
RISK FACTORS

Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special consideration associated with an investment in our Company before making any investment decision in relation to our Company.

RISKS ASSOCIATED WITH OUR BUSINESS OPERATIONS

We rely heavily on the sole supplier of Parent Stock Day-Old Chicks

As discussed in the section headed “Business” of this prospectus, under our production process, we purchase all our Parent Stock Day-Old Chicks from one supplier, which is a breeding company established in 1988 in the PRC that imports grandparent stock breeders to produce and market Arbor Acre Plus (AA+) Parent Stock Day-Old Chicks for sale, and an Independent Third Party. Its grandparent stock breeders are originated from the US, which will lay the eggs of the Parent Stock Day-Old Chicks after they have grown up. The reason why we choose the Parent Stock Day-Old Chicks originated from such supplier is that the vaccines and quality of the Parent Stock Day-Old Chicks satisfy the requirements of our Group. Such Parent Stock Day-Old Chicks will not be used for the production of our chicken meat products. The broiler eggs laid by such Parent Stock Day-Old Chicks after they have grown up will be hatched into chicken breeds, which will in turn be delivered to our broiler breeding farms or sold to the Contract Farmers for breeding. After such chicken breeds grow into broilers, we will collect the grown broilers from our broiler breeding farms and repurchase them from the Contract Farmers for the production of our chicken meat products.

During the Track Record Period, we purchased all the Parent Stock Day-Old Chicks from one supplier. We have not entered into a long-term contract with it. Instead, we enter into contract with that supplier on a contract by contract basis for each order made by our Group. We have established commercial relationship with this supplier for about 8 years. Since our Company now specializes in breeding one type of broilers, it is preferable to use one supplier of Parent Stock Day-Old Chicks in order to ensure the quality of our chicken meat products. The Directors are of the view that the quality of the Parent Stock Day-Old Chicks supplied by such supplier is stable and the price is reasonable. The after-sales services are also satisfactory. Our Group had never experienced any shortage of supply during the Track Record Period.

If the sole supplier ceases to supply the Parent Stock Day-Old Chicks to us, we may require additional time to select alternative suppliers with comparable quality and services and our business and production process may be affected.

During the Track Record Period, we have not experienced any infection of animal diseases in the Parent Stock Day-Old Chicks procured by our Group. In the event that there is any outbreak of animal diseases in the US, the supply of the grandparent stock breeders may be interrupted, which will in turn affect the supply of Parent Stock Day-Old Chicks and our operation.

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After our Group has increased our production capacity, we will consider procuring the Parent Stock Day-Old Chicks from two to three suppliers in order to mitigate the reliance risk. As at the Latest Practicable Date, we have not entered into any legally binding commitment with any other supplier of the Parent Stock Day-Old Chicks with respect to the supply of the same.

The outbreak of animal diseases could adversely affect our business

A lot of countries have encountered animal diseases, including but not limited to, the foot-and-mouth disease and the avian influenza. The avian influenza, in particular H5N1 virus, is a type of disease which spreads through poultry and is capable of killing millions of poultry and may, in some circumstances, be transmitted to humans, causing symptoms such as fever, cough, sore throat, muscle aches and, in severe cases, breathing problems and pneumonia that may be fatal. The outbreak of avian influenza in 2004 and 2005 caused considerable damage to the national and local economies in the PRC and some other Asian countries. During the outbreak of avian influenza in the PRC, a large number of poultry were exterminated, and the sales of chicken meat products in the PRC dropped significantly because of the general fear of H5N1 virus in the public.

Further, we procure all the Parent Stock Day-Old Chicks from one supplier. The grandparent stock breeders, which will be used by the supplier to lay eggs for the Parent Stock Day-Old Chicks, are imported from the US. In the event that there is any animal diseases in the US, the supply of the grandparent stock breeders may be interrupted, which will in turn affect the supply of Parent Stock Day-Old Chicks and our operation.

In 2004, 2005 and during the Track Record Period, the Group did not encounter any outbreak of animal diseases because we have implemented hygiene measures in our broiler breeding procedures. Further, our broiler breeding farms are located in areas ideal for quarantine to prevent the outbreak of animal diseases and are built according to the same structure, which eases the control of epidemics. We may be required to suspend our business operations temporarily during the outbreak of the avian influenza or animal diseases. We or our suppliers may be required to exterminate large quantities of poultry if any of our broilers is suspected to be carrying avian influenza or other animal diseases. Further, since usually over ten thousands of broilers are bred in each broiler shed where cross infection between broilers may easily occur, in the event that any one broiler in a broiler shed is found to have been infected, we may have to exterminate all the broilers in the same broiler shed or even the farm, which will in turn cause significant loss to our Group. Recurrence of an outbreak of avian influenza or any other similar epidemic could also materially affect the confidence and interest of the consumers about our chicken meat products, which will in turn directly affect the sales of our chicken meat products and disrupt our production activities. The Directors confirm that during the Track Record Period, there were no incidents of extermination of broilers due to outbreaks of animal diseases.

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We rely heavily on the Contract Farmers to grow live broilers for the production of our chicken meat products

Our operations depend heavily on a sufficient and stable supply of live broilers. During the Track Record Period, we procure approximately 70% of the live broilers in the production of our chicken meat products through Contract Farming. As at 30 June 2010, we contracted with approximately 160 Contract Farmers. These Contract Farmers are required to purchase chicken breeds and animal feeds from us, and grow the chicken breeds in accordance with our requirements. We agree to repurchase the grown broilers at an agreed price. The Contract Farmers are not allowed to provide farming services to other parties during the term of their contracts with us. We have not entered into any long term agreements with our Contract Farmers, and the contracts with the Contract Farmers are for a term of one year and there is no assurance that we will be able to engage sufficient number of Contract Farmers to supply live broilers to us in the future. In the event that there are other farming services which are more profitable for the Contract Farmers as compared with the Contract Farming arrangements with our Group or some other competitors offer more favourable terms to the farmers to provide farming services to them, the Contract Farmers may refuse to continue to provide, or request for more favourable terms in the provision of, their Contract Farming services to our Group, which may in turn affect our costs of production and hence our profitability.

