended 31 December 2008, representing a CAGR of approximately 59.6%, our aggregate sales to the above major customers increased from RMB46.1 million in the year ended 31 December 2006 to RMB234.2 million in the year ended 31 December 2008, representing a CAGR of 125.4%. As such, our Directors consider that many leading sausage manufacturers in the PRC have increased the use of collagen sausage casings in recent years.

### MARKET FOR PROCESSED MEAT PRODUCTS AND SAUSAGES IN THE PRC

#### Market for processed meat products in the PRC

Based on the Access Asia Report, from 2003 to 2008, the retail sales volume of processed meat products increased from approximately 205,450 tonnes to 374,220 tonnes, representing a CAGR of approximately 12.74%. The following chart sets forth the retail sales volume of processed meat products (including sausages) from 2003 to 2008:

**Retail sales volume of processed meat products (including sausages) in the PRC (2003–2008)**



Source: Access Asia Report

Note: According to the Access Asia Report, processed meat products include canned meat products and chilled meat products. Chilled meat products include sausages, cooked meat, sliced meat and meat snacks.



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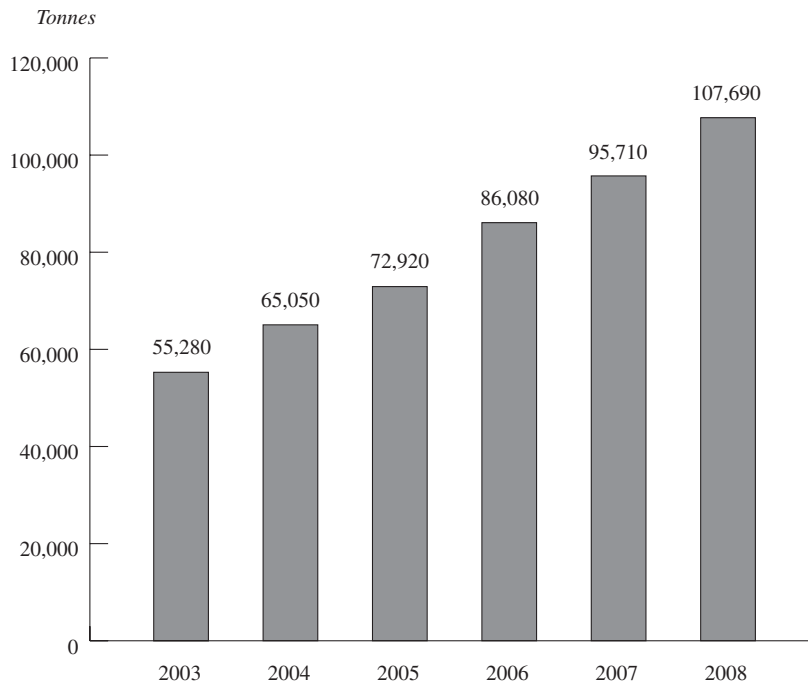
According to the Access Asia Report, the growth of the market of processed meat products in the PRC is mainly attributable to the following factors:

- (i) increases in spending power of consumers have led to higher consumer aspirations and ability to make more frequent purchases of processed meat products;
- (ii) the rationalization and consolidation of the domestic industry have improved industry productivity and profitability, and raised the level of market supply;
- (iii) the development of more integrated distribution systems and infrastructure throughout the PRC has led to better distribution from manufacturers to retailers around the country; and
- (iv) increased market penetration of more organized retail outlets, including those with display cabinets of chilled and frozen products, has created a larger overall outlet for processed meat products across the PRC.

### Market for sausages in the PRC

The PRC's ongoing economic development and urbanization has driven the fast development of the PRC's sausage market. As compared to fresh meat, the convenience of cooking and longer shelf life of sausages have contributed to the increasing consumption of sausages in the PRC. Based on the Access Asia Report, from 2003 to 2008, the retail sales volume of sausages increased from approximately 55,280 tonnes to 107,690 tonnes, representing a CAGR of approximately 14.27%. The following chart sets forth the retail sales volume of sausages from 2003 to 2008:

**Retail sales volume of sausages in the PRC (2003–2008)**



Source: Access Asia Report

## INDUSTRY OVERVIEW

Prior to the 1980s, the sausage market in the PRC was dominated by Chinese-style wind-dried sausages, the manufacture of which was mostly conducted in workshops and small factories. However, the PRC's reform and opening-up policy has led to the entry of Western-style products and has affected the eating habits of the Chinese people.

In major PRC cities, supermarkets have gradually replaced traditional food markets in selling food to consumers. The extensive penetration of supermarket chains in the past decade in the PRC facilitated the distribution and popularity of Western-style sausages, which require transportation and storage at low temperature.

### MARKET FOR SAUSAGE CASINGS IN THE PRC

#### Size of the sausage casings market in the PRC

According to the Zhongjing Zongheng Report, the total production volume of sausage casings in the PRC in 2008 was 675,900 barrels, which contained approximately 12,884 million meters of sausage casings.

The sausage manufacturers in the PRC which are currently using collagen sausage casings in their production normally purchase collagen sausage casings from us and/or from agents and wholesalers of collagen sausage casings imported into the PRC by our foreign competitors.