We enter into contracts with each of the Contract Farmers to stipulate the details of the Contract Farming arrangement. The Directors have confirmed that, during the Track Record Period, none of the Contract Farmers has been found to be in violation of the contracts entered into with our Group. In particular, they are required to purchase all animal feeds from us and are prohibited to add any ingredients to the animal feeds. However, there is no assurance that they will strictly comply with our requirements and provide live broilers with quality which will meet our requirements. Since the Contract Farmers are located in various places of different distances from our production base, there are difficulties for us to supervise closely the Contract Farmers from time to time. There is also no assurance that the Contract Farmers will continue to honour their obligations under the contracts. Any of the above scenarios may have a negative impact on the supply of our live broilers, and may adversely affect our production and productivity.

Further, one of our sources of revenue is our revenue derived from the sales of our animal feeds and chicken breeds to the Contract Farmers. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, revenue derived from the sales of our animal feeds and chicken breeds to the Contract Farmers represent approximately 21.7%, 31.7%, 32.3% and 32.7% of our total revenue respectively. In the event that we are not allowed to carry out the Contract Farming arrangement due to any reason, or a significant number of Contract Farmers refuse to continue to provide services to us, our source of revenue and our profitability will be adversely affected.

We rely on a continuous supply of live broilers from time to time

A continuous supply of live broilers is crucial to our production. Our management set out in detail the time schedule to collect grown live broilers from the Contract Farmers and our broiler breeding farms from time to time in order to ensure that live broilers will be

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delivered to our slaughtering and processing facilities on a timely basis for our production. During the Track Record Period, we have not experienced any interruptions in the supply of live broilers. However, in the event that the supply of live broilers is interrupted due to any reason whatsoever, our production will have to be suspended and our business will be adversely affected.

Our business and reputation may be affected by real or perceived quality issues caused by medicines and/or vaccines applied to the broilers

During the course of breeding of the broilers, we shall, and the Contract Farmers are required to, apply the appropriate medicines and vaccines to the broilers. Although we procure those medicines and vaccines from suppliers which possess the relevant certificate, we cannot guarantee that the side effects of such medicines and vaccines on the broilers and the chicken meat products that we manufacture from such broilers will be fully made known to us. In the event that any of our chicken meat products is affected by such medicines and/or vaccines which results in any human health, food safety or quality issues, we may face product liability claims from the customers and/or the end-consumers of our chicken meat products. Any product liability claim made or threatened to be made against us in the future, regardless of its merits, could result in costly litigation and adverse publicity and put strain on our administrative and financial resources. Such incidents will also affect the confidence of the consumers in our chicken meat products, which will in turn adversely affect the sales of our chicken meat products and our business. The Directors confirm that there were no such incidents during the Track Record Period.

We rely heavily on the PRC market

During the Track Record Period, all our sales were made in the PRC. We expect that most of our sales will still be derived from the PRC in the foreseeable future. Any natural disasters in the PRC, recession in the PRC economy, outbreak of an epidemic in the PRC and other incidents happened in the PRC may adversely affect the sales of our products and our results of operations.

We may encounter fluctuation in the price of raw materials or interruption in the supply of raw materials

The major raw materials used by our Group include corn, wheat and soya meal for the purpose of production of our animal feeds.

The price of such raw materials has experienced volatility and is affected by various factors, including but not limited to the weather conditions and harvest conditions of the raw materials, the policies of the PRC government and market competition. In particular, the prices of corn, wheat and soya meal have experienced significant increase during the past two to three years, which has in turn increased the costs of production of our Group. In particular, the price of wheat has increased by approximately 22.8% from 2007 to the six months ended 30 June 2010. Our results of operation are subject to such price volatility of raw materials in the future.

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For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, the costs of the aforesaid raw materials were approximately RMB65.9 million, RMB156 million, RMB140.4 million and RMB71.8 million respectively, representing approximately 20.5%, 33.9%, 32.1% and 31.7% of the total direct material cost of our Group during the same period respectively. We will be exposed to price volatility of raw materials in the future. Accordingly, any significant increase in the prices of the raw materials will increase the operation costs and hence have an adverse impact on the profitability of our business.

Further, we have not entered into any long-term supply contracts with the suppliers of the raw materials. In the event that we are unable to maintain the relationships with the suppliers or those suppliers refuse to continue to supply raw materials to us due to any reason whatsoever, we will have to procure the raw materials from other suppliers and our operation may be interrupted.

The average prices for procuring the following raw materials per tonne for the Track Record Period are set out below:

	2007	Year ended 31 December		2009	Six months ended 30 June		
		2008	Approximate percentage of change		2010	Approximate percentage of change	
	RMB	RMB		RMB		RMB	
Corn (per tonne)	1,838.94	1,858.29	1.1%	1,801.60	(3.1%)	1,987.41	10.3%
Wheat (per tonne)	1,752.83	1,814.32	3.5%	2,000.22	10.2%	2,152.30	7.6%
Soya meal (per tonne)	3,195.14	3,737.50	17.0%	3,299.06	(11.7%)	3,032.46	(8.1%)

Such price fluctuations will affect our production costs, which in turn affects our gross profit margin.

For further details of the price fluctuations of the raw materials, please refer to the sub-paragraph headed “Prices and supply interruptions of raw materials of our animal feeds” under the paragraph headed “Factors affecting financial condition and results of operations of our Group” in the section headed “Financial Information” of this prospectus.

We have not implemented any specific hedging policy against the price fluctuations of our raw materials because to the best knowledge of the Directors, there was no hedging product in the PRC available which we consider appropriate to hedge against such price fluctuations. In order to minimize the impact of such price fluctuations on our financial performance, we usually adjust the selling prices of our animal feeds and the repurchase prices of our broilers. We may also adjust the ingredient formulae of our animal feeds and procure similar substitutes of our raw materials that are available at lower prices, provided that such adjustment will not affect the nutritional contents of the animal feeds and the breeding effect on the broilers.

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We may have to put extra resources in compliance with the increasingly stringent laws and regulations on environmental protection

We are required to comply with the laws and regulations on environmental protection in the PRC. We produce certain amount of sewage, solid waste, waste gas and ashes in our production process and we are subject to the restrictions of the laws and regulations on environmental protection in the PRC on the discharge of the aforesaid waste materials. We are required to install waste treatment facilities to deal with such waste substances and pay waste disposal fee to the relevant governmental authority. In the event that the PRC laws, regulations or the policies of the government on environmental protection are amended and more stringent requirements are imposed on our Company, we may have to incur extra costs and expenses and put other resources to comply with such requirements and our business and results of operations may be adversely affected.

We have not received any notice of non-compliance with any laws or regulations in connection with environmental protection since we commenced operation in 1998. If we fail to comply, or are alleged to fail to comply, with the relevant PRC laws, regulations or government policies on environmental protection, we may be involved in costly litigation or subject to penalty imposed by the relevant judicial or governmental authorities.

The Contract Farmers do not possess the necessary licences and permits to carry out the Contract Farming

As advised by our PRC legal advisors, according to the Administrative Measures on Prevention and Cure of Pollution Caused by Breeding of Livestock and Poultry (畜禽養殖污染防治管理辦法) and the Law of Animal Epidemic Prevention of the PRC (中華人民共和國動物防疫法), the Contract Farmers are required to possess Pollutant Discharge Permits (排污許可證) and the Animal Epidemic Prevention Qualification Certificate (動物防疫條件合格證) respectively in order to carry out Contract Farming. However, to the best knowledge of the Directors, none of those Contract Farmers has obtained such permit and certificate. If they fail to do so, they will normally be ordered to rectify the same and penalties ranging from RMB300 to RMB3,000 and RMB1,000 to RMB10,000 may be imposed on them respectively by the local PRC governmental authorities. The sanction does not include order to cease operation. Although the relevant PRC governmental authority has not strictly implemented such requirements as at the Latest Practicable Date, there is no assurance that the relevant local PRC governmental authority will not strictly implement such requirements in the future. In the event that the local government implements the same, the Contract Farmers may have to obtain such permit and certificate before they can continue to provide Contract Farming services to us. Although there are sufficient alternative suppliers of live broilers available in the Fujian Province, the PRC, if we are unable to engage such new farmers on a timely basis or on reasonable terms, our operation will be affected.

We may not be able to secure the continued service of our key management personnel

The development of our business is, to a large extent, attributable to the contribution of the Chairman of our Company, Mr. Lin, who is also an executive Director and the chief executive officer of our Company. Mr. Lin, who has served our Group for more than 10

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years, played important roles in, inter alia, our market positioning, brand building, financial arrangement, product design and marketing strategies. Although our Company has entered into a service agreement with our Chairman and each of the executive Directors for an initial term of three years, there could be an adverse impact on our operations should any of these senior management personnel terminate the service agreement(s) with our Group or otherwise cease to serve our Group.

The interests of our Controlling Shareholders may conflict with those of our other minority Shareholders

Immediately following the Share Offer, the Controlling Shareholders will together beneficially own an aggregate of approximately 50.58% of the Shares (without taking into account the Shares, if any, to be allotted and issued pursuant to the Share Option Scheme and the Over-allotment Option).

The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. There is no assurance that the Controlling Shareholders will act in the best interests of our Group and the minority Shareholders. In the event of any conflict of interests between the Controlling Shareholders and our minority Shareholders, the Controlling Shareholders will have the power to prevent us from proceeding with any proposed transactions at the general meeting which could be beneficial to us and our other Shareholders, regardless of the underlying reasons.

We rely heavily on the sales of chicken meat products and are subject to change of consumer tastes and preferences

For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, approximately 75.9%, 61.6%, 64.0% and 67.3% of our Group's total sales respectively were derived from the sales of chicken meat products. Further, our other main sources of revenue, including sales of chicken breeds and animal feeds to the Contract Farmers, also depend on our sales of chicken meat products. If the market demand for our chicken meat products decreases, our sales of chicken breeds and animal feeds will also be affected. Accordingly, continued and increasing market acceptance of our chicken meat products are crucial to our prospects.

However, consumer tastes and preferences as well as dietary habits may change from time to time. As the standard and way of living of the people in the PRC are changing from time to time, demand for different kinds of food products, such as convenient food products, ready-made food products, fast food products and frozen food products, may also change from time to time. Further, consumers in the PRC also become increasingly conscious of food safety and quality and impact on health. If we are unable to anticipate and respond to in a timely manner any change in the consumer preferences, the demand for our products may decrease, which may in turn adversely affect our business and results of operation.

Further, as already mentioned in the paragraph headed "The outbreak of animal diseases could adversely affect our business" of this section, in the event that there is any outbreak of animal diseases in the PRC, the confidence and interests of the consumers on our chicken meat products may be affected, which will in turn adversely affect our business.