According to the ranking published by China Meat Association (中國肉類協會), Wuzhou Shenguan was the largest collagen sausage casing manufacturer in the PRC from 2006 to 2008 based on a set of criteria including, but not limited to, total assets, revenue, market share and market reputation. In addition, in the "List of Powerful Enterprises in the Meat Products Industry of China in 2008" (2008中國肉類食品行業強勢企業名單) published by China Meat Association (中國肉類協會), Wuzhou Shenguan was ranked first in the category of "Enterprises of meat sausage casings and packing materials" (肉類腸衣及包裝物料製造企業). We believe that competition in the collagen sausage casings market in the PRC mainly comes from imported collagen sausage casings being distributed by the agents of foreign casing manufacturers.

#### Industry trends in the sausages market and the growing demand on collagen sausage casing products

We believe the following factors may stimulate the future growth of the PRC collagen sausage casing market:

(i) *Continuous consolidation in the PRC sausage product industry*

The PRC's sausage industry is under consolidation, and medium-to-large sausage manufacturers are capturing an increasing market share. Compared to small workshops and factories, medium-to-large sausage manufacturers have placed greater focus upon using high-quality casings in order to satisfy the requirements of consumers and maintain their competitive edge.

As compared to natural sausage casings, collagen sausage casings provide consistent quality and fit well with large scale automated sausage production, and are increasingly widely adopted by medium to large scale sausage manufacturers in the PRC.

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### *(ii) Increase in urban population and disposable income*

Economic development and growing affluence have increased consumer spending power and driven the demand for processed meat products in the PRC. Changes in lifestyle and increasing per capita income may encourage urban consumers to seek more convenient forms of food consumption. The convenience of cooking and longer shelf life of sausages contribute to the growth in the consumption of sausages in the PRC, which have in turn increased the demand for sausage casings.

The opening-up of the PRC market has led to the entry of Western-style food products. Western-style sausages have become increasingly popular and common among Chinese consumers. Sausage manufacturers prefer using collagen sausage casings in the manufacture of Western-style sausages which have high requirements for the quality of sausage casings. The growing demand for Western-style sausages in the PRC is expected to drive the development of collagen sausage casing market in the PRC.

### *(iii) Increased penetration of modern chain stores*

The rapid development and increasing penetration of modern chain stores in the PRC, together with the improved transportation network across the nation, have made sausages (especially Western-style sausages, which require transportation and storage at low temperature) more accessible to the mass market in both the urban and rural areas and have made the consumption of sausages much more convenient and affordable.

We believe the increasing prevalence of modern chain stores will continue to drive the consumption of sausage products, especially Western-style sausages, in both urban and rural areas, which will in turn drive the growth of the collagen sausage casing market.

### *(iv) Expanded range of products*

In recent years, manufacturers in the PRC have expanded the range of new sausage products with different ingredients and flavors to enlarge their customer base. New types of sausage products which contain food products like vegetables and fruits have been developed in the PRC.

Compared to natural sausage casings, collagen sausage casings can adapt to various sausage products more easily and fit the new types of sausage products. We expect collagen sausage casings will gradually capture a larger share in the sausage casing market in the PRC.

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### SOURCES OF INFORMATION

#### Access Asia

Access Asia is an independent provider of Asian market intelligence for companies and institutions. Access Asia's database includes industry and consumer market reports, company profiles of industry leaders in the region, biographies of key business and political figures, and Asian country profiles. Access Asia produces market research reports covering industrial and consumer markets principally in the PRC and Hong Kong. The Access Asia Report is an industry research report published by Access Asia and is available for sale.

#### Zhongjing Zongheng

Zhongjing Zongheng is an independent industry, market research and project consultancy services provider in the PRC. The Zhongjing Zongheng Report is an industry research report published by Zhongjing Zongheng and is available for sale.

#### China Sausage Casing Net (中國腸衣網) and China Meat Association (中國肉類協會)

China Sausage Casing Net (中國腸衣網) ([www.chinacasing.cn](http://www.chinacasing.cn)) is one of the official websites of China Meat Association (中國肉類協會), a not-for-profit national organization registered with the Ministry of Civil Administration of the PRC (中華人民共和國民政部). China Meat Association (中國肉類協會) is a member of International Meat Secretariat. The members of China Meat Association (中國肉類協會) include state-owned meat food companies, meat slaughtering entities, and meat processing and refrigerating enterprises. Headquartered in Beijing, the PRC and with regional offices in Shenyang, Tianjin, Wuhan, Chengdu, and Xi'an, China Meat Association (中國肉類協會) is engaged in the improvement of self-governance and the enhancement of the supervision of the meat industry in the PRC. It is also engaged in the research of the meat industry in the PRC and provision of consulting services to enterprises in the meat industry. The information extracted from the China Sausage Casing Net (中國腸衣網) for disclosure in this prospectus is not commissioned by our Company, and can be accessed by the public free of charge.

#### National Bureau of Statistics of China

The National Bureau of Statistics of China (中華人民共和國國家統計局) is an agency directly under the State Council in charge of statistics and economic accounting in the PRC. The information disclosed in this prospectus from the National Bureau of Statistics is official public information and was prepared in the ordinary course of the activities of the National Bureau of Statistics of China (中華人民共和國國家統計局).