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The prices of our products may fluctuate

Our Group is exposed to business risks arising from changes in the prices of livestock and livestock's agricultural products and the change in cost and supply of animal feed ingredients, all of which are determined by ever-changing market force of supply and demand, and other factors. The other factors include, inter alia, environmental regulations, weather conditions and livestock diseases. Our Group has little or no control over these conditions and factors. During the Track Record Period, the average selling prices of chicken meat products were approximately RMB10,794.11 per tonne, RMB11,090.21 per tonne, RMB10,534.18 per tonne, RMB11,380.29 per tonne respectively, representing a percentage increase/(decrease) for the year ended 31 December 2008 and 2009 and the six months ended 30 June 2010 of approximately 2.7%, (5.0%) and 8.0%. The average selling prices of animal feeds during the Track Record Period were approximately RMB2,394.43 per tonne, RMB2,841.74 per tonne, RMB2,579.53 per tonne, RMB2,645.10 per tonne respectively, representing a percentage increase/(decrease) for the year ended 31 December 2008 and 2009 and the six months ended 30 June 2010 of approximately 18.7%, (9.2%) and 2.5%. The average selling prices of chicken breeds per piece was approximately RMB2.8 for the year ended 31 December 2007 and remained stable at RMB2.99 during the remaining Track Record Period. If the price of our products decreases or the cost of animal feed ingredients increases, it may adversely affect our revenue and profit.

We may encounter interruptions by natural disasters and other incidents that may affect our production and operations

We require large area of land to accommodate our operations, including but not limited to the breeder farms, the broiler breeding farms, the hatching facility, the animal feeds production facility and the slaughtering and processing facility. All these facilities cannot be relocated easily with minimal time and costs.

Our operation may be interrupted by natural disasters and other incidents, including but not limited to, earthquake, fire, flood, epidemic, power shortage, etc. We have not purchased business interruption insurance. In the event that our operation is interrupted by any of the aforesaid incidents, our business and results of operation may be adversely affected.

Further, as our business has adopted a vertically-integrated operation model, which involves breeding of Parent Stock Day-Old Chicks, growing of broilers, production of animal feeds, slaughtering and processing of our chicken meat products, interruption of any stage of such production process may affect our operation.

We may be subject to product liability

Being a food producer, product safety is important to our business. Although we have implemented various measures to ensure the safety of our products, including but not limited to implementing strict hygiene measures in the breeding of our broilers and slaughtering and processing of the broilers, there can be no assurance that our products will not be contaminated and cause harm to end-users.

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As at the Latest Practicable Date, we have not maintained any product liability insurance policy in the PRC. During the Track Record Period, we have not encountered any product liability claim from the end-customers of our chicken meat products. Nevertheless, any product liability claim made or threatened to be made against us in the future, regardless of its merits, could result in costly litigation and adverse publicity and put strain on our administrative and financial resources.

Our products may be affected if the Contract Farmers do not follow our control measures

Although we have implemented various measures to ensure the quality of our products, there is no assurance that the Contract Farmers will strictly follow our control measures, in particular there is a risk that they may apply some vaccines not permitted by us to the broilers or add some supplements to the feeds for the broilers so as to reduce the duration of the breeding process and to make their broilers fatter. Although we categorize the broilers according to their weights and pay the highest prices for broilers with weight within a specific range but lower prices for broilers outside such range, there is no assurance that the Contract Farmers will not apply vaccines not authorized by us or add any supplements to the feeds when growing broilers. If they apply such vaccines, use such supplements or violate our control measures in any other way, there may be adverse side effects on the quality of our chicken meat products and we may be exposed to adverse public relations if our products cause, or are alleged to cause, injury or illness, or if we have violated, or are alleged to have violated governmental regulations. In the event of any claims or allegations that our products are harmful to humans, we may experience reduced demand for our products.

We rely on third party distributors for a portion of our sales and marketing and we have limited control over them

We sell a portion of our chicken meat products to the third-party distributors, which in turn sell our products to end-customers. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, sales to distributors represented 17.1%, 14.1%, 13.6% and 12.9% of our total revenue respectively. We will continue to rely on these distributors for a portion of our sales. However, we have not entered into any long-term distributorship agreements with these distributors. As at the Latest Practicable Date, 5 out of 6 distributors have entered into distributorship agreements with our Group for a term of one year while the remaining one distributor has entered into distributorship agreement with our Group for a term of two years, details of which are set out in the paragraph headed “Sales and Customers” of the section headed “Business” of this prospectus. If we fail to secure the service of the distributors or the distributors fail to sell our products efficiently, our sales, financial condition and results of operation may be adversely affected. Furthermore, we have limited control over our distributors and may not be able to monitor our distributors’ inventory level in the event that our distributors decide to accumulate our chicken meat products as inventory. We cannot assure that all our chicken meat products sold to distributors are subsequently sold to end customers and the sales of our chicken meat products truly reflect the market demands.

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We rely on profit distribution by our operating subsidiaries in the PRC

The Company is a holding company and relies on dividends paid to the Company by its operating subsidiaries, Fujian Sumpo, Longyan Baotai, Xiamen Sumpo Trading, Fujian Baojiashun and Fujian Hetai. Under the relevant PRC laws, Fujian Sumpo, Longyan Baotai, Xiamen Sumpo Trading, Fujian Baojiashun and Fujian Hetai may only declare and pay dividends out of their net income, which are determined based on their retained profits calculated in accordance with accounting principles applicable to enterprises established in the PRC and the relevant financial regulations in the PRC, which may be different in certain material respects from that arrived at by adopting Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, under the PRC laws and regulations, Fujian Sumpo, Longyan Baotai, Xiamen Sumpo Trading, Fujian Baojiashun and Fujian Hetai are required to set aside a certain portion of their net income after tax each year to the statutory reserve funds and the employees welfare funds, which are not distributable as dividends. Accordingly, the Company may not have sufficient distribution from Fujian Sumpo, Longyan Baotai, Xiamen Sumpo Trading, Fujian Baojiashun and/or Fujian Hetai to support its payment of dividends to the Shareholders.

We had history of net current liabilities

Our Group had recorded net current liabilities of approximately RMB22.2 million and RMB62.8 million as at 31 December 2007 and 2008 respectively. The main underlying reason leading to such net current liabilities was that substantial financial resources including short term bank borrowings had been used in the long term capital investment of the former pork business of our Group. Further, we had also recorded net current liabilities of approximately RMB18.5 million as at 31 October 2010. This was primarily due to (i) the acquisition of Fujian Baojiashun the major assets of which consists of prepaid lease payments and buildings valued at approximately RMB81.0 million; (ii) the settlement of the dividends to the shareholders of approximately RMB50.0 million; and (iii) the repayment of bank borrowings of approximately RMB49.0 million. There is no assurance that our Group's operations will generate sufficient cash inflow to finance all our Group's activities and cover our general working capital requirements in the future. In the event that our Group is unable to generate enough cash from its operations to finance our future development, the performance and prospects of our Group as well as our ability to implement our business plan will be adversely affected. For further details of indebtedness and liquidity, financial resources and capital structure of our Group, please refer to the section headed "Financial Information" of this prospectus.

We may be subject to competition from other competitors engaging in the same or similar business

There is no specific market entry barrier for the business which our Group is engaged in. It is also not subject to any major restrictions for market entry. Such circumstances will favour small and medium-sized producers to enter the market, which will in turn intensify the market competition in our industry. Competition may affect our sales and the price of our products, which will in turn affect the profitability of our business.

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Further, we face competition from companies engaging in similar business and producing similar products in the domestic market of the PRC. We also face competition from foreign suppliers. We cannot assure that our current or future competitors will not develop products of a comparable or superior quality as compared to ours, or are not more capable of coping with the preferences of the consumers. Increased competition may also force us to decrease the selling prices of our products, which will in turn adversely affect our profit and results of operations.

We have limited production capacities for the time being and our production facilities will be under-utilized after expansion of the same after Listing

The production capacities of our Group had almost reached saturation. As at 30 June 2010, the utilization rate of our breeder farms, hatching facility, broiler breeding farms and slaughtering and processing facility was approximately 80.3%, 91.2%, 100% and 93.4% respectively. For details of the utilization rates of our production facilities, please refer to the paragraph headed “Production” of the section headed “Business” of this prospectus.

We are now planning to construct a new slaughtering and processing plant in Longyan adjacent to the existing one, which is expected to have a production capacity of 36,000,000 broilers per year. Additional breeder farms and broiler breeding farms will also be established. Immediately upon expansion of our production facilities, our production capacities will increase significantly. In the event that we fail to capture new business opportunities and increase the demands for our chicken meat products, our new production facilities cannot be fully utilized.

Our results of operation may be adversely affected by changes in the fair value of our biological assets and agricultural produce

Being a company principally engaged in the production and sales of chicken meat products, a significant portion of our assets are biological assets. According to the Hong Kong Accounting Standard 41 (Agriculture) (“HKAS 41”), we are required to reflect movements in the fair value of our biological assets less costs to sell at each reporting date, with any resultant gain or loss recognized in our combined statements of comprehensive income. Agricultural produce is initially measured at fair value less costs to sell at time of lay and subsequently recorded at cost under inventory. The valuations of biological assets and agricultural produce were arrived at on the basis of valuation carried out by independent valuers which are members of the Hong Kong Institute of Valuers and have appropriate qualifications and recent experiences in valuation of similar assets. Our biological assets comprising breeders, the Parent Stock Day-Old Chicks and chicken breeds of approximately RMB14,346,000, RMB17,642,000, RMB17,111,000 and RMB14,232,000 as at 31 December 2007, 2008 and 2009 and 30 June 2010, accounted for approximately 3.3%, 3.1%, 3.1% and 2.5% of our Group’s total assets of approximately RMB439,106,000, RMB560,138,000, RMB558,730,000 and RMB570,936,000 as at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively. Our agricultural produce consisted of broiler eggs of approximately RMB3,095,000, RMB4,997,000, RMB2,866,000 and RMB3,716,000 as at 31 December 2007, 2008 and 2009 and 30 June 2010, accounted for approximately 2.0%, 2.7%, 0.7% and 0.8% of our Group’s total current assets of approximately RMB152,519,000, RMB186,112,000, RMB430,411,000 and RMB452,059,000 as at 31 December 2007, 2008

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and 2009 and 30 June 2010 respectively. Please refer to the paragraph headed “Critical Accounting Policies and Estimates – Biological Assets and Agricultural Produce” in the section headed “Financial Information” of this prospectus.

Except for a loss of approximately RMB2,191,000 and RMB4,032,000 recognized for the year ended 31 December 2008 and the six months ended 30 June 2010 respectively, we recognized a gain for the change in fair value of our biological assets of approximately RMB3,058,000 and RMB3,388,000 for each of the years ended 31 December 2007 and 2009 respectively. Except for a loss of approximately RMB2,131,000 recognized for the year ended 31 December 2009, we recognized a gain for the net change in fair value of our agricultural produce of approximately RMB859,000, RMB1,902,000 and RMB850,000 for each of the years ended 31 December 2007 and 2008 and the six months ended 30 June 2010 respectively. Our results of operation may fluctuate as a result of the changes in the fair value of our biological assets and agricultural produce, which reflect the prevailing market conditions. We cannot assure that the fair value of our biological assets and agricultural produce will not decrease in the future, which will in turn adversely affect our results of operation.

The global financial markets have experienced significant deterioration and volatility during the past few years, which may adversely affect our financial condition and results of operations

The financial crisis during the past few years have impacted the global financial markets, which resulted in general slowdown of economic growth in the PRC and the other parts of the world, volatility in the securities markets and the tightening of liquidity in the credit markets.

Various countries are still encountering financial problems and it is difficult to predict as to when the economy can be recovered in full. The financial crisis and economic downturn may result in decline of business activities and consumer confidence and will continue to pose extra uncertainties to the result of operations of our Group.

Further, the financial crisis has caused a downward adjustment to the prices of the chicken meat products imported into the PRC from overseas. Decrease in the prices of the chicken meat products overseas indirectly increases the market competition in the PRC. In the event that the prices of the imported chicken meat products remain or become more competitive in the future, we may have to adjust the prices of our chicken meat products, which will in turn affect our revenue and profitability.

Substantial default on the part of, or significant reduction in the purchases ordered by, or deterioration of the financial condition of, our customers and distributors, especially in view of the declining economic conditions, may have an adverse effect on our business, financial condition and results of operations

We cannot assure you that our customers and distributors will continue to maintain relationships with us or that they will continue to procure our products at similar volumes or at all in the future. In addition, we cannot assure you that our customers and distributors will not experience any deterioration in their financial condition such as bankruptcy,

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insolvency or other credit failure. Although all our sales were made in the PRC, disruptions in the global financial markets and other macroeconomic challenges currently affecting the PRC economy and the global economic outlook may as well adversely impact our customers and distributors in the PRC, which could in turn adversely affect the business, financial condition and results of operations of our Group.

We may encounter fluctuation in the exchange rates of RMB and foreign currencies

We procure some of our equipment from overseas countries, such as the US, Germany and Denmark. Our Group's profitability could be adversely affected in the event of any unfavourable fluctuation in the exchange rates between RMB and the foreign currencies. As such, our Group is exposed to risk associated with currency conversion in the foreign exchange market and this can increase our production costs and affect our profitability. For each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, 0.7%, 0.7%, 0.5% and nil of our Group's purchases of machineries were made in foreign currencies respectively.




We may encounter fluctuation in interest rate

Our Group is exposed to interest rate risk arising from the potential adjustments in interest rates that may have an adverse effect on our Group's results for the current reporting period and in future years. Our Group is exposed to interest rate risk arising from bank borrowings on floating rate basis. Our Group generally does not take a speculative view on the movement in interest rates and, therefore, does not actively use interest rate derivative instruments to hedge interest rate risks.

Our results of operation may fluctuate and there is no assurance that our profits will increase in the future

During the six months ended 30 June 2009, our Group had incurred a loss. Such loss was mainly due to the loss from our pork operation. The results of operation for the six months ended 30 June 2010 had improved after the disposal of our pork operation. Nevertheless, since our chicken meat business is affected by various factors, including but not limited to market competition, government policies, costs of raw materials, outbreak of animal diseases and general economic environment, our results of operation may fluctuate significantly and there is no assurance that our chicken meat business will be able to sustain or our results of operation will continue to improve in the future.

We may be affected by the Controlling Shareholders' use of the trademarks

During the Track Record Period, our chicken meat products were sold under the trademarks of , , *SUNPO* and . Although the Controlling Shareholders have undertaken not to use these trademarks in any business within the scope of classes 29 and 31, including the pork business, they may continue to use such trademarks for the business and products outside classes 29 and 31. To the best knowledge of the Directors, the Controlling Shareholders have not used the said trademarks in any products as at the Latest Practicable Date. However, there is no assurance that the Controlling Shareholders will not use the said trademarks in the future and there is also no assurance that the Controlling

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Shareholders' use of such trademarks will not cause any harm to our Group. Although the Controlling Shareholders have agreed to indemnify our Group on a full indemnity basis for any loss or damages suffered by our Group as a result of the Controlling Shareholders' continuous use of the said trademarks, there is no assurance that our Group's loss can be fully compensated by monetary terms if our goodwill or reputation is adversely affected by their use of such trademarks.

RISKS ASSOCIATED WITH THE PRC

Substantially all of our assets are located in the PRC and substantially all of our revenue is sourced from the PRC. Accordingly, our results of operations, financial position and prospects are subject to a significant degree to the economic, political and legal developments in the PRC.

Political and social conditions may affect our business

Since 1978, the PRC government has been undergoing a series of reforms, with emphasis on its political systems. Such reforms have resulted in significant economic growth and social progress and many of the reforms are expected to be refined and improved. Other political and social factors may also lead to further readjustment and refinement of the reform measures. There is no assurance that such reform measures introduced by the PRC government will have a favourable effect on the operations of our Group. Our Group's performance may be adversely affected by changes in the PRC political and social conditions resulting from changes in the policies adopted by the PRC government.

Economic conditions may affect our business

The economy of the PRC has been transformed from a planned economy to a market economy with socialist characteristics. There is no certainty that the PRC government's pursuit for economic reforms will not be slowed down. However, as the PRC legal system matures, there can be no assurance that changes in its legislation or the related interpretation will not have an adverse effect on the business and prospects of our Group. In particular, the financial position and results of operations may be adversely affected by the PRC government's control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to our Group.

The legal system of the PRC may affect our business

Since 1979, the PRC government has promulgated laws and regulations in relation to general economic matters, including but not limited to, foreign investment, corporate organization, taxation, with a view to develop a comprehensive system of commercial laws. Despite the legal development during the past decades, the legal system of the PRC still has to be improved. In particular, enforcement of existing laws and contracts may sometimes be difficult. We cannot predict with certainty the effect of future legal development in the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the inconsistencies between local rules and regulations and the national laws. In addition, the PRC legal system is sometimes affected by the government policies.

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Our business may be affected by the trade disputes between the PRC and the US

As at the Latest Practicable Date, all our chicken meat products are sold in the PRC domestic market. However, our Group may decide to sell our products to overseas customers in the future. Further, the grandparent stock breeders, which will be used by the supplier to lay eggs for the Parent Stock Day-Old Chicks, are imported from the US. Due to the high costs involved, our Group does not import the Parent Stock Day-Old Chicks from the US directly.

The trade disputes between the PRC and the US have intensified recently. The US government is putting pressure on the PRC government to appreciate the value of RMB from time to time and has commenced anti-dumping investigation towards the products of the PRC imported into the US from time to time.

As our sole supplier of Parent Stock Day-Old Chicks imports grandparent stock breeders that are originated from the US from an American company, in the event that the trade disputes between the PRC and the US further worsen, the imports of grandparent stock breeders may be adversely affected, which will in turn affect the supply of our Parent Stock Day-Old Chicks. During the Track Record Period, we understand that our sole supplier of Parent Stock Day-Old Chicks has not experienced any difficulty in the import of grandparent stock breeders from the US.

On the other hand, the Ministry of Commerce of the PRC (“MOC”) has commenced anti-subsidy investigation towards the broilers products imported from the US in September 2009. In April 2010, the MOC has preliminarily determined that the US government has subsidized the animal feeds for the broilers, which has in turn reduced the production costs of broilers and accordingly indirectly subsidized the broilers industry in the US. As a result, the PRC has implemented anti-subsidy policy against the broilers imported from US accordingly.

There is no certainty as to when the trade disputes between the PRC and the US will end. In the event that we decide to sell our chicken meat products to overseas customers, in particular the customers in the US, our sales may be affected by the policies implemented by the US as a result of, whether directly or indirectly, the trade disputes between the PRC and the US.

Our major operating subsidiaries may not be able to continue to enjoy preferential tax treatment

On 16 March 2007, the National People’s Congress promulgated the new PRC Enterprise Income Tax Law, under which the PRC adopted a uniform tax rate of 25% for all enterprises and revoked the current tax exemption, reduction and preferential treatments. According to the notice issued by the State Council (the “**Notice**”), enterprises which are entitled to enjoy tax incentive shall have a grace period of five years commencing from 1 January 2008 before they are required to pay the corporate income tax at the rate of 25%.

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We are entitled to the following preferential tax treatment:

- **Fujian Sumpo**

Fujian Sumpo is entitled to:

- (i) pursuant to the Ministry of Finance's Notice on Preferential Enterprise Income Tax on Agricultural Products (《國家稅務總局關於發佈享受企業所得稅優惠政策的農產品初加工範圍(試行)》的通知) (Order [2008] No. 149) issued on 20 November 2008, effective on 1 January 2008, tax exemption with respect to the income derived from the processing of frozen chicken meat products during the period between 1 January 2008 and 7 September 2018; and
- (ii) exemption from the value-added tax with respect to animal feeds and chicken breeds.

- **Longyan Baotai**

Longyan Baotai is entitled to:

- (i) pursuant to the Ministry of Finance's Notice on Enterprise Income Tax (《國家稅務總局關於企業所得稅若干優惠政策的通知》) (Order [1994] No. 001) issued on 29 March 1994, effective on 1 January 1994, and the Ministry of Finance's Approval on the Implementation of Preferential Income Tax for Newly Established Enterprises (《國家稅務總局關於新辦企業所得稅優惠執行口徑的批覆》) (“Order [2003] No. 1239”), issued on 18 November 2003, tax exemption with respect to the income derived from broilers breeding during the period between 1 January 2006 and 31 December 2010; and
- (ii) exemption from the value-added tax during the period between 1 December 2005 and 1 November 2025.

- **Xiamen Sumpo Trading**

Before the promulgation of the new PRC Enterprise Income Tax Law, as Xiamen Sumpo Trading is located in the Xiamen Special Economic Zone, it was only required to pay corporate income tax at the reduced rate of 15%. As a result of the new PRC Enterprise Income Tax Law and the Notice:

- (i) Xiamen Sumpo Trading was required to pay corporate income tax at the reduced rate of 18% for the year ended 31 December 2008 and 20% for the year ended 31 December 2009; and
- (ii) Xiamen Sumpo Trading was required to pay corporate income tax at the reduced rate of 22% for the year ending 31 December 2010 and 24% for the year ending 31 December 2011.

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Accordingly, we enjoyed lower overall effective rate (i.e. 23.7%, 12.7%, 10.0%, 6.0%) for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010.

After the expiry of the above-mentioned tax preferential treatment periods, Xiamen Sumpo Trading shall be required to pay enterprise income tax at the full rate of 25% from the year ending 31 December 2012 onwards. This may have an adverse effect on our Group's financial results. Further, there is also no assurance that Fujian Sumpo and Longyan Baotai will continue to be entitled to the above-mentioned tax preferential treatment upon the expiry of the relevant periods. Fujian Baojiashun and Fujian Hetai are not entitled to any tax preferential treatment as at the Latest Practicable Date.

Our Group's historical financial results may not be indicative of its financial results for future years after expiration of the tax benefits currently available to our Group. There is also no assurance that the new PRC Enterprise Income Tax Law, other tax laws and regulations, their respective application or interpretation will not continue to change, in which case the effective income tax rate of our Group may further increase.

Dividends payable by us to our foreign investors and gains on the sales of our Shares may become subject to withholding tax under PRC tax laws and regulations

Under the PRC Enterprise Income Tax ("EIT") Law and implementation of the regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends have their source within the PRC. Similarly, any gain realised on the transfer of shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC "resident enterprise", it is unclear whether the dividends we pay with respect to our Shares, or the gain you may realize from the transfer of our Shares, would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our foreign Shareholders who are not within the PRC, or if you are required to pay PRC income tax on the transfer of your Shares, the value of your investment in your Shares may be materially and adversely affected.

It may be difficult to effect service of process or to enforce judgments in the PRC

Almost all of our assets and our operating subsidiaries are located in the PRC. Most of our Directors and senior management reside in the PRC, and the assets of our Directors and senior management may also be located in the PRC. It may be difficult to effect service of process from outside the PRC upon us or upon most of our Directors and senior management. A judgment of a court of another jurisdiction may be recognized or enforced by the PRC courts either through treaties between the PRC and the relevant countries or regions, or through the application of the principle of reciprocity, subject to the relevant legal and regulatory requirements. However, the PRC does not have treaties with Japan, the

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United Kingdom, the US and most other countries providing for the reciprocal enforcements of judgments. As a result, recognition and enforcement in the PRC of judgments in such jurisdictions are subject to uncertainties.

RISKS ASSOCIATED WITH THE SHARES AND THE SHARE OFFER

The liquidity and price of the Shares may be volatile

Prior to the Share Offer, there has been no public market for the Shares. The Offer Price may not be indicative of the price at which the Shares will trade following the completion of the Share Offer. There is no assurance that the market price of the Shares will not fall below the Offer Price. Prices for the Shares may also fluctuate significantly. The trading price of the Shares subsequent to the Share Offer may also be subject to significant volatility in response to, among other factors, the following:

- investors' perceptions of our Group and our Group's future plans and prospects;
- variations in the operating results of our Group;
- technological advance;
- changes in pricing by our Group or our competitors;
- changes in our Group's key and senior management; and
- general economic and other factors.

There is no prior market for the Shares

Prior to the Share Offer, there has been no public market for the Shares. There is no assurance that an active trading market for the Shares, if it does develop, will be sustained following the completion of the Share Offer.

Statistics and facts under the section headed "Industry and Regulatory Overview" of this prospectus may be inaccurate

All of the statistics relating to the PRC food market and most of the related facts as set out in the section headed "Industry and Regulatory Overview" of this prospectus have been extracted from various governmental official resources. Our Group has not carried out any independent verification on the relevant statistics and facts. Accordingly, our Group makes no representation as to the completeness or accuracy of these statistics and facts, or their compatibilities with other sources or reports. Such statistics and facts may be inaccurate and should not be unduly relied upon.

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Forward-looking statements may be inaccurate

This prospectus contains certain forward-looking statements relating to our Group's plans, objectives, expectations and intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of our Group to be materially different from the anticipated results, performance or achievements expressed or implied by the forward-looking statements in this prospectus. Such forward-looking statements are based on numerous assumptions as to our Group's present and future business strategies and the environment in which our Group will operate in the future. Our Group's actual results, performance or achievements may differ materially from those discussed in this prospectus.

Historical dividends are not indicative of future dividends

In 2009, Sumpo Holdings declared and paid a dividend of RMB60 million to the shareholders. In 2010, Sumpo Holdings further declared a dividend of RMB75 million to its shareholders, RMB50 million of which had been settled by way of deducting the receivables due from the shareholders of Sumpo Holdings on 31 August 2010 and the remaining RMB25 million had been settled by way of cash in November 2010. Such dividends should not be used by the potential investors as a guide to the future dividend policy of our Group. There is no assurance that dividends will be declared or paid in the future, at a similar level or at all. The past dividend rates should not be used as a reference or basis to determine the amount of dividends in the future. The amount of any dividends to be declared in the future will be subject to, among other factors, the discretion of the Directors, having considered the working capital requirements in the future, the availability of distributable profits, the Group's results of operation, working capital, capital and funding requirements, tax requirements, the applicable laws and other relevant factors.

Future disposals of a substantial number of our Shares by our major Shareholders in the public market may cause downward pressure to the market prices of our Shares

The disposals of a substantial number of our Shares in the public market after the Share Offer, or the possibility for such disposals, could adversely affect the market price of our Shares. Some of the Shares are subject to certain lock-up periods, the details of which are set out in the section headed "Underwriting" of this prospectus. The relevant Shareholders will be able to dispose of their Shares upon expiration of the lock-up period. Disposals of any substantial number of our Shares may cause downward pressures on the market price of our Shares.

As the Offer Price is higher than the net tangible book value per Share, investors will experience immediate dilution

The Offer Price of our Shares is higher than the net tangible assets book value per Share immediately prior to the Share Offer. Therefore, investors of our Shares in the Share Offer will experience an immediate dilution in the pro forma combined net tangible asset book value of HK\$0.33 per Share based on the maximum Offer Price of HK\$0.80 per Share.

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Further, we may consider issuing additional new Shares in the future. Investors of our Shares may experience further dilution in the net tangible assets book value per Share if we issue additional new Shares in the future at a price which is lower than the net tangible asset book value per Share.

Investors should not rely on any information contained in the press articles or other media regarding our Group and the Share Offer

There has been press coverage in certain news publications regarding our Group and the Share Offer which included certain financial information, financial projections and other information about our Group that do not appear in this prospectus (the “Information”). Our Group wishes to emphasize to potential investors that our Group does not accept any responsibility for the accuracy or completeness of the Information and that the Information was not sourced from or authorized by our Group. Our Group makes no representation as to the appropriateness, accuracy, completeness or reliability of any of the information and underlying assumptions. To the extent that any of the Information is inconsistent with, or conflicts with, the information contained in this prospectus, our Group disclaims it. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.